CO-OP®

CONSOLIDATED FINANCIAL STATEMENTS 2015

FEDERATED
CO-OPERATIVES
LIMITED

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, 2015, 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, 2015, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Chartered Professional Accountants

Saskatoon, Saskatchewan
December 16, 2015

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

Year ended October 31 | In millions of CAD $

Notes		2015	2014
	Sales	**$ 9,057**	$ 10,834
18	**Cost of Products Sold**	**8,087**	9,768
		970	1,066
	Expenses		
18	Operating and administration	**421**	405
10	Impairment	**25**	-
20	Finance cost	**12**	16
22	Income taxes – current	**8**	(7)
22	Income taxes – deferred	**30**	74
		496	488
		474	578
17	**Other Income**	**65**	78
	Net Income before Other Comprehensive Income	**539**	656
16	Actuarial gain (loss) on defined benefit plan (net of tax)	**26**	(27)
	Total Comprehensive Income	**$ 565**	$ 629

Consolidated Statement of Cash Flows

Year ended October 31 In millions of CAD $

	2015	2014
Operating Activities		
Net income	**$ 539**	$ 656
Adjustments for:		
Depreciation, depletion and amortization	**331**	303
Impairment	**25**	-
Gain on disposal of property, plant and equipment	**(4)**	(8)
Deferred tax	**30**	74
Gain on asset retirement obligation	**(14)**	-
Disposal of asset retirement obligation	**(4)**	(1)
Accretion	**4**	4
Changes in non-cash operating working capital:		
Accounts receivable	**186**	(80)
Inventories	**153**	(47)
Other current assets	**12**	7
Accounts payable	**(199)**	100
Cash provided by operating activities	**1,059**	1,008
Investing Activities		
Investments and advances	**(83)**	(89)
Additions to property, plant and equipment	**(410)**	(375)
Addition to intangible asset	**(1)**	(68)
Proceeds from sale of property, plant and equipment	**5**	15
Cash used in investing activities	**(489)**	(517)
Financing Activities		
Redemption of share capital	**(373)**	(469)
Members' funds	**(10)**	(123)
Long-term debt	**298**	-
Bank indebtedness	**(50)**	50
Cash used in financing activities	**(135)**	(542)
Net Increase (Decrease) in Cash and Cash Equivalents	**435**	(51)
Cash and Cash Equivalents, Beginning of Year	**4**	55
Cash and Cash Equivalents, End of Year	**$ 439**	$ 4

Consolidated Statement of Financial Position

As at October 31 — in millions of CAD $

Notes			2015		2014
	Current Assets				
	Cash and cash equivalents	**$**	**439**	$	4
24	Members accounts receivable		**783**		867
24	Non-members accounts receivable		**171**		274
7	Inventories		**557**		710
	Prepaid expenses		**3**		3
	Income taxes receivable		**6**		18
8	Current portion of advances		**49**		29
			2,008		1,905
	Non-Current Assets				
8	Investments and advances		**192**		130
22	Deferred tax asset		**23**		7
11	Investment property		**28**		49
10	Property, plant and equipment		**4,370**		4,314
12	Intangible asset		**66**		67
12	Goodwill		**-**		1
		$	**6,687**	$	6,473
	Current Liabilities				
	Accounts payable	**$**	**645**	$	844
13	Bank indebtedness		**-**		50
13	Members' funds		**457**		467
			1,102		1,361
	Non-Current Liabilities				
16	Pension liability		**126**		166
13	Long-term debt		**298**		-
14	Asset retirement obligations		**97**		129
22	Deferred tax liability		**512**		457
			1,033		752
	Members' Equity				
15	Membership shares		**1,604**		1,602
	Retained earnings		**2,948**		2,758
			4,552		4,360
		$	**6,687**	$	6,473

On behalf of the Board:

_______________ Director

_______________ Director

Consolidated Statement of Members' Equity

As at October 31		in millions of CAD $		
Notes		Share Capital	Retained Earnings	Total Equity
	Balance as at November 1, 2013	**$ 1,620**	**$ 2,580**	**$ 4,200**
	Net income	-	656	656
16	Other comprehensive loss	-	(27)	(27)
15	Patronage paid	451	(451)	-
15	Redemption of shares	(469)	-	(469)
	Balance as at October 31, 2014	**$ 1,602**	**$ 2,758**	**$ 4,360**
	Net income	-	539	539
16	Other comprehensive income	-	26	26
15	Patronage paid	375	(375)	-
15	Redemption of shares	(373)	-	(373)
	Balance as at October 31, 2015	**$ 1,604**	**$ 2,948**	**$ 4,552**

Notes to the Consolidated Financial Statements

For the years ended October 31, 2015 and 2014 (in millions of CAD dollars except as noted)

NOTE 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, 2015, comprise Federated Co-operatives Limited and its subsidiaries (collectively, "the Co-operative") and the Co-operative's interest in joint operations. The Co-operative provides central wholesaling, manufacturing, refining and administrative services to 211 locally owned retail co-operatives across Western Canada.

NOTE 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, 2015.

(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.

(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.

NOTE 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. Transaction 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 that control commences until the date that control ceases.

iii. Joint arrangements

A joint arrangement can take the form of a joint operation or joint venture. All joint arrangements are established by a contractual agreement that establishes joint control. The Co-operative has interests in joint operations. For a joint operation, the consolidated financial statements include the Co-operative's proportionate share of the assets, liabilities, revenues and expenses of the arrangement with items of a similar nature on a line-by-line basis, from the date that the joint control commences until the date that joint control ceases.

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) Fair value measurement

A number of the Co-operative's accounting policies and disclosures require the measurement of fair value for both financial and non-financial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Co-operative recognizes transfers between levels of the hierarchy at the end of the reporting period during which the change has occurred.

(d) 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.

(e) 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 and 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, long-term debt and bank indebtedness.

v. Share capital

Member shares are classified as equity.

(f) 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.

(g) 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 and signage	20
Equipment	3-15
Catalysts	3-10
Turnaround activities	3

v. 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 properties are depleted using the units of production method over the proven and probable reserves. This results in a depletion charge that is proportional to the anticipated remaining production from the property.

vi. 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 expensed as incurred.

(h) 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. Supply agreements

The Co-operative has exclusive agreements to supply various retail members with all of their food, petroleum and agro product requirements which were initially measured at fair value using the discounted cash flow method. The supply agreements are subsequently measured at cost and amortized over the remaining useful life of the contracts, which ranges from 20 to 30 years.

iii. 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.

(i) Investment property

Investment property is property held to earn rental income or for capital appreciation or both, 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 properties are measured initially at cost, including transaction costs, 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 net book 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

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.

(k) Impairment

i. Non-financial assets

At the end of each reporting period, the Co-operative reviews 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. 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) Employee benefits

i. Defined contribution plan

The Co-operative provides a defined contribution plan to qualifying employees. This 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. The cost of the pension benefits earned by employees in the defined contribution pension plans are expensed as incurred.

ii. Defined benefit plan

The Co-operative provides a defined benefit plan to qualifying employees at Consumers' Co-operative Refineries Limited (CCRL) in Regina. The cost of the benefits earned by employees is determined by a qualified actuary using the projected unit credit funding method based on present pay levels and management's best estimate of demographic and financial assumptions. The Co-operative accrues its obligations under the plan and the related costs, net of plan assets. The plan assets are valued at fair value. The Co-operative recognizes actuarial gains and losses immediately in other comprehensive income (OCI) which are then transferred directly to retained earnings. The defined benefit asset or liability is comprised of the present value of the defined benefit obligation and the fair value of plan assets from which the obligations are to be settled. Plan assets are measured at fair value based on the closing bid price when there is a quoted price in an active market. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Co-operative's creditors. Defined benefit obligations are estimated by discounting expected future payments using the year-end market rate of interest for high-quality corporate debt instruments with cash flows that match the timing and amount of expected benefit payments.

(m) 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.

(n) 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. Rental revenue is recognized as it is earned according to the terms of the rental contract.

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.

(o) 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 OCI.

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.

(p) 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.

NOTE 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 judgments used in the preparation of the financial statements are described below.

(a) Useful lives of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets 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 tangible 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) Reserve and resource estimates

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 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 consolidated 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 determination of the cost of the defined benefit pension plan reflects a number of assumptions that affect the expected future benefit payments. The valuation of these plans is prepared by an independent actuary engaged by the Co-operative. These assumptions include, but are not limited to, the estimate of expected plan investment performance, salary escalation, retirement age, attrition and mortality. The fair value of the plan assets is used for the purposes of calculating the expected return on plan assets. Mortality rates are based on the latest available standard mortality tables. The assumptions are reviewed each year and are adjusted where necessary to reflect changes in fund experience and actuarial recommendations. The rate of return on pension plan assets is based on a projection of real long-term bond yields and an equity risk premium, which are combined with inflation assumptions and applied to the actual asset mix of each plan. The amount of the expected return on plan assets is calculated using the expected rate of return for the year and the fair value of assets at the beginning of the year. Future salary increases are based on expected future inflation rates.

(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.

NOTE 5 New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRSs effective for the Co-operative as of November 1, 2014.

Standard	Description	Impact
Amendments to IAS 36, impairment of assets	Clarifies the disclosure requirements of the recoverable amount of an asset or CGU.	Effective November 1, 2014, applied retrospectively, with no changes to these consolidated financial statements.
IFRIC 21, levies	Provides guidance on when to recognize a liability for a levy imposed by government legislation.	Effective November 1, 2014, applied retrospectively, with no changes to these consolidated financial statements.

NOTE 6 New standards and interpretations not yet adopted

Standard	Description	Impact
Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets	Issued to clarify acceptable methods of depreciation and amortization.	Effective November 1, 2016, applied prospectively. The Co-operative is evaluating the impact, if any, of the amendment.
IFRS 15, Revenue From Contracts with Customers	Issued to provide guidance on the recognition of revenue from contracts with customers and to enhance disclosures about revenue.	Effective November 1, 2017, applied retrospectively with certain limitations. The Co-operative is evaluating the impact, if any, of the amendment.
Amendments to IFRS 9, Financial Instruments	Issued to introduce a single, forward-looking "expected loss" impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments.	Effective November 1, 2018, applied retrospectively. The Co-operative has adopted the earlier versions of IFRS 9 and is evaluating the impact, if any, of the amendment.

NOTE 7 Inventories

($ millions)	2015	2014
Manufactured product	**302**	467
Goods purchased for resale	**242**	238
Parts and supplies	**13**	5
	557	710

NOTE 8 Investments and advances

($ millions)	2015	2014
Investments:		
The Co-operators Group Limited	**2**	2
Interprovincial Co-operative Limited	**1**	1
Other	**1**	1
Advances:		
Canoe Forest Products Limited	**5**	8
Retail lending program	**144**	71
Finance agreements	**88**	76
Less: current portion	**(49)**	(29)
	192	130

NOTE 9 Joint operations

Other joint operations

The Co-operative conducts a portion of its oil and gas exploration, development and production through joint operations. 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 grouped in the Energy segment.

The Produce People

The Co-operative holds a 50% ownership in The Produce People. The Co-operative records its share of the assets, liabilities, revenues and expenses in the consolidated financial statements grouped in the Food segment.

For the years ended October 31, 2015 and 2014 (in millions of CAD dollars except as noted)

NOTE 10 Property, plant and equipment

($ millions)	**2015**	2014
Wholesaling	**318**	310
Manufacturing	**3,681**	3,522
Assets under construction	**371**	482
Net book value	**4,370**	4,314

($ millions)	Land and buildings	Equipment and fixtures	Assets under construction	Development and production assets	Exploration and evaluation assets	Total
Cost						
At October 31, 2013	308	5,151	428	288	16	6,191
Additions	28	124	162	63	4	381
Disposals	-	(76)	-	(3)	-	(79)
Transfers	35	73	(108)	4	(4)	-
At October 31, 2014	371	5,272	482	352	16	6,493
Additions	13	55	276	57	9	410
Disposals	(18)	(45)	-	-	(1)	(64)
Transfers	12	384	(396)	-	-	-
Transfer of Investment Property	18	-	-	-	-	18
At October 31, 2015	396	5,666	362	409	24	6,857
Accumulated depreciation						
At October 31, 2013	121	1,789	-	39	4	1,953
Depreciation charge	10	256	-	35	-	301
Disposals	(1)	(74)	-	-	-	(75)
At October 31, 2014	130	1,971	-	74	4	2,179
Depreciation charge	9	279	-	40	-	328
Disposals	-	(44)	-	-	-	(44)
Impairment	1	-	-	21	2	24
At October 31, 2015	140	2,206	-	135	6	2,487
Net book value at October 31, 2015	**256**	**3,460**	**362**	**274**	**18**	**4,370**
Net book value at October 31, 2014	241	3,301	482	278	12	4,314

Capitalized borrowing costs

Capitalized borrowing costs related to property, plant and equipment amounted to $8 million (2014 – $6 million), with a capitalization rate of 1.91% (2014 – 1.50%).

Impairment testing of other non-current assets

The significant decrease in commodity prices during the year ended October 31, 2015, was an indicator of impairment for the Co-operative's exploration and evaluation, and development and production assets. As a result, management performed impairment testing to determine the recoverable amounts based on estimated future cash flows.

As at October 31, 2015, the Co-operative determined that the carrying amount of certain exploration and evaluation, and development and production assets exceeded the recoverable amount, resulting in an impairment expense of $24. The impairment was largely the result of a decrease in forecasted commodity prices.

The future cash flows used to determine recoverable amounts require that management make significant judgments and estimates with respect to commodity prices, royalties, operating and capital costs, discount rates and recoverable reserves. Changes to the judgments and estimates would result in an increase or decrease to the impairment expense.

In 2014, there was no impairment expense or reversal of impairment.

NOTE 11 Investment property

($ millions)	**2015**	2014
Cost		
Balance, beginning of year	**81**	71
Acquisitions	**2**	18
Disposals	**(4)**	(8)
Transfer to property, plant and equipment	**(18)**	-
Balance, end of year	**61**	81
Accumulated depreciation		
Balance, beginning of year	**32**	35
Depreciation charge	**1**	1
Disposals	**-**	(4)
Balance, end of year	**33**	32
Net book value, end of year	**28**	49

Net rental income from investment properties recognized in other income was $6 million (2014 – $6 million).

The fair value of investment properties at October 31, 2015, was $66 million (2014 - $102 million). This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy. 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.

NOTE 12 Intangible asset and goodwill

($ millions)	**Goodwill**	**Intangible asset – supply agreements**	**Total**
Cost less impairment charges			
At October 31, 2013	1	-	1
Additions	-	68	68
At October 31, 2014	1	68	69
Additions	-	1	1
Impairment	(1)	-	(1)
At October 31, 2015	-	69	69
Accumulated amortization			
Amortization charge	-	1	1
At October 31, 2014	-	1	1
Amortization charge	-	2	2
At October 31, 2015	-	3	3
Net book value at October 31, 2015	**-**	**66**	**66**
Net book value at October 31, 2014	1	67	68

For the years ended October 31, 2015 and 2014 (in millions of CAD dollars except as noted)

NOTE 13 Borrowings

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

($ millions)	2015	2014
Bank indebtedness	-	50
Members' funds	457	467
Notes, Series 2015-1 (less net unamortized debt issue costs)	298	-
Total borrowing	755	517

Bank indebtedness

Bank indebtedness consists of an unsecured revolving credit facility, with a maturity date of February 22, 2016. The Co-operative can draw on the credit facility to a maximum of $300. As at October 31, 2015, no amount was drawn under the credit facility (2014 – $50 million).

Members' funds

Members' funds charge interest at a rate of prime less 1.25% and are repayable on demand.

Notes, Series 2015-1

In June 2015, the Co-operative issued unsecured Series 2015-1 notes for gross proceeds of $300. The notes are due on June 17, 2025, bear interest at 3.917% per annum and require semi-annual interest only payments.

The Co-operative may, at its option, redeem all or part of the notes at any time prior to maturity by paying accrued and outstanding interest, plus the greater of the face amount of the notes and the price which provides a yield equal to the yield to maturity of a Government of Canada bond with a term to maturity equal to the remaining term on the notes, plus 0.5%.

In conjunction with closing of the note offering, issue costs of $2.5 were incurred. These costs reduce the carrying value of the notes and will be amortized over the expected life of the notes using the effective interest rate method, resulting in an effective rate of 4.0%. As at October 31, 2015, unamortized debt issue costs totaled $2.

NOTE 14 Asset retirement obligations

The Co-operative's decommissioning liabilities consist of reclamation and closure costs. The obligations were determined using an inflation rate of 2% (2014 – 2%) and discount rates of 3% to 6% (2014 – 3% to 5%). The Co-operative estimates the total undiscounted payments of future obligations to be $239 million (2014 – $255 million) which will be incurred over the next one 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)	2015	2014
Balance, beginning of year	129	101
Additions	3	16
Liabilities disposed	(4)	(1)
Change in estimate and discount rate	(35)	9
Accretion expense (included in finance cost)	4	4
Balance, end of year	97	129

NOTE 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.

(thousands of shares)	2015	2014
Balance, beginning of year	16,020	16,200
Shares issued for current year's patronage allocation	3,750	4,510
Shares redeemed	(3,730)	(4,690)
Balance, end of year	16,040	16,020

NOTE 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 Co-operative's total contribution expense for this plan in 2015 was $7 million (2014 – $7 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, 2013, and extrapolated to October 31, 2015. 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 funding 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)	2015	2014
Plan assets		
Fair value, beginning of year	**288**	235
Contributions	**34**	31
Benefits paid	**(11)**	(6)
Expected return on plan assets	**13**	12
Actuarial gain	**6**	16
Fair value, end of year	**330**	288
Accrued benefit obligation		
Balance, beginning of year	**454**	372
Current service cost	**22**	19
Interest cost	**20**	18
Benefits paid	**(11)**	(6)
Actuarial (gain) loss	**(29)**	51
Balance, end of year	**456**	454
Pension liability	**(126)**	(166)

The actual return on plan assets for the year ended October 31, 2015 was $19 million (2014 – $28 million).

The total actuarial gain recognized in other comprehensive income net of tax in 2015 is $26 million (2014 – loss of $27 million).

Defined benefit plan pension expense is as follows:

($ millions)	2015	2014
Expense recognized		
Current service costs	**22**	19
Interest on accrued benefit obligation	**20**	18
Expected return on plan assets	**(13)**	(12)
Total	**29**	25

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:

	2015	2014
Benefit obligation at October 31		
Discount rate	**4.50%**	4.30%
Rate of compensation increase	**4.00%**	4.00%
Benefit plans expense year ended October 31		
Discount rate	**4.30%**	4.84%
Expected return on plan assets	**4.30%**	4.84%

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, 2015, and 2014 was as follows:

Classification	2015	2014
Cash and short-term notes	**4%**	8%
Bonds and debentures	**33%**	33%
Equity instruments	**63%**	59%
Total	**100%**	100%

The Co-operative expects to make cash contributions to its defined benefit pension plan in 2016 of $38 million.

For the years ended October 31, 2015 and 2014 (in millions of CAD dollars except as noted)

NOTE 17 Other income

($ millions)	2015	2014
Insurance proceeds	29	54
Asset retirement obligation recovery	14	-
Rental income	6	6
Interest income	6	5
Other miscellaneous	6	5
Gain on disposal of fixed assets	4	8
	65	78

NOTE 18 Expenses by nature

($ millions)	2015	2014
Changes in inventory	7,441	9,177
Personnel expense	390	340
Other expense	346	353
Depreciation, depletion and amortization	331	303
Impairment	25	-
Finance cost	12	16
	8,545	10,189

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

($ millions)	2015	2014
Cost of products sold	8,087	9,768
Operating and administration	421	405
Impairment	25	-
Finance cost	12	16
	8,545	10,189

NOTE 19 Personnel expense

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

($ millions)	2015	2014
Wages and salaries	319	278
Statutory and other company benefits	35	30
Expenses related to defined benefit plan	29	25
Contributions to defined contribution plan	7	7
	390	340

NOTE 20 Finance cost

($ millions)	2015	2014
Interest expense	8	12
Accretion of asset retirement obligation	4	4
	12	16

NOTE 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 (2014 – $6 million) for the year ended October 31, 2015. Of this operating lease income recognized, $4 million (2014 – $5 million) was contingent income based on gross sales and/or fuel sales of the lessee.

The investment property leases have lease terms between one and 20 years. Substantially all of these leases have renewal options for additional terms based on market rates. 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)	< 1 year	1-5 years	> 5 years	Total
	3	9	18	30

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 $8 million (2014 – $7 million) charged to operating and administration expense. Lease terms are between one and 10 years with renewal options available at market rates.

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

($ millions)	< 1 year	1-5 years	> 5 years	Total
	6	20	6	32

NOTE 22 Corporate income taxes

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

($ millions)	**2015**	2014
Net income before tax	**577**	723
Patronage allocation	**(376)**	(451)
	201	272
Consolidated combined federal and provincial income tax rate	**24.88%**	24.63%
Computed tax expense based on the combined rate	**50**	67
Increase (decrease) resulting from:		
Adjustment of previous year's estimated tax provision	**(1)**	1
Other non-taxable/non-deductible items	**(12)**	-
Benefit of losses carried back at higher tax rate	**-**	(1)
Deferred tax expense (recovery) resulting from changes in tax rates	**1**	-
Provision for income taxes	**38**	67
Effective rate on earnings before corporate taxes	**18.91%**	24.63%
Classified in the consolidated statement of comprehensive income as:		
Income taxes – current	**8**	(7)
Income taxes – deferred	**30**	74
Provision for income taxes	**38**	67

The change in the consolidated combined federal and provincial statutory income tax rate from 2014 to 2015 was the result of an increase in the Alberta tax rate and different weighting of income in legal entities with differing tax rates.

In respect to each type of temporary difference, unused tax loss and unused tax credit, the amounts of deferred tax assets and liabilities recognized in the consolidated statement of financial position at October 31 and the amount of deferred tax expense recognized in net income and other comprehensive income were:

For the years ended October 31, 2015 and 2014 (in millions of CAD dollars except as noted)

($ millions)	October 31, 2014	Deferred tax expense in net income	Deferred tax in OCI	October 31, 2015
Non-capital loss and deductible patronage allocation carry forwards	286	(30)	-	**256**
Net-capital loss carry forwards	-	1	-	**1**
Miscellaneous accruals and reserves	77	(9)	(9)	**59**
Net book value in excess of underpreciated capital cost	(768)	(24)	-	**(792)**
Patronage allocations deferred for income tax purposes	(45)	32	-	**(13)**
Total deferred tax liability	(450)	(30)	(9)	**(489)**

Classified in the consolidated financial statements as:

($ millions)	**2015**	2014
Deferred tax assets	**23**	7
Deferred tax liabilities	**(512)**	(457)
Total deferred tax liability	**(489)**	(450)

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.

Deferred tax assets in the amount of nil (2014 – $12 million) have not been recognized with respect to capital loss carry forwards.

NOTE 23 Commitments

At October 31, 2015, 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)	< 1 year	1-5 years	> 5 years	Total
Operating leases (Note 21)	6	20	6	32
Purchase commitments	22	2	-	24
Total	28	22	6	56

NOTE 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, 2015:

($ millions)	Member	Non-member
Current	776	171
Past due (1-30 days)	7	4
Past due (31-60 days)	-	1
Past due (more than 60 days)	-	1
Allowance for doubtful accounts	-	(6)
Total accounts receivable	783	171

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 balance in allowance for doubtful accounts at October 31, 2015, was $6 million (2014 – $6 million).

(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, 2015:

($ millions)	Total amount	Outstanding	Available
Credit facility	300	-	300

The Co-operative has contractual commitments to purchase certain services and under its operating lease agreements as described in Note 21.

The following are the contractual maturities of financial liabilities:

($ millions)	Carrying amount	On demand	< 1 year	> 5 years
Accounts payable	645	-	645	-
Members' funds	457	457	-	-
Long-term debt	298	-	-	298

(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 $3 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.

For the years ended October 31, 2015 and 2014 (in millions of CAD dollars except as noted)

(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, 2015			
Cash and cash equivalents	439	-	439
Members accounts receivable	-	783	783
Non-members accounts receivable	-	171	171
Investments and advances	241	-	241
Total assets	680	954	1,634
Accounts payable	-	645	645
Members' funds	-	457	457
Long-term debt	-	298	298
Total liabilities	-	1,400	1,400

($ millions)	Fair value through profit or loss	Amortized cost	Total carrying amount
As at October 31, 2014			
Cash and cash equivalents	4	-	4
Members accounts receivable	-	867	867
Non-members accounts receivable	-	274	274
Investments and advances	159	-	159
Total assets	163	1,141	1,304
Accounts payable	-	844	844
Bank indebtedness	-	50	50
Members' funds	-	467	467
Long-term debt	-	-	-
Total liabilities	-	1,361	1,361

Fair value hierarchy

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, 2015				
Cash and cash equivalents	439	-	-	439
Investments and advances	-	-	4	4
Total assets	439	-	4	443

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 $4 million (2014 – $4 million).

NOTE 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, long-term debt and members' equity, net of cash and cash equivalents. The calculation is set out in the following table:

($ millions)	**2015**	2014
Bank indebtedness	**-**	50
Members' funds	**457**	467
Long-term debt	**298**	-
Total debt	**755**	517
Less: cash and cash equivalents	**(439)**	(4)
Net debt	**316**	513
Members' equity	**4,552**	4,360
Capital under management	**4,868**	4,873

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, taxes, depreciation and amortization. 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, 2015.

NOTE 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.

Key management personnel compensation comprised the following:

($ millions)	**2015**	2014
Short-term salary and employee benefits	**9**	9
Post-employment benefits	**1**	1
Total	**10**	10

For the years ended October 31, 2015 and 2014 (in millions of CAD dollars except as noted)

NOTE 27 Group entities

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

			Ownership interest	
Name of subsidiary	Principal activity	Country of incorporation and operation	**2015**	2014
Consumers' Co-operative Refineries Limited (CCRL)	Manufactures and supplies petroleum	Canada	**100%**	100%
FCL Enterprises Ltd.	Owns corporate food stores	Canada	**100%**	100%
FCL Ventures Ltd.	Holds investment property	Canada	**100%**	100%
The Grocery People (TGP)	Food wholesaler	Canada	**100%**	100%

NOTE 28 Operating segments

The Co-operative has five reportable segments, which are the Co-operative's strategic business units (SBU). 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
- 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 amortization	Interest revenue	Interest expense	Income tax expense	Net Income
Crop Supplies	**2015**	**558**	**2**	**-**	**2**	**1**	**37**
	2014	535	2	-	2	2	36
Feed	**2015**	**75**	**-**	**-**	**-**	**-**	**2**
	2014	59	-	-	-	-	1
Food	**2015**	**2,097**	**8**	**1**	**1**	**9**	**94**
	2014	1,975	8	2	1	11	83
Home and Building Supplies	**2015**	**371**	**1**	**-**	**-**	**-**	**25**
	2014	358	1	-	1	1	22
Energy	**2015**	**5,956**	**320**	**4**	**9**	**28**	**381**
	2014	7,907	292	3	12	53	514
Total	**2015**	**9,057**	**331**	**5**	**12**	**38**	**539**
	2014	10,834	303	5	16	67	656

NOTE 29 Subsequent events

Subsequent to year end, the Board of Directors approved a share redemption in the amount of $313 million.

NOTE 30 Comparative figures

Certain prior year's figures within the Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows have been reclassified to conform with the current year's presentation.

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