Consolidated Financial Statements

Federated Co-operatives Limited

October 31, 2013

2013

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 statement of financial position as at October 31, 2013 and the consolidated statements of comprehensive income, members' equity and cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Federated Co-operatives Limited and its subsidiaries as at October 31, 2013, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Saskatoon, Saskatchewan
December 16, 2013

Chartered Accountants

FEDERATED CO-OPERATIVES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended October 31, 2013

In Millions of CAD $

NOTES			2013		2012
16	**SALES**	$	**9,423**	$	8,770
18	**COST OF PRODUCTS SOLD**		**8,208**		7,618
			1,215		1,152
	EXPENSES				
18	Operating and administration		**312**		225
20	Finance cost		**6**		8
22	Income taxes - current		**5**		11
22	Income taxes - deferred		**75**		111
			398		355
			817		797
17	**OTHER INCOME**		**62**		24
	NET INCOME FROM CONTINUING OPERATIONS		**879**		821
	NET INCOME FROM DISCONTINUED OPERATIONS (net of tax)		**-**		6
	NET INCOME BEFORE OTHER COMPREHENSIVE INCOME		**879**		827
15	Actuarial gain (loss) on defined benefit plan (net of tax)		**33**		(44)
	TOTAL COMPREHENSIVE INCOME	$	**912**	$	783

FEDERATED CO-OPERATIVES LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
year ended October 31, 2013

In Millions of CAD $

	2013	2012
OPERATING ACTIVITIES		
Net income	$ 879	$ 827
Adjustments for:		
Depreciation, depletion and impairment	258	137
Gain on disposal of property, plant and equipment	(2)	(12)
Deferred tax	75	136
Change in asset retirement obligations	8	4
Change in fair value of advances	-	(2)
Goodwill impairment	18	-
Changes in non-cash operating working capital:		
Accounts receivable	(68)	(147)
Inventories	(53)	(58)
Other current assets	9	3
Accounts payable	(161)	(22)
Cash provided by operating activities	963	866
INVESTING ACTIVITIES		
Investments and advances	6	10
Additions to property, plant and equipment	(512)	(1,296)
Addition to goodwill	-	(19)
Proceeds from sale of property, plant and equipment	47	48
Cash used in investing activities	(459)	(1,257)
FINANCING ACTIVITIES		
Redemption of share capital	(428)	(435)
Members' funds proceeds	68	155
Cash used in financing activities	(360)	(280)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	144	(671)
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), BEGINNING OF YEAR	(89)	582
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), END OF YEAR	$ 55	$ (89)

FEDERATED CO-OPERATIVES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at October 31, 2013

In Millions of CAD $

NOTES			2013	2012
	CURRENT ASSETS			
	Cash and cash equivalents	$	55	$ -
24	Members accounts receivable		820	715
24	Non-members accounts receivable		241	278
7	Inventories		723	671
	Prepaid expenses		3	3
	Income taxes receivable		12	21
8	Current portion of advances		22	27
			1,876	1,715
	NON-CURRENT ASSETS			
8	Investments and advances		50	51
22	Deferred tax asset		4	2
11	Investment property		36	41
10	Property, plant and equipment		4,238	4,030
6	Goodwill		1	19
		$	6,205	$ 5,858
	CURRENT LIABILITIES			
	Accounts payable	$	740	$ 909
12	Bank indebtedness		-	89
12	Members' funds		590	522
			1,330	1,520
	NON-CURRENT LIABILITIES			
15	Pension liability		137	173
13	Asset retirement obligations		101	100
22	Deferred tax liability		392	304
			630	577
	MEMBERS' EQUITY			
	Share capital			
14	Membership shares of $100 par value each		1,620	1,474
	Retained earnings		2,625	2,287
			4,245	3,761
		$	6,205	$ 5,858

ON BEHALF OF THE BOARD

.... **Director**

.... **Director**

FEDERATED CO-OPERATIVES LIMITED
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
as at October 31, 2013

In Millions of CAD $

NOTES			Share Capital		Retained Earnings		Total Equity
	Balance as at October 31, 2011	**$**	**1,382**	$	**2,031**	$	**3,413**
	Net Income				827		827
15	Other comprehensive income (loss)				(44)		(44)
14	Patronage paid		527		(527)		-
14	Redemption of shares		(435)				(435)
	Balance as at October 31, 2012	**$**	**1,474**	$	**2,287**	$	**3,761**
	Net Income				879		879
15	Other comprehensive income (loss)				33		33
14	Patronage paid		574		(574)		-
14	Redemption of shares		(428)				(428)
	Balance as at October 31, 2013	**$**	**1,620**	$	**2,625**	$	**4,245**

Notes to the Consolidated Financial Statements

For the years ended October 31, 2013 and 2012
(In Millions of CAD $ 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, 2013 comprise Federated Co-operatives Limited and its subsidiaries (collectively, "the Co-operative") and the Co-operative's interest in joint ventures. The Co-operative provides central wholesaling, manufacturing, refining and administrative services to 234 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").
The consolidated financial statements were authorized for issue by the Board of Directors on December 16, 2013.

(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.

(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.
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. Transactions costs are expensed as incurred.

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 comprehensive income. 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 comprehensive income.

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 comprehensive income.

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, 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 comprehensive income.

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

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 financial year end and adjusted if appropriate.

Asset description	Estimated useful life (years)
Buildings	50
Tanks, bins, racking and long life assets	30
Structures, piping and 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. 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. Successful expenditures are transferred to property, plant and equipment. Expenditures deemed to be unsuccessful are recognized in comprehensive income immediately. Pre-license costs are recognized in comprehensive income 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 comprehensive income. 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, 2013.

(k) Impairment

i. Non-financial assets

At the end of each reporting period, the Co-operative reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. Intangible assets with indefinite useful lives, including goodwill, 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. 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 CGUs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs. Otherwise corporate assets are allocated to the smallest group of CGUs for which a reasonable and consistent allocation base can be identified.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. Value in use is assessed using the estimated future cash flows discounted to their present value using a pre-tax risk adjusted rate. 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.

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 comprehensive income.

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 comprehensive income.

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 CGUs expected to benefit from the synergies of the business combination. CGUs 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. The Co-operative's current goodwill is entirely allocated to the Triwest CGU. 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 comprehensive income. 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 comprehensive income.

(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. Once classified 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 benefit plan

The defined benefit 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 and the participation of retail co-operatives in the contaminated site management program. 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 at the balance sheet date, 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.

Changes in the estimated liability resulting from revisions to estimated timing of decommissioning, expected amount of cash flows or changes in the discount rate are recognized as a change in the asset retirement obligation and the related asset retirement cost. Actual reclamation expenditures are charged against the provision 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 2013.

(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. Interest income is recognized as it accrues in comprehensive income, using the effective interest method.

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 comprehensive income except to the extent that it relates to a business combination, or items recognized directly in equity or other comprehensive income.

i. Current tax

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

ii. Deferred tax

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 reporting period and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

iii. Investment tax credits

Scientific Research and Experimental Development tax credits associated with research and development activities in Canada are recorded as a reduction of the expense to which the incentive applies. The benefit is recognized when the Co-operative has complied with the terms of the applicable legislation and when it has reasonable assurance that the 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.

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 each asset or CGU at each reporting period to determine whether any indication of impairment exists. The exception to this is goodwill, which is assessed annually regardless of indicators. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The assessments require the use of estimates and assumptions such as long-term prices, discount rates, operating costs, future capital requirements, decommissioning costs, operating performance and, in the case of oil and gas properties, exploration potential and reserves information. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs. Judgment is required when determining what constitutes a CGU.

(c) Reserves and resources estimate

Reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Co-operative's oil and gas properties. The Co-operative estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the reserve body and suitable production techniques and recovery rates. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Co-operative's reported financial position and results.

(d) Exploration and evaluation expenditures

The application of the Co-operative's accounting policy for exploration and evaluation expenditure requires judgment to determine whether future economic benefits are likely, either from future exploration or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Any such estimates and assumptions may change as new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalized amount is written off in the statement of comprehensive income.

(e) 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. The liability at the reporting date represents management's best estimate of the present value of the future decommissioning costs required.

(f) Deferred 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 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.

(g) Pension benefits

The carrying value of the defined benefit 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.

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

IFRS 10 – Consolidated financial statements

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. The Co-operative does not expect the adoption of this standard to have a significant impact on its financial statements.

IFRS 11 – Joint arrangements

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. The extent of the impact, if any, of the adoption of IFRS 11 has not yet been determined by the Co-operative.

IFRS 12 – Disclosure of interests in other entities

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. 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.

IFRS 13 – Fair value measurement

In May 2011, the IASB issued *Fair value measurement.* IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. 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. The extent of the impact, if any, of the adoption of IFRS 13 has not yet been determined by the Co-operative.

IAS 19 – Employee benefits

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. 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. The Co-operative does not expect the amendments to have a material impact on the financial statements.

(In Millions of CAD $ except as noted)

6. Impairment losses

Goodwill impairment

Goodwill must be tested annually for impairment and when there is an indication of impairment in the CGUs to which it is allocated. For impairment testing purposes, the entire goodwill balance of $19 million acquired through the Triwest acquisition has been allocated to the Triwest CGU. The Triwest CGU is a geographical grouping of wells in the Energy segment.

The recoverable amount of the Triwest CGU was determined using a value in use calculation. The cash flow projections for the value in use were based on the present value of reserves of the properties. As a result of the testing, goodwill was determined to be impaired and $18 million of goodwill was written off. This expense is included in operating and administration expense.

Key assumptions used

The calculation of the value in use is most sensitive to the following assumptions:

- Discount rate: The future cash flows were discounted to their present values using a pre-tax discount rate of 15% (2012 - 15%).
- Crude oil prices: Forecast commodity prices are based on management's estimates and available market data.
- Reserve data: Reserve data is based on management's estimates.

Goodwill

($ millions)	**2013**	2012
Balance, beginning of year	**19**	-
Additions	**-**	19
Impairment	**(18)**	-
Balance, end of year	**1**	19

Impairment testing of other non-current assets

Total impairment loss of $5 million was recognized in operating and administration expense in respect to exploration and evaluation properties and producing oil properties (2012 - $3 million). These properties are a part of the Energy segment. The major element of this was the determination of uneconomic reserves on a property in the southwest Saskatchewan CGU and disproven acres resulting from exploration activities.

Impairment losses

($ millions)	**2013**	2012
Exploration and evaluation assets	**4**	-
Development and production assets	**1**	3
Total	**5**	**3**

7. Inventories

($ millions)	**2013**	2012
Manufactured product	**506**	472
Goods purchased for resale	**207**	191
Parts and supplies	**10**	8
	723	671

8. Investments and advances

($ millions)	**2013**	2012
Investments:		
The Co-operators Group Limited	**2**	2
Interprovincial Cooperative Limited	**1**	1
Other	**1**	1
Advances:		
Canoe Forest Products Ltd.	**10**	10
Finance agreements	**58**	64
Less: current portion of finance agreements	**(22)**	(27)
	50	51

9. 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 assets, liabilities, revenues and expenses 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)	**2013**	2012
Revenue	**35**	32
Expenses	**33**	30
Proportionate share of net income	**2**	2

Financial position ($ millions)	**2013**	2012
Assets	**3**	2
Liabilities	**3**	2
Proportionate share of net assets	**-**	-

10. Property, plant and equipment

Category ($ millions)	**2013**	2012
Wholesaling	**217**	199
Manufacturing	**3,589**	1,302
Assets under construction	**432**	2,529
Net book value	**4,238**	4,030

Capitalized borrowing costs

Capitalized borrowing costs related to property, plant and equipment amounted to $15 million (2012 - $5 million), with a capitalization rate of 1.61% (2012 - 1.35%).

(In Millions of CAD $ except as noted)

($ millions)	Land building and roads	Equipment and fixtures	Assets under construction	Development and production assets	Exploration and evaluation assets	Total
Cost						
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
Additions/transfers	8	2,511	332	73	14	2,938
Disposals/transfers	(3)	(28)	(2,429)	(4)	(31)	(2,495)
At October 31, 2013	308	5,147	432	288	16	6,191
Accumulated depreciation						
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
Depreciation charge	8	222	-	26	-	256
Disposals	-	(26)	-	-	-	(26)
Impairment	-	-	-	1	4	5
At October 31, 2013	121	1,789	-	39	4	1,953
Net book value at October 31, 2013	**187**	**3,358**	**432**	**249**	**12**	**4,238**
Net book value at October 31, 2012	190	1,071	2,529	207	33	4,030

11. Investment property

($ millions)	**2013**	2012
Cost		
Balance, beginning of year	**77**	88
Acquisitions	**-**	9
Disposals	**(6)**	(20)
Balance, end of year	**71**	77
Accumulated depreciation		
Balance, beginning of year	**36**	43
Depreciation charge	**-**	1
Disposals	**(1)**	(8)
Balance, end of year	**35**	36
Net book value, end of year	**36**	41

Net rental income from investment properties recognized in other income was $6 million (2012 - $7 million).

The fair value of investment properties at October 31, 2013 was $100 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.

12. Borrowing

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

($ millions)	**2013**	2012
Bank indebtedness	**-**	89
Members' funds	**590**	522
Total borrowing	**590**	611

The bank indebtedness consists of a syndicated credit facility that is secured by a general security agreement. Any borrowing on the facility is charged interest at prime and has a revolving feature with a maturity date of February 22, 2014. Members' funds charge interest at a rate of prime less 1.25% and are repayable on demand.

13. Asset retirement obligations

The Co-operative's decommissioning liabilities consist of reclamation and closure costs. The obligations were determined using a discount rate of 3% - 5% (2012 - 3% to 5%). The Co-operative estimates the total undiscounted payments of future obligations to be $229 million (2012 - $224 million) which will be incurred over the next 2 to 50 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)	**2013**	2012
Balance, beginning of year	**100**	80
Additions	**1**	12
Liabilities disposed	**-**	(4)
Change in estimate and discount rate	**(4)**	8
Accretion expense (included in finance cost)	**4**	4
Balance, end of year	**101**	100

14. 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	**2013**	2012
Balance, beginning of year	**14,740**	13,820
Shares issued for current year's patronage allocation	**5,740**	5,270
Shares redeemed	**(4,280)**	(4,350)
Balance, end of year	**16,200**	14,740

(In Millions of CAD $ except as noted)

15. 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 Co-operative's total contribution expense for this plan in 2013 is $6 million (2012 - $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, 2013. 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)	**2013**	2012
Plan assets		
Fair value, beginning of year	**200**	176
Contributions	**18**	17
Benefits paid	**(6)**	(5)
Expected return on plan assets	**8**	9
Actuarial gain	**15**	3
Fair value, end of year	**235**	200
Accrued benefit obligation		
Balance, beginning of year	**373**	288
Current service cost	**19**	13
Interest cost	**15**	15
Benefits paid	**(6)**	(5)
Actuarial (gain) loss	**(29)**	62
Balance, end of year	**372**	373
Pension liability	**(137)**	(173)

The actual return on plan assets for the year ended October 31, 2013 was $23 million (2012 - $12 million). The total actuarial gain recognized in OCI net of tax in 2013 is $33 million (2012 - loss of $44 million).

Defined benefit plan pension expense is as follows:

($ millions)	**2013**	2012
Expense recognized		
Current service costs	**19**	13
Interest on accrued benefit obligation	**15**	15
Expected return on plan assets	**(8)**	(9)
Total	**26**	19

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:

	2013	2012
Benefit obligation at October 31		
Discount rate	**4.84%**	4.05%
Rate of compensation increase	**3.50%**	3.50%
Benefit plans expense year ended October 31		
Discount rate	**4.05%**	4.95%
Expected return on plan assets	**4.05%**	4.95%

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, 2013 and 2012 was as follows:

Classification	**2013**	2012
Cash and short term notes	**5%**	5%
Bonds and debentures	**36%**	37%
Equity instruments	**59%**	58%
Total	**100%**	100%

The Co-operative expects to make cash contributions to its defined benefit pension plan in 2014 of $21 million.

16. Revenue

($ millions)	**2013**	2012
Sale of goods	**9,342**	8,704
Construction contract revenues	**81**	66
	9,423	8,770

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 $65 million (2012 - $48 million). The stage of completion is determined by reference to the costs incurred compared to total project costs. No advances were received in 2013 or 2012 as the project is billed at completion.

(In Millions of CAD $ except as noted)

17. Other income

($ millions)	**2013**	2012
Insurance proceeds	**44**	-
Other miscellaneous	**7**	7
Rental income	**6**	7
Interest income	**3**	6
Gain on disposal of fixed assets	**2**	4
	62	24

18. Expense by nature

($ millions)	**2013**	2012
Changes in inventory	**7,666**	7,228
Personnel expense	**318**	282
Other expense	**257**	196
Depreciation and amortization	**256**	134
Impairment	**23**	3
Finance costs	**6**	8
	8,526	7,851

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

($ millions)	**2013**	2012
Cost of products sold	**8,208**	7,618
Operating and administration	**312**	225
Finance cost	**6**	8
	8,526	7,851

19. Personnel expenses

The following personnel expenses are included in cost of products sold and operating and administration expense:

($ millions)	**2013**	2012
Wages and salaries	**259**	233
Statutory and other company benefits	**27**	24
Expenses related to defined benefit plan	**26**	19
Contributions to defined contribution plan	**6**	6
	318	282

20. Finance Costs

($ millions)	**2013**	2012
Interest expense	**2**	4
Accretion of asset retirement obligation	**4**	4
	6	8

21. 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 $6 million (2012 - $7 million) for the year ended October 31, 2013. Of this operating lease income recognized, $5 million (2012 - $6 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	7	34	23	64

The Co-operative as lessee

The Co-operative leases some of its corporate stores as well as some equipment under operating leases, with lease payments of $6 million (2012 - $5 million) charged to operating and administration expense. 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	3	15	8	26

22. Corporate income taxes

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

($ millions)	**2013**	2012
Net income from continuing operations before tax	**959**	943
Patronage allocation	**(574)**	(527)
	385	416
Consolidated combined federal and provincial income tax rate	**24.85%**	25.20%
Computed tax expense based on the combined rate	**96**	105
Increase (decrease) resulting from:		
Adjustment of previous year's estimated temporary differences	**(16)**	20
Other non-deductible items	**-**	(1)
Deferred tax benefit resulting from changes in tax rates	**-**	(2)
Provision for income taxes	**80**	122
Effective rate on earnings before corporate taxes	**20.78%**	29.33%
Classified in the consolidated financial statements as:		
Income taxes – current	**5**	11
Income taxes – deferred	**75**	111
Provision for income taxes	**80**	122

The decrease in the combined federal and provincial statutory income tax rates from 2012 to 2013 was the result of legislated decrease in federal income tax rates.

(In Millions of CAD $ except as noted)

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

($ millions)	**2013**	2012
Non-capital loss and deductible patronage allocation carry forwards	**234**	117
Miscellaneous accruals and reserves	**62**	74
Net book value in excess of undepreciated capital cost	**(595)**	(420)
Patronage allocations deferred for income tax purposes	**(89)**	(73)
Total deferred tax liability	**(388)**	(302)

($ millions)	**2013**	2012
Opening deferred tax liability	**(302)**	(181)
Change reflected in:		
Net income before other comprehensive income	**(75)**	(111)
Discontinued operations	**-**	(4)
Other comprehensive income	**(11)**	15
Triwest acquisition	**-**	(21)
Closing deferred tax liability	**(388)**	(302)

Classified in the consolidated financial statements as:

($ millions)	**2013**	2012
Deferred tax assets	**4**	2
Deferred tax liabilities	**(392)**	(304)
Total deferred tax liability	**(388)**	(302)

Prior year presentation has been reclassified to conform to the current year presentation, in accordance with IAS 12 where under certain circumstances deferred tax assets and liabilities can be offset by legal entity.

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.

23. Commitments and contingencies

At October 31, 2013, 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 21)	3	15	8	26
Purchase commitments	10	13	-	23
Total	13	28	8	49

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 final resolution of such matters will not have a material adverse effect on the Co-operative's financial condition or results of operations.

24. 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, 2013:

($ millions)	Member	Non-member
Current	813	236
Past due (1-30 days)	6	6
Past due (31-60 days)	1	1
Past due (more than 60 days)	-	4
Allowance for doubtful accounts	-	(6)
Total accounts receivable	820	241

The Co-operative maintains allowances for potential credit losses related to doubtful accounts. Current economic conditions, customer history, why the accounts are past due and the accounts' 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)	**2013**	2012
Balance, beginning of year	**6**	11
Additions - bad debt (recovery) expense	**-**	(5)
Balance, end of year	**6**	6

(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-operative's 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, 2013:

($ millions)	Total amount	Outstanding	Available
Credit facility	500	-	500

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	740	-	740	-
Member funds	590	590	-	-

(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 1% change in the exchange 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 principal 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, 2013			
Cash and cash equivalents	55	-	55
Members accounts receivable	-	820	820
Non-members accounts receivable	-	241	241
Investments and advances	72	-	72
Total assets	127	1,061	1,188
Accounts payable	-	740	740
Members' funds	-	590	590
Total liabilities	-	1,330	1,330

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

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:

(In Millions of CAD $ except as noted)

($ millions)	Level 1	Level 2	Level 3	Total
As at October 31, 2013				
Cash and cash equivalents	55	-	-	55
Investments and advances	-	69	3	72
Total assets	55	69	3	127

The equity securities included in level 3 are not listed on any stock exchange and therefore a quoted market price is not available. Items measured at level 3 of the fair value hierarchy total $3 million (2012 - $3 million).

25. 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)	**2013**	2012
Bank indebtedness	**-**	89
Members' funds	**590**	522
Total debt	**590**	611
Less: cash and cash equivalents	**(55)**	-
Net debt	**535**	611
Members' equity	**4,245**	3,761
Capital under management	**4,780**	4,372

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, 2013.

26. Related party transactions

Transactions with the Board of Directors and 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 provides a post-employment benefit plan for the senior leadership team and the President of the Board of Directors.

Key management personnel compensation comprised the following:

($ millions)	**2013**	2012
Short-term salary and employee benefits	**9**	9
Post-employment benefits	**1**	1
Total	**10**	10

27. Group entities

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

	Jurisdiction of incorporation	Ownership interest 2013	Ownership interest 2012
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%
Joint venture:			
The Produce People Ltd.	Canada	50%	50%

28. 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 and Building Supplies: includes purchasing and distribution of home and building supplies on a wholesale basis
- Energy: includes refining, manufacturing, distribution and marketing of petroleum products, as well as exploration for and production of crude oil and natural gas

($ millions)		Sales	Depreciation and impairment	Interest revenue	Interest expense	Income tax expense	Net income
Crop Supplies	**2013**	**413**	**-**	**-**	**1**	**1**	**30**
	2012	353	-	-	1	2	25
Feed	**2013**	**62**	**-**	**-**	**-**	**-**	**1**
	2012	59	-	-	-	-	1
Food	**2013**	**1,829**	**4**	**1**	**2**	**9**	**86**
	2012	1,791	4	2	1	12	80
Forest	**2013**	**-**	**-**	**-**	**-**	**-**	**-**
Products[(a)]	2012	62	5	-	-	4	6
Home and Building	**2013**	**336**	**1**	**-**	**1**	**1**	**21**
Supplies	2012	327	1	-	1	2	21
Energy	**2013**	**6,783**	**274**	**2**	**2**	**69**	**741**
	2012	6,240	130	4	5	106	694
Total	**2013**	**9,423**	**279**	**3**	**6**	**80**	**879**
	2012	8,832	140	6	8	126	827

[(a)] The Forest Products operation was sold in 2012.

29. Subsequent events

Subsequent to year end, the Board of Directors approved a share redemption in the amount of $438 million.

On November 6, 2013, the Co-operative completed the acquisition of seventeen fertilizer, seed and agricultural chemical supply centres from Viterra Inc. through the purchase of the property, plant and equipment at each site. Of the sites purchased, fifteen were immediately resold to member co-operatives.

Notes

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CO-OP®

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