Irrigation Canal Power Co-Operative Ltd.
Financial Statements
For the year ended October 31, 2011

MNP LLP

To the Members of Irrigation Canal Power Co-Operative Ltd.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is composed primarily of Directors who are neither management nor employees of the Co-Operative. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Co-Operative's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the directors to audit the financial statements and report directly to the members; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

January 12, 2012

General Manager **Chairman of the Board**

Independent Auditors' Report

To the Members of Irrigation Canal Power Co-Operative Ltd.:

We have audited the accompanying financial statements of Irrigation Canal Power Co-Operative Ltd., which comprise the balance sheet as at October 31, 2011, and the statements of loss and deficit and comprehensive loss and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Irrigation Canal Power Co-Operative Ltd. as at October 31, 2011 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Lethbridge, Alberta

January 12, 2012

MNP LLP

Chartered Accountants

Irrigation Canal Power Co-Operative Ltd.
Balance Sheet
As at October 31, 2011

	2011	2010
Assets		
Current		
Cash and cash equivalents *(Note 3)*	**2,019,825**	1,902,110
Accounts receivable	**938,057**	290,444
Prepaid expenses	**201,669**	128,636
	3,159,551	2,321,190
Cash reserves *(Note 3)*	**4,400,000**	4,400,000
Buildings and equipment *(Note 4)*	**46,346,069**	47,772,948
Deferred development costs - future sites	**37,840**	37,840
Future income taxes *(Note 11)*	**3,058,545**	2,552,003
	57,002,005	57,083,981
Liabilities		
Current		
Accounts payable and accruals *(Note 5)*	**790,596**	840,061
Goods and services tax	**33,324**	1,000
Current portion of term loans due on demand *(Note 6)*	**294,120**	212,500
Current portion of long-term debt *(Note 7)*	**2,569,464**	2,322,194
	3,687,504	3,375,755
Term loans due on demand *(Note 6)*	**7,236,760**	7,012,500
	10,924,264	10,388,255
Long-term debt *(Note 7)*	**27,219,029**	29,788,555
Due to Districts *(Note 8)*	**27,895,430**	24,424,264
	66,038,723	64,601,074
Contingencies *(Note 12)*		
Commitments *(Note 13)*		
Members' deficiency		
Share capital *(Note 9)*	**100**	100
Membership fees	**15**	15
Deficit	**(9,036,833)**	(7,517,208)
Accumulated other comprehensive income	**-**	-
	(9,036,718)	(7,517,093)
	57,002,005	57,083,981

Approved on behalf of the Board

Director ______________________ **Director** ______________________

The accompanying notes are an integral part of these financial statements

MNP LLP

Irrigation Canal Power Co-Operative Ltd.
Statement of Loss and Deficit
For the year ended October 31, 2011

	2011	2010
Power generation revenue (schedule)	**5,837,333**	4,018,652
Power generation expenses (schedule)		
Insurance	**108,161**	108,433
Interest on long-term debt	**5,364,453**	5,310,344
Interest on term debt	**262,247**	225,671
Municipal taxes	**249,313**	253,526
Operating costs	**500,608**	462,219
Repairs and maintenance	**212,897**	276,644
Telephone and utilities	**132,024**	102,113
Water use fees	**11,770**	20,890
Amortization	**1,426,879**	1,426,879
	8,268,352	8,186,719
Loss from operations	**(2,431,019)**	(4,168,067)
Administrative expenses		
Administration fees	**92,530**	116,575
Insurance	**40,182**	39,443
Interest on royalties	**94,873**	77,335
Royalties	**175,206**	120,608
Professional fees	**29,123**	31,606
Travel	**2,133**	3,363
	434,047	388,930
Loss from operations before other income	**(2,865,066)**	(4,556,997)
Other income		
Investment income	**243,662**	332,394
Miscellaneous revenue *(Note 10)*	**220,656**	78,698
Renewable energy credits	**374,581**	116,781
	838,899	527,873
Loss before income taxes	**(2,026,167)**	(4,029,124)
Recovery of future income taxes	**(506,542)**	(1,007,280)
Net loss	**(1,519,625)**	(3,021,844)
Deficit, beginning of year	**(7,517,208)**	(4,495,364)
Deficit, end of year	**(9,036,833)**	(7,517,208)

Statement of Comprehensive Loss

For the year ended October 31, 2011

	2011	*2010*
Net loss	**(1,519,625)**	(3,021,844)
Other comprehensive income:		
Other comprehensive income (loss)	**-**	-
Comprehensive loss	**(1,519,625)**	(3,021,844)

The accompanying notes are an integral part of these financial statements

Irrigation Canal Power Co-Operative Ltd.
Statement of Cash Flows
For the year ended October 31, 2011

	2011	2010
Cash provided by (used for) the following activities		
Operating activities		
Net loss	**(1,519,625)**	(3,021,844)
Amortization	**1,426,879**	1,426,879
Future income taxes	**(506,542)**	(1,007,280)
	(599,288)	(2,602,245)
Changes in working capital accounts		
Accounts receivable	**(647,613)**	331,727
Prepaid expenses	**(73,033)**	12,110
Accounts payable and accruals	**(49,465)**	(277,437)
Goods and services tax	**32,324**	(89,595)
	(1,337,075)	(2,625,440)
Financing activities		
Advances of term loan	**600,000**	-
Repayments of long-term debt	**(2,322,256)**	(2,099,030)
Advances from Districts	**3,471,166**	2,346,460
Repayment of term loans due on demand	**(294,120)**	(212,500)
Committed cash resources	**-**	1,492,620
	1,454,790	1,527,550
Increase (decrease) in cash resources	**117,715**	(1,097,890)
Cash resources, beginning of year	**6,302,110**	7,400,000
Cash resources, end of year	**6,419,825**	6,302,110
Cash resources are composed of:		
Cash	**2,019,825**	1,902,110
Cash reserves	**4,400,000**	4,400,000
	6,419,825	6,302,110
Supplementary cash flow information		
Interest paid	**2,415,429**	2,584,543

The accompanying notes are an integral part of these financial statements

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1. Incorporation and operations

Irrigation Canal Power Co-Operative Ltd. (the "Co-Operative") was incorporated under the Province of Alberta on December 18, 1990 in order to combine the efforts of its membership in the design, construction, operation and maintenance of hydro-developments and power plants in association with irrigation works in the St. Mary River Irrigation Project Headworks and St. Mary Irrigation Project area. The purpose of the Co-Operative is the generation and supply of electrical energy for the use and benefit of all water users in the St. Mary River Irrigation District, Raymond Irrigation District and the Taber Irrigation District. The Co-Operative receives its revenue through a marketing agreement with Transalta Utilities under the Small Power Research and Development Act of Alberta and through the sale of power through the power pool.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Cash and cash equivalents

Cash and cash equivalents consist of operating bank accounts, guaranteed investment certificates and money market funds that mature within six months of the Co-Operative's year end. Cash subject to restrictions that prevent its use for current purposes is included in cash reserves.

Cash reserves

Cash reserves consist of guaranteed investment certificates, money market funds and fixed income bonds recorded at fair value.

Buildings and equipment

Buildings and equipment are initially recorded at cost. The buildings and equipment are amortized using the straight-line method, over their estimated useful life of 40 years.

Long-lived assets

Long-lived assets consists of buildings and equipment. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Co-Operative performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in loss for the year.

Deferred development costs - future sites

The costs associated with the study of future hydroelectric sites will be capitalized on commencement of operations of the future power plants, or written off as an expense in the year that such sites are determined to have no potential for development.

Revenue recognition

The Co-Operative recognizes revenue from electrical energy sales at the time of generation and delivery to the purchasing utility, as metered at the point of interconnection with the transmission system. Other income is recognized when the amount can be reasonably estimated and collection is reasonably assured.

Future income taxes

The Co-Operative follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

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2. Significant accounting policies *(Continued from previous page)*

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Management has estimated the average useful life of the power plant to be 40 years.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Classification of demand non-revolving debt

The Co-Operative classifies callable debt obligations as a current liability, to reflect the creditor's legal right pursuant to the credit facility to demand repayment of the debt, regardless of repayment schedules and compliance with covenants.

Financial instruments

Held for trading:

Any financial instrument whose fair value can be reliably measured may be designated as held for trading on initial recognition even if that instrument would not otherwise satisfy the definition of held for trading. The Co-Operative has classified the following financial assets and liabilities as held for trading: cash, guaranteed investment certificates and money market investments. The Co-Operative has designated these instruments on initial recognition as held for trading as the instruments are evaluated on a fair value basis in accordance with the Co-Operative's documented risk management strategy and reported to key management personnel on that basis. These instruments are initially recognized at their fair value determined by published price quotations in an active market. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recognized in income.

Held for trading financial instruments are subsequently measured at their fair value. Net gains and losses arising from changes in fair value are recognized immediately in income.

Available-for-sale:

The Co-Operative does not currently have any financial instruments classified as available for sale.

Loans and receivables:

The Co-Operative has classified accounts receivable as loans and receivables. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs directly attributable to their acquisition are included in the fair value cost of these assets, while transaction costs arising from their disposal are immediately recognized in income. Total interest income, calculated using the effective interest rate method, is recognized in net income.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value and are recognized in net income upon derecognition or impairment.

2. Significant accounting policies *(Continued from previous page)*

Held to maturity:

The Co-Operative has classified fixed income bonds as held to maturity. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs directly attributable to their acquisition are included in the fair value cost of these assets, while transaction costs arising from their disposal are immediately recognized in income. Total interest income, calculated using the effective interest rate method, is recognized in net income.

Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Other financial liabilities:

The Co-Operative has classified the following financial liabilities as other financial liabilities: accounts payable and accruals, term debt, long-term debt, and advances from Irrigation Districts. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties and exchange amounts agreed upon by related parties. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs directly attributable to their issue are included in the fair value cost of these liabilities, while transaction costs arising from their disposal are immediately recognized in income. Total interest expense, calculated using the effective interest rate method, is recognized in net income.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Liabilities and equity:

The Co-Operative classifies financial instruments based on the substance of the instrument. The corresponding interest, dividends, losses and gains relating to a financial instrument or component that is classified as a financial liability is recorded in net income. The distributions that have been given to holders of the instruments classified as equity instruments have been recorded by the Co-Operative directly in equity.

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity of the Co-Operative, except those resulting from investments by members and distributions to members. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that, in accordance with Canadian generally accepted accounting principles, require recognition, but are excluded from net income (loss). The Co-Operative's other comprehensive income (loss) represents adjustments to the fair value of available-for-sale financial assets.

3. Cash and cash equivalents and cash reserves

As a condition of the Alberta Capital Finance Authority (ACFA) loans to the Irrigation Districts which are secured by Co-Operative assets, as disclosed in note 12, certain amounts of cash are required to be set aside in a reserve, either in the Co-Operative or in the Irrigation Districts themselves. The Co-Operative is required to provide minimum reserve balances of one year's loan payments to the ACFA of $3,400,000.

ATB Financial requires a minimum reserve of $1,000,000 for the ATB Financial loan disclosed in note 6.

	2011	*2010*
Composition of cash and cash reserves		
Cash	**1,790,987**	1,254,355
Money market funds	**-**	21,972
Guaranteed investment certificates	**696,179**	879,677
Fixed income bonds	**3,932,659**	4,146,106
	6,419,825	6,302,110
Less:		
Cash reserves required by ACFA	**3,400,000**	3,400,000
Cash reserves required by ATB Financial	**1,000,000**	1,000,000
	4,400,000	4,400,000
Cash and cash equivalents	**2,019,825**	1,902,110

4. Buildings and equipment

	Cost	***Accumulated amortization***	***2011 Net book value***	*2010 Net book value*
Chin site	**17,835,959**	**4,161,178**	**13,674,781**	14,096,625
Raymond site	**26,814,979**	**6,263,892**	**20,551,087**	21,185,054
Drop 4, 5, 6	**14,840,690**	**2,720,489**	**12,120,201**	12,491,269
	59,491,628	**13,145,559**	**46,346,069**	47,772,948

The buildings and equipment owned by the Co-Operative are located on land leased from a related party as disclosed in note 13.

5. Accounts payable and accruals

	2011	*2010*
Trade payables	**1,268**	2,569
Payable to Districts	**789,328**	837,492
	790,596	840,061

6. Term loans due on demand

	2011	*2010*
Prime plus 0.5% ATB Financial demand loan secured as below, repayable in annual principal payments of $212,500 and a lump sum payment of $1,000,000 July , 2014 from the reserve account, with interest paid monthly, maturing March 31, 2012.	**7,012,500**	7,225,000
Prime plus 0.5% ATB Financial demand loan secured as below, repayable in annual principal payments of $81,620 plus interest which is paid monthly, maturing March 31, 2012.	**518,380**	-
	7,530,880	7,225,000
Less: current portion	**294,120**	212,500
	7,236,760	7,012,500

The ATB Financial prime interest rate at October 31, 2011 was 3.00% (2010 - 3.00%).

Term debt is subject to certain financial covenants with respect to working capital and equity. The Co-Operative is also required to have a reserve at October 31, 2011 equal to $1,000,000. As at October 31, 2011, the Co-Operative is in compliance with all financial covenants.

ATB term debt is secured by a demand promissory note, general security agreement covering all present and after acquired property forming part of the Drop 4, 5, 6 project, and a third fixed charge over all other present and after acquired property of the Co-operative. It is also secured by a $10 million demand debenture in respect of Drop 4, 5, 6 project leasehold interest, proceeds of insurance, postponement of claim from each Irrigation District, assignment of leases, and assignment of future power contracts relating to the Drop 4, 5, 6 project.

On October 26, 2011, the Co-Operative renewed a loan agreement for a non-revolving reducing loan facility in the amount of $2,693,380 at an interest rate of prime plus 0.5%, of which $518,380 has been drawn.

7. **Long-term debt**

	2011	2010
Due to St. Mary River Irrigation District:		
10.25% to 10.875% loans repayable in blended annual instalments of $3,254,472, maturing 2017 to 2018	**15,050,768**	16,533,210
10.25% demand loan repayable in blended annual instalments of $565,809, maturing in 2018	**2,732,067**	2,991,270
Prime plus 2.25% demand loans, interest only payable annually until further terms are negotiated	**4,558,725**	4,558,725
	22,341,560	24,083,205
Due to Taber Irrigation District:		
10.25% to 10.875% loans repayable in blended annual instalments of $650,895, maturing 2017 to 2018	**3,010,153**	3,306,642
10.25% demand loan repayable in blended annual instalments of $113,162, maturing in 2018	**546,413**	598,255
Prime plus 2.25% demand loans, interest only payable annually until further terms are negotiated	**911,745**	911,745
	4,468,311	4,816,642
Due to Raymond Irrigation District:		
10.25% to 10.875% loans repayable in blended annual instalments of $433,970, maturing 2017 to 2018	**2,006,515**	2,204,236
10.25% demand loan repayable in blended annual instalments of $75,441, maturing in 2018	**364,276**	398,836
Prime plus 2.25% demand loan, interest only payable annually until further terms are negotiated	**607,830**	607,830
	2,978,621	3,210,902
	29,788,493	32,110,749
Less current portion	**2,569,464**	2,322,194
	27,219,029	29,788,555

The above loans from the Irrigation Districts are secured by all present and after acquired property, and the assignment of the Co-Operative's interest in the Small Power Producer's Contracts. The Irrigation Districts have waived their right to demand repayment of the balance of the demand loans for the current year; consequently, these balances are classified as long-term.

The aggregate amount of principal payments required to meet these obligations in each of the next five fiscal years using currently established payment schedules is:

2012	2,569,464
2013	2,843,080
2014	3,145,853
2015	3,480,891
2016	3,851,634

8. Due to Districts

	2011	*2010*
St. Mary River Irrigation District	**19,514,645**	16,984,310
Taber Irrigation District	**3,902,929**	3,396,862
Raymond Irrigation District	**2,601,997**	2,264,575
Due to Main Canal	**1,875,859**	1,778,517
	27,895,430	24,424,264

These amounts bear interest at 10.25% and have no fixed terms of repayment. They are classified as long-term, as the Districts have waived the right to demand repayment for the current year. The security is the same as that detailed for Irrigation District loans in note 7.

The Main Canal Agreement is managed by St. Mary River Irrigation District on behalf of the Irrigation Districts.

9. Share capital

	2011	*2010*
Authorized		
Membership shares		
An unlimited number of Class A, B and C membership shares which are redeemable and retractable on thirty days' notice for $1 per share or fair market value at the time of redemption, whichever is greater		
Investment shares		
An unlimited number of Class D, E, F, G, H, I, J non-voting investment shares, which are redeemable and retractable on thirty days' notice for fair market value at the time of the issuance of the share		
Issued		
Membership shares		
75 Class A	**75**	75
10 Class B	**15**	15
15 Class C	**10**	10
	100	100

10. Miscellaneous revenues

Miscellaneous revenues are derived from Fortis Option M rebates for the Co-Operative's share of cost reductions realized by Fortis Alberta having a transformer in the southern Alberta area.

11. Income taxes

	2011	*2010*
Future income tax assets:		
Opening balance	**2,552,003**	1,544,723
Changes in timing differences	**506,542**	1,007,280
Net future income tax asset	**3,058,545**	2,552,003

The variance between the provision calculated at the statutory income tax rate and the Co-Operative's provision is explained as follows:

	2011	*2010*
Net loss before tax	**(2,026,167)**	(4,029,124)
Change in temporary differences on building and equipment	**1,426,879**	1,426,879
Non-capital losses carried forward	**599,288**	2,602,245
Current income tax expense	**-**	-

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

	2011	*2010*
Combined federal and provincial business income tax rate for current year	**26.50**	28.20
Combined federal and provincial business income tax rate for future income taxes	**25.00**	25.00

12. Contingencies

The Co-Operative's assets secure Alberta Capital Finance Authority and ATB Financial loans to St. Mary River Irrigation District, Taber Irrigation District and Raymond Irrigation District. At October 31, 2011, these loans totaled $19,440,575 (2010 - $20,275,653). These contingent liabilities arose as a condition of the lenders before granting financing to the Irrigation Districts, for the purpose of lending money to the Co-Operative. The contingent liabilities are expected to be in place for the life of the loans, which will be fully paid in 2018. At the current time, no amount is anticipated to be payable in respect of these contingent liabilities.

13. Commitments

The Co-Operative leases the land on which the Raymond reservoir and Chin Chute facilities are situated from St. Mary River Irrigation District for a nominal lease payment to the Main Canal Agreement Account on an annual basis of $100. Water for power generation is obtained by the diversion of water from the Irrigation Works of St. Mary River Irrigation District for which a royalty is paid based on 3% of the gross power generation revenue earned by the Co-Operative in each fiscal period.

14. Related party transactions

During the period, the Districts involved in the Co-Operative charged operating, administration fees and maintenance recoveries totaling $609,311 (2010 - $602,334). These costs were incurred in the normal course of operations and are measured at the exchange amount, which is the amount established and agreed to among the related parties. In addition, the Districts charged interest on loans as follows:

	2011	*2010*
St. Mary River Irrigation District	**4,023,356**	3,980,182
Taber Irrigation District	**804,671**	799,849
Raymond Irrigation District	**536,488**	530,413
	5,364,515	5,310,444

As at year end, $70,282 (October 31, 2010 - $50,765) relating to operating, administration fees and maintenance recoveries and $719,046 (October 31, 2010 - $786,727) relating to accrued interest payable on District loans is included in accounts payable. All other amounts payable to related parties are included in long-term debt (note 7) or Due to Districts (note 8).

These Districts are all considered to be related parties as they are the holders of all issued share capital of the Co-Operative.

15. Capital management

The Co-Operative's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for Irrigation Districts.

The Co-Operative sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets, as well as with consideration of externally imposed capital requirements. In order to maintain or adjust the capital structure, the Co-Operative may adjust the balances advanced from the Irrigation Districts.

The Co-Operative manages the following as capital:

	2011	*2010*
Share capital	**100**	100
Membership fees	**15**	15
Retained earnings (deficit)	**(9,036,833)**	(7,517,208)
Subordinated debt instruments	**27,895,430**	24,424,264
	18,858,712	16,907,171

The Co-Operative is subject to a capital requirement imposed by ATB Financial with regards to maintaining a capital balance of $8,600,000. In order to maintain this capital balance, the Co-Operative does not repay District advances below this minimum balance. During the year ended October 31, 2011, the Co-Operative complied with the capital requirements.

16. Economic dependence

The Co-Operative is economically dependent on Transalta Utilities Corporation (TAU), who currently purchase 78% of the Co-Operative's power production. The Co-Operative is party to a contract with TAU to sell TAU all the power production from the Raymond and Chin plants. The contract terminates if the Co-operative's allocation of capacity under the Small Power Research and Development Act is withdrawn, if the Act is repealed, or if TAU ceases to be designated under the Act as a utility to which the Act applies.

17. Financial instruments

The Co-Operative as part of its operations carries a number of financial instruments. It is management's opinion that the Co-Operative is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Fair value of financial instruments

The carrying values of current financial assets and liabilities approximates their fair values, due to the short-term nature of these instruments.

The carrying value of the Co-Operative's floating rate term debt approximates its fair value, because interest charges under the terms of the debt are based upon current Canadian bank prime rates. The fair value of the Co-Operative's fixed rate long-term debt and amounts Due to Districts is also approximated by its carrying value, as there have been no significant changes in lending rates or other conditions. The fair value of the fixed income bonds is $3,932,659.

Credit concentration

The Co-Operative is exposed to credit risk on its accounts receivable. The credit risk is concentrated because the Co-Operative has only two customers, one of whom it is economically dependent upon (see note 16). The risk is considered minimal, as the accounts receivable are current and the customers are financially stable.

Interest rate risk

The Co-Operative has acquired a significant amount of debt that bears interest at floating rates, and as such, is exposed to interest rate risk. The Co-Operative has mitigated this risk by negotiating the option to fix its interest rate if it deems appropriate.

Commodities exchange risk

The Co-Operative is subject to commodity risk with respect to the provision of power production, the market value of which changes relative to market conditions and consumer demands. In order to minimize exposure to this commodity risk the company has entered into a long-term fixed rate contract to sell all power production from its Raymond and Chin plants. Production from these plants amounts to approximately 78% of the Co-Operative's total production. The remaining production from the Drop 4,5,6 plant is sold at market rates and is subject to commodity price risk.

	2011				2010
	Raymond Site	Chin Site	Drop 456 Site	Total	Total
Power generation revenue	**$ 2,778,998**	**$ 1,776,518**	**$ 1,281,817**	**$ 5,837,333**	$ 4,018,652
Power generation expenses					
Insurance	**48,719**	**32,436**	**27,006**	**108,161**	108,433
Interest on long-term debt	**2,844,691**	**1,896,461**	**623,301**	**5,364,453**	5,310,344
Interest on term debt	**-**	**-**	**262,247**	**262,247**	225,671
Municipal taxes	**112,479**	**67,895**	**68,939**	**249,313**	253,526
Operating costs	**182,670**	**183,348**	**134,590**	**500,608**	462,219
Repairs and maintenance	**69,660**	**49,854**	**93,383**	**212,897**	276,644
Telephone and utilities	**64,762**	**38,692**	**28,570**	**132,024**	102,113
Water use fees	**7,070**	**4,700**	**-**	**11,770**	20,890
Amortization	**633,967**	**421,844**	**371,068**	**1,426,879**	1,426,879
	3,964,018	**2,695,230**	**1,609,104**	**8,268,352**	8,186,719
Loss from operations	**$ (1,185,020)**	**$ (918,712)**	**$ (327,287)**	**$ (2,431,019)**	$ (4,168,067)