CONSOLIDATED FINANCIAL STATEMENTS

FEDERATED CO-OPERATIVES LIMITED / OCTOBER 31, 2012

MNP LLP

Independent Auditors' Report

To the members of Federated Co-operatives Limited:

We have audited the accompanying consolidated financial statements of Federated Co-operatives Limited and its subsidiaries, which comprise the consolidated balance sheets as at October 31, 2012 and October 31, 2011 and November 1, 2010 and the consolidated statements of comprehensive income, member's equity and cash flows for the years ended October 31, 2012 and October 31, 2011, and a summary of significant accounting policies and other explanatory notes.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 auditors' 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 assessing 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.

We believe the audit evidence obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Federated Co-operatives Limited and its subsidiaries as at October 31, 2012, October 31, 2011 and November 1, 2010, and the results of its operations and cash flows for the years ended October 31, 2012 and October 31, 2011 in accordance with International Financial Reporting Standards.

MNP LLP

Saskatoon, Saskatchewan
December 17, 2012

Chartered Accountants

FEDERATED CO-OPERATIVES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at October 31, 2012

In Millions of CAD $

NOTES		2012	2011	November 1, 2010
	CURRENT ASSETS			
7	Cash and cash equivalents	$ -	$ 582	$ 815
26	Members accounts receivable	**715**	618	576
26	Non-members accounts receivable	**278**	228	166
8	Inventories	**671**	614	511
	Prepaid expenses	**3**	2	2
	Income taxes receivable	**21**	25	7
9	Current portion of investments and advances	**27**	32	25
		1,715	2,101	2,102
	NON-CURRENT ASSETS			
9	Investments and advances	**51**	54	69
24	Deferred tax asset	**215**	161	100
12	Investment property	**41**	45	52
11	Property, plant, and equipment	**4,030**	2,886	1,979
6	Goodwill	**19**	-	-
		$ **6,071**	$ 5,247	$ 4,302
	CURRENT LIABILITIES			
	Accounts payable	$ **909**	$ 933	$ 766
13	Bank indebtedness	**89**	-	-
13	Members' funds	**522**	367	326
		1,520	1,300	1,092
	NON-CURRENT LIABILITIES			
16	Pension liability	**173**	112	57
14	Asset retirement obligations	**100**	80	68
24	Deferred tax liability	**517**	342	211
		790	534	336
	MEMBERS' EQUITY			
	Share capital			
15	Membership shares of $100 par value each	**1,474**	1,382	1,133
	Retained earnings	**2,287**	2,031	1,741
		3,761	3,413	2,874
		$ **6,071**	$ 5,247	$ 4,302

ON BEHALF OF THE BOARD

.... **Director**

.... **Director**

FEDERATED CO-OPERATIVES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended October 31, 2012

In Millions of CAD $

NOTES			2012		2011
18	**SALES**	$	**8,770**	$	8,219
20	**COST OF PRODUCTS SOLD**		**7,618**		7,022
			1,152		1,197
	EXPENSES				
20	Operating and administration		**225**		237
22	Finance cost		**8**		16
24	Income taxes - current		**11**		26
24	Income taxes - deferred		**111**		85
			355		364
			797		833
19	**OTHER INCOME**		**24**		38
	NET INCOME FROM CONTINUING OPERATIONS		**821**		871
17	**NET INCOME FROM DISCONTINUED OPERATIONS (net of tax)**		**6**		(1)
	NET INCOME BEFORE OTHER COMPREHENSIVE INCOME		**827**		870
16	Actuarial loss on defined benefit plan (net of tax)		**(44)**		(43)
	TOTAL COMPREHENSIVE INCOME	$	**783**	$	827

FEDERATED CO-OPERATIVES LIMITED
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
as at October 31, 2012

In Millions of CAD $

Notes		Share Capital	Retained Earnings	Total Equity
	Balance as at November 1, 2010	**$ 1,133**	$ **1,741**	$ **2,874**
	Net Income		870	870
16	Other comprehensive loss		(43)	(43)
15	Patronage paid	537	(537)	-
15	Redemption of shares	(288)		(288)
	Balance as at October 31, 2011	**$ 1,382**	$ **2,031**	$ **3,413**
	Net Income		827	827
16	Other comprehensive loss		(44)	(44)
15	Patronage paid	527	(527)	-
15	Redemption of shares	(435)		(435)
	Balance as at October 31, 2012	**$ 1,474**	$ **2,287**	$ **3,761**

FEDERATED CO-OPERATIVES LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
year ended October 31, 2012

In Millions of CAD $

	2012	2011
OPERATING ACTIVITIES		
Net income	$ 827	$ 870
Adjustments for:		
Depreciation and depletion	137	148
Gain on disposal of property, plant and equipment	(12)	(12)
Deferred tax	136	84
Change in asset retirement obligations	4	1
Change in fair value of advances	(2)	4
Reversal of amortized pension losses	-	(3)
Changes in non-cash operating working capital:		
Accounts receivable	(147)	(104)
Inventories	(58)	(95)
Other current assets	3	(18)
Accounts payable	(22)	168
Cash provided by operating activities	866	1,043
INVESTING ACTIVITIES		
Investments and advances	10	5
Additions to property, plant and equipment	(1,296)	(1,052)
Addition to goodwill	(19)	-
Proceeds from sale of property, plant and equipment	48	18
Cash used in investing activities	(1,257)	(1,029)
FINANCING ACTIVITIES		
Redemption of share capital	(435)	(288)
Members' funds proceeds (repayment)	155	41
Cash used in financing activities	(280)	(247)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(671)	(233)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	582	815
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), END OF YEAR	$ (89)	$ 582

Notes to the Consolidated Financial Statements

For the years ended October 31, 2012 and 2011

($ CDN millions except as noted)

1. Federated Co-operatives Limited

Federated Co-operatives Limited is incorporated under the *Canada Cooperatives Act*. The address of the registered office is 401-22nd Street East, Saskatoon, Saskatchewan, S7K 3M9. The consolidated financial statements as at and for the year ended October 31, 2012 comprise Federated Co-operatives Limited and its subsidiaries (collectively, "the Co-operative") and the Co-operative's interest in associates and joint ventures. The Co-operative provides central wholesaling, manufacturing, refining and administrative services to 236 locally owned retail co-operatives across Western Canada.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Co-operative's first consolidated financial statements prepared under IFRS and IFRS 1, *First-time adoption of international financial reporting standards* ("IFRS 1") has been applied.

The Co-operative's consolidated financial statements for the year ended October 31, 2011 were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). As these are the Co-operative's first consolidated financial statements in accordance with IFRS, the comparative figures for 2011 were revised and an explanation of how the transition from Canadian GAAP to IFRS has affected the financial statements of the Co-operative is provided in note 32.

The consolidated financial statements were authorized for issue by the Board of Directors on December 17, 2012.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except as detailed in the accounting policies disclosed in note 3. The accounting policies have been applied consistently to all periods presented in these financial statements except for the opening IFRS consolidated statement of financial position, which has used certain exemptions available under IFRS 1 (see note 32).

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Co-operative's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest million except where otherwise indicated.

3. Summary of significant accounting policies

(a) Basis of consolidation

i. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Co-operative. Control is the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

For acquisitions on or after November 1, 2010, the Co-operative measures goodwill, if any, as the consideration transferred, less the net recognized amount of the identifiable net assets acquired as measured at fair value at the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in earnings. In a business combination achieved in stages, the acquisition date fair value of the Co-operative's previously held equity interest in the acquiree is also considered in computing goodwill.

ii. Subsidiaries

The consolidated financial statements include the accounts of the Co-operative and its subsidiaries. Subsidiaries are entities that the Co-operative controls. Subsidiaries are fully consolidated from the date on which control commences until the date that control ceases.

iii. Investments in joint ventures

A joint venture can take the form of a jointly controlled entity, operation or asset. All joint ventures are established by a contractual agreement that establishes joint control. The Co-operative has joint ventures in jointly controlled entities and jointly controlled assets. Interests in jointly controlled entities are accounted for using the proportionate consolidation method. The consolidated financial statements of the Co-operative include its share of the assets, liabilities, revenues and expenses arising from jointly controlled assets.

iv. Transactions eliminated on consolidation

Inter-group balances and transactions, and any unrealized income and expenses arising from said transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency translations

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

(c) Cash and cash equivalents

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

(d) Financial instruments

i. Initial measurement and recognition

The Co-operative initially recognizes financial assets and liabilities on the trade date at which the Co-operative enters into the contractual provisions of the instruments. The Co-operative initially measures its financial assets and liabilities at fair value. The Co-operative subsequently measures financial assets or liabilities at amortized cost or fair value.

ii. Derecognition

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

iii. Non-derivative financial assets

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

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

Financial assets other than those measured at amortized cost are subsequently measured at fair value with all changes in fair value recognized in profit or loss.

Financial assets measured at amortized cost comprise member and non-member accounts receivable. Financial assets measured at fair value through profit or loss comprise cash and cash equivalents, members' funds, investments and advances.

iv. Non-derivative financial liabilities

Financial liabilities other than those measured at amortized cost are subsequently measured at fair value with all changes in fair value recognized in profit or loss.

Financial liabilities measured at amortized cost comprise accounts payable, members' funds and bank indebtedness.

v. Share capital

Member shares are classified as equity.

(e) Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling.

(f) Property, plant and equipment

i. Recognition and measurement

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

ii. Subsequent cost

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

iii. Borrowing costs

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

iv. Depreciation and depletion

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

Asset Description	Estimated Useful Life (Years)
Buildings	50
Tanks, bins, racking & long life assets	30
Structures, piping & process units	25
Landscaping/Signage	20
Equipment	3 – 15
Catalysts	3 – 10
Turnaround activities	3

(g) Intangible assets

i. Goodwill

For the initial measurement of goodwill that arises on the acquisition of subsidiaries see note 3(a)i. Goodwill is subsequently measured at cost less any accumulated impairment losses.

ii. Research and development

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

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

iii. Oil and gas development costs

The technical feasibility and commercial viability of extracting a resource is considered to be when proven reserves are determined to exist and management has determined with reasonable certainty that appropriate financial resources exist to proceed with development of the property. At this time, assets are transferred to property, plant and equipment. Depletion of oil and gas assets begins when the field or unit is ready to commence commercial operations as this is the point when economic benefit will be realized. Oil and gas wells are depleted using the declining balance method as this approximates the reserve life of the assets. Oil wells use a 10% declining balance while gas wells use a 20% declining balance.

(h) Exploration and evaluation assets

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

(i) Investment property

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

(j) Leased assets

i. The Co-operative as lessor

Assets used in operating leases are classified as investment property as the Co-operative still retains substantially all of the risk and rewards of ownership. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

ii. The Co-operative as lessee

Leases where the Co-operative assumes substantially all of the risk and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the applicable accounting policy for that asset. Other leases are operating leases and are not recognized in the statement of financial position. The Co-operative has not entered into any finance leases at October 31, 2012.

(k) Impairment

i. Non-financial assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. The recoverable amount is the greater of the asset's or CGU's value in use or fair value less costs to sell. Fair value less costs to sell is the amount that would be obtained from the sale of the asset in an arm's length transaction between two knowledgeable and willing parties. Value in use is assessed using the estimated future cash flows discounted to their present value using a pre-tax risk adjusted rate.

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

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

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

Goodwill is allocated to each of the Co-operative's CGU's expected to benefit from the synergies of the business combination. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. Any impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

ii. Financial assets

The Co-operative considers evidence for impairment of financial assets measured at amortized cost at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those not found to be specifically impaired are then collectively assessed for any impairment by grouping together assets with similar risk characteristics.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Co-operative on terms that the Co-operative would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, and the disappearance of an active market due to financial difficulty.

An impairment loss with respect to a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(l) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than continuing use, are classified as held for sale. On classification as held for sale the assets or components of the disposal group are measured at the lower of their carrying amount and the fair value less costs to sell. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

(m) Employee benefits

i. Defined contribution plan

A defined contribution plan is a post-employment plan under which the Co-operative pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to the defined contribution plans are recognized as an expense in periods during which related services are rendered by employees.

ii. Defined benefits plan

The defined benefits plan covers the employees at Consumers' Co-operative Refineries Limited ("CCRL") in Regina. The Co-operative accrues its obligations under the plan and the related costs, net of plan assets. The cost of the pension plan is determined by a qualified actuary using the projected unit credit method. The plan assets are valued at fair value. The Co-operative recognizes actuarial gains and losses immediately in other comprehensive income ("OCI").

(n) Provisions

A provision is recognized if, as a result of a past event, the Co-operative has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

i. Asset retirement obligation

Provisions are recognized for asset retirement obligations associated with the Co-operative's oil and gas assets, retail sites participating in the contaminated site management program and the Co-operative's forestry division. No provision for asset retirement obligation has been accrued for the facilities at CCRL as the expected timing of the reclamation activity cannot be estimated at this time. Provisions for asset retirement obligations are measured at the present value of management's best estimate of future cash flows required to settle the present obligation, discounted using a risk adjusted rate. The liability is recorded in the period in which the obligation arises with a corresponding increase to the carrying value of the related asset. The liability is accreted over time as the effect of discounting unwinds; this expense is recognized as a finance cost. The costs capitalized to the related asset are depreciated in a manner consistent with the depreciation of the underlying asset. Actual reclamation expenditures are charged against the accumulated liability as they are incurred.

ii. Onerous contracts

A provision for onerous contracts is recognized when the expected benefit to be derived by the Co-operative from a contract are lower than the unavoidable costs of meeting the obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. The Co-operative did not recognize a provision for onerous contracts in 2012.

(o) Revenue

i. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence of an arrangement exists, the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

ii. Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue from construction contracts is recognized by reference to the stage of completion of the contract. Losses on contracts, if any, are recognized in full in the period when such losses become probable.

(p) Income tax

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

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

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

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

(q) Discontinued operations

Classification as discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale (see note 3(l)), if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

(r) Segment reporting

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

(s) Change in accounting policy

Financial instruments

The Co-operative has early adopted IFRS 9 Financial Instruments (October 2010) ("IFRS 9(2010)") with a date of initial application of November 1, 2011. IFRS 9 (2010) requires that an entity classify its financial assets as subsequently measured at either amortized cost or fair value depending on the entity's business model for managing the financial assets and contractual cash flow characteristics of the financial asset. These changes in accounting policy are applied on a retrospective basis from November 1, 2011 without restatement of prior periods. Information in the prior period was prepared in accordance with Canadian GAAP.

Policy applicable from November 1, 2011

See note 3(d)

Policy applicable before November 1, 2011

The Co-operative initially recognized financial assets and liabilities on the trade date at which the Co-operative became a party to the contractual provisions of the instruments. The Co-operative derecognized financial assets when the contractual right to the cash flows from the asset expired. The Co-operative derecognized a financial liability when its contractual obligation was discharged, cancelled or expired. The measurement of the instrument depended on its classification as detailed below.

i. Financial assets at fair value through profit or loss

A financial asset was classified as fair value through profit or loss if it was classified as held for trading. Attributable transaction costs were recognized in profit or loss as incurred. Financial assets at fair value through profit or loss were measured at fair value and changes to this value were recognized in profit or loss.

ii. Held-to-maturity financial assets

If the Co-operative had the positive intent and ability to hold investment securities to maturity, then such financial assets were classified as held to maturity. Such assets were recognized initially at fair value. Subsequent to initial recognition, held-to-maturity financial assets were measured at amortized cost using the effective interest method, less any impairment losses.

iii. Loans and receivables

Loans and receivables were financial assets with fixed or determinable payments that were not quoted in an active market. Such assets were initially recognized at fair value. Subsequent to initial recognition, loans and receivables were measured at amortized costs using the effective interest method, less any impairment losses.

iv. Available-for-sale financial assets

Available-for-sale financial assets were non-derivative financial assets that were designated as available-for-sale and that were not classified in any of the previous categories. The Co-operative's investment in equity securities were classified as available-for-sale. As these equity securities did not have a quoted market price in an active market they were subsequently measured at cost.

v. Other financial liabilities

Other financial liabilities were recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities were measured at amortized cost using the effective interest method.

Impact of the change in accounting policy

In accordance with the transitional provisions of IFRS 9 (2010), the classification of financial instruments that the Co-operative held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date. On the application of IFRS 9 (2010) $3 million was recognized in retained earnings as a result of re-measuring advances at fair value. Further detail about the result of the application of IFRS 9 (2010) is included in note 32.

4. Use of estimates and judgments

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

(a) Useful lives of property, plant and equipment

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

(b) Recoverability of long-lived and intangible assets

The Co-operative assesses the carrying value of property, plant and equipment, and intangible assets for impairment as circumstances warrant. Recoverability of these assets is dependent upon assumptions and judgments regarding future performance. A material change in assumptions may significantly impact the potential impairment of these assets. Assumptions used in the calculation of recoverable amounts include discount rate, future cash flows and gross margins. Recoverability is estimated at the lowest level of independent cash flows, which could be an individual asset or a CGU. Judgment is required when determining what constitutes a CGU.

(c) Decommissioning and reclamation provision

Significant decommissioning and reclamation activities are not undertaken until near the end of the useful life of the asset. Actual costs are uncertain and the estimate can vary as a result of changes to regulations, the emergence of new technology, operating experience, prices and reclamation plans. A significant change to the estimated costs, discount rate or useful lives of the assets may result in a material change in the amount presented on the financial statements.

(d) Deferred income tax

The Co-operative operates in a number of tax jurisdictions and is required to estimate income taxes in each of these jurisdictions in preparing its financial statements. In this calculation, consideration is given to factors such as tax rates in the different jurisdictions, non-deductible expenses, allowances, changes in tax law, and management's expectations about future results. The Co-operative estimates deferred income taxes based on temporary differences between income and losses reported in its financial statements and its taxable income and losses. The effect of these differences is recorded as deferred tax assets or liabilities in the financial statements. This calculation requires the use of judgments and estimates that, if inaccurate, may materially impact future earnings.

(e) Pension benefits

The carrying value of the defined benefits pension is based on actuarial valuations that are sensitive to assumptions concerning discount rates, actual return on plan assets, wage increase rates and other actuarial assumptions. Significant changes in these assumptions may result in a material impact to the financial statements.

(f) Business combinations

In a business combination, the Co-operative may acquire the assets and assume certain liabilities of an acquired entity. Judgment is involved in determining the fair values assigned to the assets acquired and liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions such as revenue growth rates, expected operating income, discount rates and earnings multiples. If estimates or assumptions change prior to finalizing the fair value, net income may be impacted in future periods.

(g) Fair value of financial instruments

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

5. New standards and interpretations not yet adopted

A number of new standards, interpretations and amendments to existing standards are not yet effective for the year ended October 31, 2012 and have not been applied in preparing these consolidated financial statements. The following standards, amendments to and interpretations of existing standards have been published and are mandatory for the Co-operative's accounting period beginning on November 1, 2013:

<u>IFRS 10 - Consolidated financial statements</u>

In May 2011, the IASB issued IFRS 10 *Consolidated financial statements* to supersede the requirements related to consolidated financial statements in IAS 27 *Consolidated and separate financial statements* (as amended in 2009) and SIC-12 *Consolidation – special purpose entities*. This new standard defines the principles of control and establishes control as the basis for determining which entities are included in consolidated financial statements. IFRS 10 is effective for the Co-operative on November 1, 2013, with early adoption permitted. The Co-operative does not expect the adoption of this standard to have a significant impact on its financial statements.

<u>IFRS 11 – Joint arrangements</u>

In May 2011, the IASB issued IFRS 11 *Joint arrangements* whereby joint arrangements are classified either as joint operations or joint ventures. Parties to joint operations retain their rights and obligations to individual assets and liabilities of the operation, while parties to a joint venture have rights to the net assets of the venture. Joint operations will be accounted for in a manner consistent with jointly controlled assets and operations in the existing standard. Any arrangement structured through a separate vehicle that does effectively result in separation between the Co-operative and the arrangement shall be classified as a joint venture and accounted for using the equity method of accounting. Under the existing standard, the Co-operative has the option to account for any interests it has in joint ventures using proportionate consolidation or equity accounting. IFRS 11 is effective for the Co-operative on November 1, 2013 with early adoption permitted. The extent of the impact, if any, of the adoption of IFRS 11 has not yet been determined by the Co-operative.

<u>IFRS 12 – Disclosures of interests in other entities</u>

In May 2011, the IASB issued IFRS 12 *Disclosure of interest in other entities* which is a comprehensive standard addressing disclosure requirement for all forms of interest in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structure entities. IFRS 12 is effective for the Co-operative on November 1, 2013 with early adoption permitted. It is expected that IFRS 12 will increase the current level of disclosure related to the Co-operative's interest in other entities upon adoption.

<u>IFRS 13 – Fair value measurement</u>

In May 2011, the IASB issued *Fair value measurement.* IFRS 13 replaces fair value measurement guidance in individuals IFRSs. The standard provides a framework for measuring fair value and establishes new disclosure requirements. IFRS 13 is to be applied prospectively, effective November 1, 2013 for the Co-operative, with early adoption permitted. The extent of the impact, if any, of the adoption of IFRS 13 has not yet been determined by the Co-operative.

<u>IAS 19 – Employee benefits</u>

In June 2011, the IASB issued amendments to IAS 19 *Employee Benefits* which revises the recognition, presentation and disclosure requirements for defined benefits plans. The revised standard requires immediate recognition of actuarial gains and losses in other comprehensive income, eliminating the previous options that were available.

The amended standard also enhances required disclosures for defined benefit plans. These amendments are effective for the Co-operative on November 1, 2013 with early adoption permitted. The Co-operative does not expect the amendments to have a material impact on the financial statements.

IAS 28 – Investments in associates and joint ventures

In May 2011, the IASB issued amendments to IAS 28 *Investments in associates and joint ventures* which provide additional guidance applicable to accounting for interests in associates or joint ventures when an entity ceases to have significant influence or joint control or when a portion of the interest is classified as held for sale. These amendments are effective for the Co-operative on November 1, 2013 with early adoption permitted. The Co-operative does not expect the amendments to have a material impact on the financial statements.

6. Business Combinations

On June 27, 2012, the Co-operative acquired control of Triwest Exploration Inc. ("Triwest") through the purchase of 100% of the issued and outstanding shares. Triwest is a Canadian oil exploration company with developed and undeveloped acreage in southeast Saskatchewan.

The purchase of Triwest significantly increases the Co-operative's land base and drilling presence in southeast Saskatchewan. The land and property purchased in the acquisition have access to strong crude oil infrastructure which results in efficient operating costs. The properties included in the purchase fit well into the Co-operative's existing crude properties and are thus a natural extension of the existing crude oil operations.

For the year ended October 31, 2012, Triwest contributed revenue of $8 million and net income of $2 million to the Co-operative's results. Triwest also recorded $18 million of capital expenditures during the 4 months since acquisition.

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

($ millions)	**2012**
Cash consideration transferred	**108**
The fair value of identifiable assets acquired and liabilities assumed at the acquisition date are as follows:	
Accounts receivable	**4**
Exploration & evaluation assets	**17**
Property & equipment	**133**
Accounts payable	**(5)**
Bank debt	**(32)**
Deferred tax liability	**(21)**
Asset retirement obligation	**(7)**
Total net identifiable assets	**89**
Resulting goodwill on the transaction	**19**

The carrying value of accounts receivable represents the gross contractual amount receivable, as 100% of the balance is expected to be collected given the short-term maturity of the amount.

The fair values of the exploration & evaluation assets have been determined on a provisional basis. If new information is obtained within one year of the acquisition about the facts and circumstances that existed at the acquisition date identifying adjustments to any of the above amounts, the acquisition accounting will be revised.

The goodwill recognized on acquisition of Triwest is attributable mainly to the anticipated future growth potential from unexplored properties acquired and the synergies of the Co-operative's and Triwest's crude oil operations.

No portion of the goodwill is deductible for tax purposes.

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

7. Cash and cash equivalents

($ millions)	**2012**	2011	November 1, 2010
Cash	**-**	83	68
Cash equivalents	**-**	499	747
	-	582	815

8. Inventories

($ millions)	**2012**	2011	November 1, 2010
Manufactured product	**472**	409	312
Goods purchased for resale	**191**	193	187
Parts and supplies	**8**	12	12
	671	614	511

9. Investments and advances

($ millions)	**2012**	2011	November 1, 2010
Investments:			
The Co-operators Group Limited	**2**	3	4
Interprovincial Cooperative Limited	**1**	1	1
Other	**1**	1	1
Advances:			
Canoe Forest Products Ltd.	**10**	-	-
Interprovincial Cooperative Limited – Member loan at floating interest rate	**-**	1	1
Finance agreements	**64**	80	87
Less: current portion of finance agreements	**(27)**	(32)	(25)
	51	54	69

10. Joint ventures

Other Joint Ventures

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

The Produce People

The Co-operative holds a 50% ownership in The Produce People as a jointly controlled entity. The Co-operative's proportionate share of operating results and financial position that have been included in the consolidated financial statements and grouped in the Food segment are outlined in the following tables:

Results of Operations ($ millions)	**2012**	2011
Revenue	**32**	32
Expenses	**30**	30
Proportionate share of net income	**2**	2

Financial Position ($ millions)	**2012**	2011	November 1, 2010
Assets	**2**	3	2
Liabilities	**2**	3	2
Proportionate share of net assets	**-**	-	-

11. Property plant and equipment

($ millions)	Land Building & Roads	Equipment & Fixtures	Assets under construction	Development & production assets	Exploration & evaluation assets	Total
Cost						
At November 1, 2010	265	2,163	1,097	10	-	3,535
Additions/transfers	43	102	916	19	19	1,099
Disposals/transfers	(3)	(14)	(35)	-	(1)	(53)
At October 31, 2011	305	2,251	1,978	29	18	4,581
Additions/transfers	30	518	1,083	194	38	1,863
Disposals/transfers	(32)	(105)	(532)	(4)	(23)	(696)
At October 31, 2012	303	2,664	2,529	219	33	5,748
Accumulated depreciation						
At November 1, 2010	113	1,443	-	-	-	1,556
Depreciation charge	11	139	-	2	-	152
Disposals		(13)	-	-	-	(13)
At October 31, 2011	124	1,569	-	2	-	1,695
Depreciation charge	9	119	-	10	-	138
Disposals	(20)	(95)	-	-	-	(115)
At October 31, 2012	113	1,593	-	12	-	1,718
Net book value at October 31, 2012	**190**	**1,071**	**2,529**	**207**	**33**	**4,030**
Net book value at October 31, 2011	181	682	1,978	27	18	2,886
Net book value at November 1, 2010	152	720	1,097	10	-	1,979

Category ($ millions)	**2012**	2011	November 1, 2010
Wholesaling	**199**	174	138
Manufacturing	**1,302**	734	744
Assets under construction	**2,529**	1,978	1,097
Net book value	**4,030**	2,886	1,979

Impairment loss

During 2012, the Co-operative assessed a crude oil CGU in the Energy segment for impairment due to lower than budgeted production. An impairment loss of $3 million was recognized on the CGU, which represents a geographical group of wells in southwest Saskatchewan. The recoverable amount of the CGU was calculated using the value in use methodology by means of a discounted cash flow approach with a risk-adjusted discount rate of 15%. The impairment loss was recognized in cost of goods sold and impacts the development & production assets.

Property, plant and equipment under construction
Capitalized borrowing costs related to assets under construction amounted to $5 million (2011: nil), with a capitalization rate of 1.35% (2011: not applicable).

Change in estimates
During the current fiscal year, the Co-operative assessed the residual value, useful lives and depreciation method in line with the accounting policy. As a result of this review, for assets other than crude oil assets (development and production assets), the depreciation method was changed from a combination of straight-line and declining balance to a straight-line basis. The change has impacted the current year's results by decreasing depreciation by $51 million. It is impracticable to estimate the amount of the impact on future years.

12. Investment property

($millions)	
Cost	
At November 1, 2010	100
Acquisitions	-
Disposals	(12)
At October 31, 2011	88
Acquisitions	9
Disposals	(20)
At October 31, 2012	77
Accumulated Depreciation	
At November 1, 2010	48
Depreciation charge	5
Disposals	(10)
At October 31, 2011	43
Depreciation charge	1
Disposals	(8)
At October 31, 2012	36
Net Book Value at October 31, 2012	**41**
Net Book Value at October 31, 2011	45
Net Book Value at November 1, 2010	52

Net rental income from investment properties recognized in other income was $7 million (2011 - $8 million).
The fair value of investment properties at October 31, 2012 was $101 million. The fair value of investment properties was determined using a discounted cash flow of the future lease payments on the investment properties. A market valuation by the Co-operative's internal expert was performed on idle land that was not currently leased. No independent valuation was performed on any of the investment properties.

13. Borrowing

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

($ millions)	**2012**	2011	2010
Bank indebtedness	**89**	-	-
Members' funds	**522**	367	326
Total borrowing	**611**	367	326

The bank indebtedness consists of a syndicated credit facility that is secured by a general security agreement. The scheduled repayments are disclosed in note 26. The current borrowing on the facility is charged interest at 3% and has a revolving feature with a maturity date of February 22, 2014. Members' funds charge interest at a rate of 1.75% and are repayable on demand.

14. Asset retirement obligations

The Co-operative decommissioning and reclamation costs consist of reclamation, closure and reforestation costs. The obligations were determined using a discount rate of 3% – 5% percent (2011 – 3% to 5%). Expected undiscounted payments of future obligations are $224 million (2011 - $210 million) over the next 3 to 39 years.

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

($ millions)	**2012**	2011
Beginning of year	**80**	68
Additions	**12**	12
Liabilities settled	**-**	(1)
Liabilities disposed	**(4)**	(5)
Change in estimate and discount rate	**8**	3
Accretion (included in finance cost)	**4**	3
End of year	**100**	80

15. Members' share capital

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

In thousands of shares	**2012**	2011
Beginning of year	**13,820**	11,330
Shares issued for current year's patronage allocation	**5,270**	5,370
Shares redeemed	**(4,350)**	(2,880)
Balance, end of year	**14,740**	13,820

16. Pension plan

Defined contribution plan

The Co-operative provides a defined contribution plan, with costs charged to earnings for services rendered by employees during the year. With this plan, the Co-operative and the majority of its employees make contributions to one multi-employer defined contribution plan. The employee contribution rates are in the range of 0% to 6%, while the Co-operative's rates are in the range of 5% to 10%. The Co-operative's total contribution expense for this plan in 2012 is $6 million (2011 - $6 million).

Defined benefit plan

The defined benefit plan covers the majority of employees at CCRL in Regina. The plan provides pensions based on the number of years in service and the average of the best three years' earnings. The employees do not contribute to the plan.

The costs of the Co-operative's defined benefit plan are determined periodically by independent actuaries, with results as of December 31, 2010 and extrapolated to October 31, 2012. The costs charged to earnings for the year include the costs for benefits provided for services rendered during the year, using the projected unit credit method pro-rated on services. Actuarial gains and losses are recognized in OCI as incurred.

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

($ millions)	**2012**	2011
Plan assets		
Fair value, beginning of year	**176**	160
Contributions	**17**	16
Benefits paid	**(5)**	(3)
Expected return on plan assets	**9**	9
Actuarial gain (loss)	**3**	(6)
Fair value, end of year	**200**	176
Accrued benefit obligation		
Balance, beginning of year	**288**	217
Current service cost	**13**	10
Interest cost	**15**	12
Benefits paid	**(5)**	(3)
Actuarial (gain)/loss	**62**	52
Balance, end of year	**373**	288
Pension liability	**(173)**	(112)

The actual return on plan assets for the year ended October 31, 2012 was $12 million (2011 - $3 million)

The total actuarial loss recognized in other comprehensive income net of tax in 2012 is $44 million (2011- $43 million).

Defined benefit plan pension expense is as follows:

($ millions)	**2012**	2011
Expense recognized		
Current service costs	**13**	10
Interest on accrued benefit obligation	**15**	12
Expected return on plan assets	**(9)**	(9)
Total	**19**	13

Actuarial assumptions

The cost of the Co-operative's defined benefit plan is determined periodically by independent actuaries, using the projected benefit method of valuation. Assumptions include employee service to date and present pay levels as well as projection of salaries and service to retirement. The significant actuarial assumptions were as follows:

	2012	2011
Benefit Obligation at October 31		
Discount Rate	4.05%	4.95%
Rate of Compensation Increase	3.50%	3.50%
Benefit Plans Expense Year Ended October 31		
Discount Rate	4.95%	5.35%
Expected Return on Plan Assets	4.95%	5.35%

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

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

The composition of the defined benefit pension plan assets as at October 31, 2012 and 2011 was as follows:

Classification	2012	2011
Cash and Short Term Notes	5%	4%
Bonds and Debentures	37%	37%
Equity Instruments	58%	59%
Total	100%	100%

The Co-operative expects to make cash contributions to its defined benefit pension plan in 2013 of $19 million.

17. Discontinued Operations

On October 31, 2012, the Co-operative completed the sale of its Forest Products division. The division is presented as a discontinued operation. The division was not a discontinued operation at October 31, 2011 and the comparative consolidated statement of comprehensive income has been re-presented below to show the discontinued operation separately from continuing operations.

Results of discontinued operations ($ millions)	**2012**	2011
Revenue	**62**	47
Cost of Sales	**58**	47
Gross Margin	**4**	-
Operating and administration	**2**	2
Tax expense	**-**	(1)
Net Income before disposal of discontinued operations	**2**	(1)
Gain on sale of discontinued operations	**8**	-
Tax on gain on sale of discontinued operations	**4**	-
Net Income	**6**	(1)

Cash flows from (used in) discontinued operations ($ millions)	**2012**	2011
Net cash used in operating activities	**5**	10
Net cash from investing activities	**(2)**	-
Net cash from financing activities	**-**	-
Net change in cash	**3**	10

18. Revenue

($ millions)	**2012**	2011
Sale of goods	**8,704**	8,132
Construction contract revenues	**66**	87
	8,770	8,219

Construction contracts

Construction contract revenue is determined based on the stage of completion method. The revenue results from the construction of facilities for some of the Co-operative's customers in the Energy segment based on negotiated contracts. The aggregate amount of costs incurred for projects in process at the end of the year were $48 million (2011 - $35 million). The stage of completion is determined by reference to the costs incurred compared to total project costs. No advances were received in 2012 or 2011 as the project is billed at completion.

19. Other income

($ millions)	**2012**	2011
Rental income	**7**	8
Other miscellaneous	**7**	7
Interest income	**6**	11
Gain on disposal of fixed assets	**4**	12
	24	38

20. Expense by nature

($ millions)	**2012**	2011
Changes in inventory	**7,231**	6,659
Personnel expenses	**282**	258
Other expenses	**196**	191
Depreciation and amortization	**134**	151
Finance costs	**8**	16
	7,851	7,275

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

($ millions)	**2012**	2011
Cost of products sold	**7,618**	7,022
Operating and administration	**225**	237
Finance cost	**8**	16
	7,851	7,275

21. Personnel expenses

The following employee expenses are included in cost of products sold and operating and administration expenses.

($ millions)	**2012**	2011
Wages and salaries	**233**	217
Statutory and other company benefits	**24**	23
Expenses related to defined benefit plan	**19**	12
Contributions to defined contribution plan	**6**	6
	282	258

22. Finance Costs

($ millions)	**2012**	2011
Interest expense	**4**	13
Accretion of asset retirement obligation	**4**	3
	8	16

23. Operating leases

The Co-operative as lessor

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

Payments received under these operating leases are recognized in other income with net rental income totaling $7 million (2011 - $8 million) for the year ended October 31, 2012. Of this operating lease income recognized, $6 million (2011 - $7 million) was contingent income based on gross sales and/or fuel sales of the Lessee.

The investment property leases have lease terms between 1 and 20 years. Substantially all of these leases have renewal options for additional terms based on market rate. There is no option to purchase the property at the end of the lease term.

The future minimum lease payments of the operating leases are:

($ millions)	Less than one year	Between one and five years	More than five years	Total
Total	3	12	20	35

The Co-operative as lessee

The Co-operative leases a number of its corporate stores as well as some equipment under operating leases, with lease payments of $5 million (2011 - $5 million) charged to operating and administration.

Lease terms are between 3 and 10 years with renewal options available at market rates.

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

($ millions)	Less than one year	Between one and five years	More than five years	Total
Operating leases	2	10	5	17

24. Corporate income taxes

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

($ millions)	**2012**	2011
Net income from continuing operations before tax	**943**	982
Patronage allocation	**(527)**	(537)
	416	445
Combined federal and provincial income tax rate	**25.20%**	26.70%
Computed tax expense based on the combined rate	**105**	119
Increase resulting from:		
Other non-deductible items	**(1)**	-
Adjustment of previous year's estimated timing differences	**20**	-
Decrease resulting from:		
Deferred income tax benefit resulting from changes in tax rates	**(2)**	(8)
Provision for income taxes	**122**	111
Effective rate on earnings before corporate taxes	**29.33%**	24.94%
Classified in the consolidated financial statements as:		
Income taxes – current	**11**	26
Income taxes – deferred	**111**	85
Provision for income taxes	**122**	111

The decrease in the combined federal and provincial statutory income tax rates from 2011 to 2012 was the result of legislated decrease in federal income tax rates.

Income taxes allocated to future years are comprised of the following:

($ millions)	**2012**	2011
Non-capital loss and deductible patronage allocation carry forwards	**117**	89
Tax value of resource pools in excess of net book value	**24**	8
Miscellaneous accruals and reserves	**74**	47
Net book value in excess of undepreciated capital cost	**(444)**	(342)
Patronage allocations deferred for income tax purposes	**(73)**	17
Total deferred tax liability	**(302)**	(181)

	2012	2011
Opening deferred tax liability	**(181)**	(111)
Change reflected in:		
Net income before other comprehensive income	**(111)**	(85)
Discontinued operations	**(4)**	1
Other comprehensive income	**15**	14
Triwest acquisition	**(21)**	-
Closing deferred tax liability	**(302)**	(181)

Classified in the consolidated financial statements as:

	2012	2011
Deferred tax assets	**215**	161
Deferred tax liabilities	**(517)**	(342)
Total deferred tax liability	**(302)**	(181)

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

25. Commitments and contingencies

At October 31, 2012, the Co-operative has commitments that require the following minimum future payments which are not accrued for in the consolidated statement of financial position.

($ millions)	Less than one year	Between one and five years	More than five years	Total
Operating leases (note 23)	2	10	5	17
Purchase commitments	17	18	-	35
Total	19	28	5	52

Various claims and lawsuits are pending against the Co-operative. While it is not possible to determine the ultimate outcome of such actions at this time, it is management's opinion that the ultimate resolution of such matters will not have a material adverse effect on the Co-operative's financial condition or results of operations.

26. Financial instruments and risk management

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

(a) Credit risk

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

The Co-operative's accounts receivable was aged as follows at October 31, 2012:

($ millions)	Member	Non-member
Current	709	275
Past due (1-30 days)	6	7
Past due (31-60 days)	-	1
Past due (more than 60 days)	-	1
Allowance for doubtful accounts	-	(6)
Total accounts receivable	715	278

The Co-operative maintains allowances (which are significant estimates) for potential credit losses related to doubtful accounts. Current economic conditions, customer history, why the accounts are past due and the account's industry are all considered when determining whether past due accounts should be allowed for or written off. The doubtful accounts expense is calculated on a specific-identification basis for high risk accounts receivable and on a statistically derived allowance basis for the remainder. No accounts receivables are written off directly to the doubtful accounts expense. The following table presents a summary of the activity related to the Co-operative's allowance for doubtful accounts:

($ millions)	**2012**	2011	November 1, 2010
Beginning of year	**11**	17	18
Additions - bad debt expense(recovery)	**(5)**	(5)	-
Recoveries	**-**	-	-
Write-offs	**-**	(1)	(1)
End of year	**6**	11	17

(b) Liquidity risk

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

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

The table below outlines the Co-operative's available debt facilities as of October 31, 2012:

($ millions)	Total amount	Outstanding	Available
Credit Facility	500	89	411

The Co-operative has contractual commitments to purchase certain services and under its operating lease agreements as described in note 23.

The following are the contractual maturities of financial liabilities:

($ millions)	Carrying amount	On demand	Less than one year	One to two years
Accounts Payable	909	-	909	-
Member funds	522	522	-	-
Credit Facility	89	-	-	89

(c) Market risk

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

i.Foreign currency risk

The Co-operative is exposed to foreign currency risk primarily relating to revenues, capital and operating expenditures that are denominated in a currency other than Canadian dollars. The exposures partially offset each other. At times the Co-operative will hedge forecasted operating and capital exposure through the use of forward currency contracts. Any foreign currency forward contracts entered into are not designated as hedging instruments for accounting purposes. The Co-operative is not exposed to material foreign exchange risk on its financial statements and therefore a one percent change in the exchanges rates would not materially impact earnings or cash flows.

ii. Interest rate risk

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

Financial assets bearing variable interest rate exposure are cash and cash equivalents and short term investments. Short term investments are invested in short term high quality securities. The primary objective is to ensure liquidity and preservation of principle while achieving a satisfactory return portfolio. Financial liabilities bearing interest rate exposure are bank indebtedness and members' funds.

If interest rates increase by 1% it is estimated the impact on pre-tax earnings would be a decrease of $1 million.

iii. Commodity Price Risk

A portion of the Co-operative's financial performance is dependent on various commodity prices. The Co-operative does not actively hedge any portion of the risks around commodity prices.

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

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

($ millions)	Fair value through profit or loss	Amortized cost	Total carrying amount
As at October 31, 2012			
Cash and cash equivalents	-	-	-
Members accounts receivable	-	715	715
Non-members accounts receivable	-	278	278
Investments and advances	78	-	78
	78	993	1,071
Accounts Payable	-	909	909
Bank Indebtedness	-	89	89
Members' funds	-	522	522
	-	1,520	1,520

($ millions)	Loans and receivable	Available for sale investment	Held to maturity investment	Other liabilities	Total carrying amount
As at October 31, 2011					
Cash and cash equivalents	83	-	499	-	582
Members accounts receivable	618	-	-	-	618
Non-members accounts receivable	228	-	-	-	228
Investments and advances	81	5	-	-	86
	1,010	5	499		1,514
Accounts Payable	-	-	-	933	933
Members' funds	-	-	-	367	367
	-	-	-	1,300	1,300

Fair Value Hierarchy

To estimate fair value of financial instruments measured at fair value, the Co-operative uses quoted market prices when available, or third-party models and valuation methodologies that utilize observable market data. In addition to market information, the Co-operative incorporates transaction specific details that market participants would utilize in a fair value measurement, including the impact of non-performance risk. However, these fair value estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction. The Co-operative characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

- Level 1 – inputs represent quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 – inputs other than quoted prices that are observable, either directly or indirectly, as of the reporting date.

- Level 3 – inputs that are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. In forming estimates, the Co-operative utilizes the most observable inputs available for valuation purposes.

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

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

($ millions)	Level 1	Level 2	Level 3	Total
As at October 31, 2012				
Cash and cash equivalents	-	-	-	-
Investments and advances	-	75	3	78
Total assets	-	75	3	78

No liabilities are currently measured at fair value on a recurring basis.

The following table shows a reconciliation of the balance for fair value measurement in Level 3 of the fair value hierarchy:

($ millions)	Equity investments
Balance at November 1, 2011	5
Dispositions	(2)
Total gains and losses recognized in Profit or loss	-
Balance at October 31, 2012	3

The equity securities included in level 3 are not listed on any stock exchange and therefore a quoted market price is not available.

27. Capital structure framework

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

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

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

($ millions)	**2012**	2011	2010
Bank indebtedness	**89**	-	-
Members' funds	**522**	367	326
Total debt	**611**	367	326
Less cash and cash equivalents	**-**	(582)	(815)
Net debt	**611**	(215)	(489)
Members' equity	**3,761**	3,413	2,874
Capital under management	**4,372**	3,198	2,385

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

Financial covenants associated with the Co-operative's syndicated credit facility are reviewed regularly and controls are in place to maintain compliance with the covenants. The Co-operative has complied with all financial covenants for the year ended October 31, 2012.

28. Related party transactions

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Co-operative, directly or indirectly. Key management personnel of the Co-operative include all members of the senior leadership team and the board of directors.

In addition to their salaries and employee benefits, the Co-operative contributes to a defined contribution pension plan on behalf of the senior leadership team and the President of the board of directors.

Key management personnel compensation comprised the following:

($ millions)	**2012**	2011
Short-term salary and employee benefits	**9**	9
Post-employment benefits	**1**	1
Total	**10**	10

29. Group Entities

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

	Jurisdiction Of Incorporation	Ownership Interest 2012	Ownership Interest 2011
Subsidiaries:			
Consumers Co-operative Refineries Limited	Canada	100%	100%
FCL Ventures Ltd.	Canada	100%	100%
FCL Enterprises Co-operative	Canada	100%	100%
The Grocery People Ltd.	Canada	100%	100%
Associates:			
The Produce People Ltd.	Canada	50%	50%

30. Operating segments

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

- Crop Supplies: includes purchasing and distribution of crop and farm related products
- Feed: includes purchasing, manufacturing and distribution of animal feed products
- Food: includes purchasing and distribution of food products on a wholesale and retail basis
- Forest Products: includes logging, manufacturing and distribution of plywood
- Home & Building Supplies: includes purchase and distribution of home and building supplies on a wholesale basis
- Energy: includes exploration and production of crude oil as well as the manufacturing, refining, distribution and marketing of petroleum products

($ millions)		Sales	Depreciation	Interest revenue	Interest expense	Income tax expense	Net income
Crop Supplies	**2012**	**353**	**-**	**-**	**1**	**2**	**25**
	2011	289	1	-	-	2	22
Feed	**2012**	**59**	**-**	**-**	**-**	**-**	**1**
	2011	54	1	-	-	-	-
Food	**2012**	**1,791**	**4**	**2**	**1**	**12**	**80**
	2011	1,757	8	2	1	13	76
Forest Products[a]	**2012**	**62**	**5**	**-**	**-**	**4**	**6**
	2011	47	6	-	-	(1)	(1)
Home & Building Supplies	**2012**	**327**	**1**	**-**	**1**	**2**	**21**
	2011	302	2	-	-	2	17
Energy	**2012**	**6,240**	**130**	**4**	**5**	**106**	**694**
	2011	5,818	132	9	15	94	756
Total	**2012**	**8,832**	**140**	**6**	**8**	**126**	**827**
	2011	8,267	150	11	16	110	870

[a] As outlined in note 17, Forest Products was discontinued as a segment in 2012 and therefore the results have been presented as a single line item on the statement of comprehensive income.

31. Subsequent events

Subsequent to year end, the Board of Directors approved a share redemption in the amount of $402 million.

32. First time adoption of International Financial Reporting Standards

As stated in note 2(a), these are the Co-operative's first annual consolidated financial statements prepared in accordance with IFRS. The accounting policies in note 3 have been applied in preparing the consolidated financial statements for the year ended October 31, 2012, the comparative information for the year ended October 31, 2011 and the opening IFRS statement of financial position at November 1, 2010 (the Co-operative's date of transition).

In preparing its opening IFRS statement of financial position, the Co-operative has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP, its previous GAAP. An explanation of how the transition from GAAP to IFRS has affected the Co-operative's financial position and financial performance is set out in the following tables and notes. As outlined in note 33, certain prior period amounts have been reclassified to conform to the current year's presentation and therefore the reconciliations below may not tie directly to the current year's financial statements.

IFRS 1, *First time adoption of IFRS* generally requires that first time adopters retrospectively apply all effective IFRS standards and interpretations in effect at the reporting date. However, IFRS 1 allows first time adopters to IFRS to take advantage of a number of voluntary exemptions from the general principle of retrospective restatement. The Co-operative applied the following optional exemptions:

- The Co-operative elected not to apply IFRS 3 – Business combinations to acquisitions of subsidiaries that occurred before the transition date of November 1, 2010. There was no impact on the financial statements.
- Oil and gas assets in property, plant and equipment on the consolidated statement of financial position were previously recognized at full cost in accordance with Canadian GAAP. The Co-operative elected to apply the IFRS 1 full cost exemption to measure its oil and gas properties at the amount determined under Canadian GAAP at November 1, 2010.
- The Co-operative elected to apply IAS 23 Borrowing costs prospectively from the date of transition, November 1, 2010. There was no impact on the financial statements on transition or at October 31, 2011.

- The Co-operative elected to apply the IFRS 1 exemption for cumulative actuarial gains and losses on pensions and other post-retirement benefits. This impacted retained earnings at November 1, 2010 and October 31, 2011.
- The Co-operative elected to apply the IFRS 1 exemption for decommissioning liabilities and took the option to measure the liability and the related depreciation effects at the transition date. This impacted retained earnings and liabilities at November 1, 2010.

Adjustments to the Consolidated Statement of Financial Position – as at November 1, 2010

Notes	($ millions)	Canadian GAAP	IFRS reclassifications	IFRS adjustments	IFRS
	Assets				
	Cash and cash equivalents	606			606
	Members' funds on deposit	209			209
	Members accounts receivable	459			459
	Non-members accounts receivable	166			166
	Inventories	547	(36)		511
	Prepaid expenses	2			2
	Income tax receivable	7			7
	Future income taxes	50	(50)		-
	Current portion of investments and advances	25			25
	Current assets	2,071	(86)	-	1,985
	Investments and advances	69			69
g	Deferred tax asset	19	50	31	100
e	Investment property	-	52		52
c, d, e	Property, plant and equipment	1,912	(16)	83	1,979
	Total assets	4,071	-	114	4,185
	Liabilities				
b,c	Accounts Payable	$ 778	(12)		766
f	Share capital redemption	266	(266)		-
	Members' funds	209			209
g	Future income taxes	51	(51)		-
	Current liabilities	1,304	(329)	-	975
b	Pension liability	-	8	49	57
c	Asset retirement obligation	-	4	64	68
g	Deferred tax liability	140	51	20	211
	Total liabilities	1,444	(266)	133	1,311
	Members' equity				
f	Share capital	867	266		1,133
h	Retained earnings	1,760		(19)	1,741
	Total members' equity	2,627	266	(19)	2,874
	Total liabilities and members' equity	4,071	-	114	4,185

Adjustments to the Consolidated Statement of Financial Position – as at October 31, 2011

Notes	($ millions)	Canadian GAAP	IFRS reclassifications	IFRS adjustments	IFRS
	Assets				
	Cash and cash equivalents	368			368
	Members' funds on deposit	214			214
	Members accounts receivable	465			465
	Non-members accounts receivable	228			228
	Inventories	650	(36)		614
	Prepaid expenses	2			2
	Income tax receivable	25			25
	Future income taxes	96	(96)		-
	Current portion of investments and advances	32			32
	Current assets	2,080	(132)	-	1,948
	Investments and advances	57		(3)	54
g	Deferred tax asset	22	96	43	161
e	Investment property		45		45
a, c, d, e	Property, plant and equipment	2,762	(9)	133	2,886
	Total assets	4,921	-	173	5,094
	Liabilities				
b, c	Accounts Payable	946	(13)		933
f	Share capital redemption	412	(412)		-
	Members' funds	214			214
g	Future income taxes	117	(117)		-
	Current liabilities	1,689	(542)	-	1,147
b	Pension liability	-	9	103	112
c	Asset retirement obligation	-	4	76	80
g	Deferred tax liability	200	117	25	342
	Total liabilities	1,889	(412)	204	1,681
	Members' equity				
	Share capital	970	412		1,382
h	Retained earnings	2,062		(31)	2,031
	Total members' equity	3,032	412	(31)	3,413
	Total liabilities and members' equity	4,921	-	173	5,094

Adjustments to the Statement of Comprehensive Income for the year ended October 31, 2011

Notes	($ millions)	Canadian GAAP	IFRS reclassifications	IFRS adjustments	IFRS
	Sales	8,267			8,267
	Cost of products sold	7,098		(28)	7,070
		1,169		28	1,197
	Expenses				
	Operating and administration	255		(16)	239
	Interest revenue	(1)	1		-
	Finance cost	-	10	6	16
	Income taxes – current	25		1	26
	Income taxes – future	75		9	84
		354	11	-	365
		815	(11)	28	832
	Other income	24	11	3	38
	Net income before patronage allocation	839	-	31	870
f	**Patronage allocation**	(537)	537		-
	Net income after patronage allocation	302	537	31	870
	Other Comprehensive Income				
b	Defined benefit plan actuarial gains (losses) (net of tax)	-		(43)	(43)
	Total comprehensive income	302	537	(12)	827

As outlined in note 17, Forest Products was discontinued as a segment in 2012 and therefore the comparative results have been presented as a single line item on the face of the statement of comprehensive income. The statement above has not been adjusted for this presentation item.

There were no material differences between the statements of cash flows presented under previous GAAP and IFRS.

(a) Crude oil assets: Under previous GAAP, crude oil development costs were depleted straight-line. On transition to IFRS, the Co-operative changed this depletion method to be declining balance to more appropriately reflect the usage of the asset. As this is a change in accounting policy, the change was applied retrospectively to November 1, 2010, the earliest period presented. There is no impact on the November 1, 2010 comparatives as the deemed cost exemption was used for crude oil assets. The impact of the change is summarized as follows:

Consolidated statement of financial position ($ millions)	October 31, 2011	November 1, 2010
Increase in property, plant & equipment	15	-
Increase in retained earnings	15	-

Consolidated statement of comprehensive income ($millions)	October 31, 2011
Decrease in operating and administration expense	(15)
Increase in net income before tax	15

(b) Defined benefits plan: Under IFRS the Co-operative's accounting policy is to recognize all actuarial gains and losses in other comprehensive income. Under its previous GAAP, these gains and losses were recognized in profit or loss over the employees remaining service period. At the date of transition using the IFRS 1 election, all previously unrecognized actuarial gains and losses were recognized in retained earnings and reversed in the previous year's statement of comprehensive income. IFRS requires that past service costs be expensed immediately if they are vested whereas under previous GAAP, these were amortized over the average remaining service period of active employees. This change in treatment results in an adjustment at transition and in the comparative period. Under previous GAAP, certain gains and losses were unrecognized at the time of adopting the previous standard and were being amortized into income as a transition provision. These amounts must be recognized on transition to IFRS. The impact arising from the change is summarized as follows:

Consolidated statement of financial position ($ millions)	October 31, 2011	November 1, 2010
Decrease in accounts payable	(9)	(8)
Increase in pension liability	112	57
Decrease in retained earnings	(103)	(49)

Consolidated statement of comprehensive income ($ millions)	October 31, 2011
Decrease in cost of products sold	(4)
Decrease in other comprehensive income	(58)
Decrease in total comprehensive income before tax	(54)

(c) Asset retirement obligation: An obligation exists to restore certain sites for the effect of the Co-operative's operations. Previously, the Co-operative expensed these costs as they were incurred. In accordance with IFRS a provision for reclamation is recognized as the land being used is contaminated. These liabilities relate to the Co-operative's energy and crop supplies segment. The impact arising from this change is as follows:

Consolidated statement of financial position ($ millions)	October 31, 2011	November 1, 2010
Increase in property, plant & equipment	45	34
Increase in asset retirement obligation	80	68
Decrease in accounts payable	(4)	(4)
Decrease in retained earnings	(31)	(30)

Consolidated statement of comprehensive income($ millions)	October 31, 2011
Increase in finance expense	3
Increase in operating and administration expense	2
Increase in other income for recovery of ARO	4
Decrease in net income before tax	(1)

(d) Property, plant and equipment

Certain prior period amounts have been adjusted due to a change in the application of the depreciation policy under previous GAAP that was identified during the transition to IFRS. The Co-operative had depreciated a number of land assets in previous years, with a cost totaling $12 million. As a result, opening retained earnings for November 1, 2010 was previously understated and accumulated depreciation was overstated by $12 million. Opening retained earnings for November 1, 2010 has been increased by $12 million, and accumulated depreciation has been decreased by $12 million. In 2011, there was an increase in retained earnings of $2 million and a decrease to accumulated depreciation of $2 million.

Certain assets were expensed under previous GAAP that would require capitalization under IFRS as they led to the betterment of the asset. This adjustment results in an increase to opening retained earnings of $35 million, property, plant and equipment increased by $60 million and accumulated depreciation increased by $25 million at November 1, 2010. In 2011, these was an increase to retained earnings of $24 million, an increase to property, plant and equipment of $58 million and an increase in accumulated depreciation of $34 million.

Under IFRS, spare parts inventory that can only be used in connection with an item of property, plant and equipment is to be classified not as inventory but as property, plant and equipment. This results in a reclassification of spare parts inventory from inventory to property, plant and equipment of $36 million at November 1, 2010 and $36 million at October 31, 2011.

Total impact of the changes to property plant and equipment are as follows:

Consolidated statement of financial position ($ millions)	October 31, 2011	November 1, 2010
Increase in property, plant and equipment	64	33
Decrease in inventory	(36)	(36)
Increase in investment property	45	52
Increase in retained earnings	73	49

Consolidated statement of comprehensive income($ millions)	October 31, 2011
Decrease in cost of products sold	(24)
Decrease in operating and administration expense	(3)
Decrease in other income	(1)
Increase in net income before tax	26

(e) Investment property: Under previous GAAP, all land and building assets are included within property, plant and equipment on the statement of financial position. Under IFRS, any property which is held to earn rental income or for capital appreciation is required to be classified separately. As a result, there were reclassifications from property, plant and equipment to investment property of $52 million at November 1, 2010 and $45 million at October 31, 2011.

(f) Patronage allocation: under previous GAAP, the patronage allocation was treated as an income item. As member shares have been determined to be equity under IFRS, the patronage allocation is an equity transaction. Additionally, under previous GAAP, the Co-operative recognized its annual share redemption as an adjusting subsequent event. Based on the guidance under IFRS of the treatment of a subsequent equity transaction, this event is a non-adjusting event and does not require adjustment in the financial statements in the current year. The redemption is recorded in the period in which the Co-operative becomes liable to pay it, which has historically been after year-end. This change results in a reclassification from share capital redemption liability to the share capital equity account of $266 million at November 1, 2010 and $412 million at October 31, 2011.

(g) Income taxes: nearly all recognized IFRS conversion adjustments as discussed in this transition note had related effects on deferred taxes. The impacts on the changes described decreased (increased) the deferred tax asset and liability as follows:

Consolidated statement of financial position ($ millions)	October 31, 2011	November 1, 2010
Increase in deferred tax asset	43	31
Increase in deferred tax liability	25	20
Increase in retained earnings	18	11

(h) Retained earnings:

The above changes increase (decrease) retained savings as follows:

($ millions)	Notes	October 31, 2011	November 1, 2010
Crude Oil	a	15	-
Pension liability	b	(103)	(49)
Reclamation liability	c	(31)	(30)
Property plant and equipment	d	73	49
Income tax	g	18	11
Financial Instruments	i	(3)	-
Total decrease in retained earnings		(31)	(19)

(i) Classification of financial assets on the date of initial application of IFRS 9

The Co-operative has early adopted IFRS 9 Financial Instruments (October 2010) with a date of initial application of November 1, 2011. IFRS 9 (2010) requires that an entity classify its financial assets as subsequently measured at either amortized cost or fair value depending on the entity's business model for managing the financial assets and contractual cash flow characteristics of the financial asset. These changes in accounting policy are applied on a retrospective basis from November 1, 2011 without restatement of prior periods. Information in the prior period was prepared in accordance with Canadian GAAP.

In accordance with the transitional provisions of IFRS 9 (2010), the classification of financial instruments that the Co-operative held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date. As a result of the application of IFRS 9 (2010) a $3 million decrease was recognized in retained earnings at October 31, 2011 as a result of reclassifying advances from loans and receivables to fair value. See note 3(d) and 3(s) for further details on the change in policy.

The following table summarizes the transitional classification and measurement adjustments to financial assets on November 1, 2011, the Co-operative's date of initial application of IFRS 9 (2010):

($ millions)	Original classification under GAAP	New classification under IFRS 9	Original carrying amount under GAAP	New carrying amount under IFRS 9
As at October 31, 2011				
Cash and cash equivalents	Fair value	Fair value	368	368
Members' funds on deposit	Fair value	Fair value	214	214
Member accounts receivable, Non-members accounts receivable	Loans and receivables	Amortized cost	693	693
Investments and advances	Available for sale and Loans and receivables	Fair value	89	86
Share capital redemption (a)	Other liabilities	Amortized cost	412	0
Accounts Payable	Other liabilities	Amortized cost	946	946
Members' funds	Other liabilities	Amortized cost	214	214

(a) The change in this amount is related to the change in treatment under IFRS, not a change in classification of financial instruments. Please see note 32(f) to the financial statements for details

33. Reclassifications

Certain prior period amounts have been reclassified to conform to the current year's financial statement presentation.

CONSOLIDATED FINANCIAL STATEMENTS

FEDERATED CO-OPERATIVES LIMITED / OCTOBER 31, 2012