

LAKELAND CREDIT UNION LIMITED

BONNYVILLE, ALBERTA

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

INDEPENDENT AUDITORS' REPORT

To the Members of Lakeland Credit Union Limited

We have audited the accompanying consolidated financial statements of Lakeland Credit Union Limited, which comprise the consolidated statement of financial position as at October 31, 2013 and the consolidated statements of net income and comprehensive income, changes in members' equity, and cash flows for the year ended October 31, 2013, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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 Lakeland Credit Union Limited as at October 31, 2013 and its financial performance and cash flows for the year ended October 31, 2013 in accordance with International Financial Reporting Standards.

Edmonton, Alberta
January 7, 2014



HAWKINGS EPP DUMONT LLP
Chartered Accountants

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Members of Lakeland Credit Union Limited:

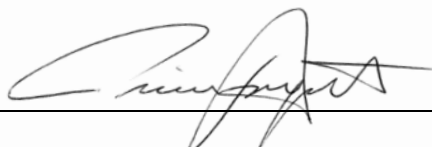
Management has the responsibility for preparing the accompanying consolidated financial statements and ensuring that all information in the Annual Report is consistent with these statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with International Financial Reporting Standards and the requirements of the *Credit Union Act*.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, as well as for the accounting systems from which they are derived, management maintains the necessary systems of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The ultimate responsibility to members for the consolidated financial statements lies with the Board of Directors. The Board appoints an Audit Committee to review consolidated financial statements with management in detail and to report to the Board prior to its approval to publish the consolidated financial statements.

The Board appoints external auditors to audit the consolidated financial statements and to meet separately with both the Audit Committee and management to review their findings. The external auditors report directly to the members. The external auditors have full and free access to the Audit Committee to discuss their audit, as well as their findings concerning the integrity of the Credit Union's financial reporting and the adequacy of its systems of internal controls.

Bonnyville, Alberta
January 7, 2014



Pierre Amyotte, CMA
Chief Executive Officer

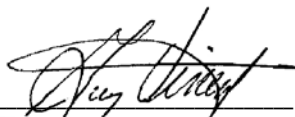


Shirley A. Mayowski, FCUIC
Vice President, Finance

LAKELAND CREDIT UNION LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT OCTOBER 31, 2013

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and Cash Equivalents (Note 5)	\$ 8,090,677	\$ 3,505,009
Investments (Note 6)	143,047,641	88,777,277
Member Loans (Note 7)	445,602,086	434,564,858
Income Taxes Receivable	321,077	1,005,261
Prepaid Expenses	6,131	10,641
Derivative Assets (Note 10)	578,167	623,389
Property and Equipment (Note 12)	5,104,269	4,934,756
Intangible Assets (Note 13)	329,237	381,023
Deferred Income Tax Asset (Note 9)	<u>211,331</u>	<u>116,557</u>
	<u>\$603,290,616</u>	<u>\$ 533,918,771</u>
 LIABILITIES		
Member Deposits (Note 14)	<u>\$524,837,480</u>	\$ 460,097,267
Accounts Payable and Accrued Liabilities	913,863	1,074,233
Derivative Liabilities (Note 10)	<u>578,167</u>	<u>623,389</u>
	<u>526,329,510</u>	<u>461,794,889</u>
 MEMBERS' EQUITY		
Allocation Distributable (Note 15)	2,960,525	2,965,751
Member Shares (Note 16)	21,077,734	21,204,962
Retained Earnings	<u>52,922,847</u>	<u>47,953,169</u>
	<u>76,961,106</u>	<u>72,123,882</u>
	<u>\$603,290,616</u>	<u>\$ 533,918,771</u>

ON BEHALF OF THE BOARD:


 _____ Guy Vincent, Board Chair


 _____ Scott Cyr, Finance Committee Chair

LAKELAND CREDIT UNION LIMITED

CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED OCTOBER 31, 2013

	<u>2013</u>	<u>2012</u>
Financial Income		
Interest from member loans	\$ 19,235,859	\$ 20,266,249
Investment income	1,331,218	835,099
Patronage income (Note 22)	<u>1,176,504</u>	<u>-</u>
	<u>21,743,581</u>	<u>21,101,348</u>
Financial Expenses		
Interest on member deposits	5,722,049	5,889,301
Interest on financing	<u>6,643</u>	<u>7,870</u>
	<u>5,728,692</u>	<u>5,897,171</u>
Financial Margin before Provision for Loan Impairment	16,014,889	15,204,177
Provision for Loan Impairment (Recovery) (Note 8)	<u>47</u>	<u>(44,628)</u>
Financial Margin after Provision for Loan Impairment	16,014,842	15,248,805
Other Income	<u>3,084,373</u>	<u>3,032,686</u>
Gross Margin	19,099,215	18,281,491
Operating Expenses (Schedule 1)	<u>9,740,753</u>	<u>9,357,646</u>
Income before Patronage Allocation and Income Taxes	9,358,462	8,923,845
Patronage Allocation (Note 15)	<u>2,060,470</u>	<u>2,062,263</u>
Income before Income Taxes	<u>7,297,992</u>	<u>6,861,582</u>
Income Taxes (Note 9)		
Current	1,748,047	1,301,192
Deferred (Recovery)	<u>(94,774)</u>	<u>167,969</u>
	<u>1,653,273</u>	<u>1,469,161</u>
Net Income and Comprehensive Income	<u>\$ 5,644,719</u>	<u>\$ 5,392,421</u>

LAKELAND CREDIT UNION LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

FOR THE YEAR ENDED OCTOBER 31, 2013

	Allocation Distributable	Member Shares	Retained Earnings	Total
Balance, October 31, 2012	<u>\$ 2,965,751</u>	<u>\$ 21,204,962</u>	<u>\$ 47,953,169</u>	<u>\$ 72,123,882</u>
Net Income	-	-	5,644,719	5,644,719
Patronage Paid Through Issuance of Member Shares	(2,062,263)	2,062,263	-	-
Patronage Accrued	2,060,470	-	-	2,060,470
Dividends Paid Through Issuance of Member Shares	(903,488)	903,488	-	-
Dividends Accrued	900,055	-	(900,055)	-
Tax Recovery on Member Shares	-	-	225,014	225,014
Issuance of Member Shares	-	546,601	-	546,601
Redemption of Member Shares	-	(3,639,580)	-	<u>(3,639,580)</u>
Balance, October 31, 2013	<u>\$ 2,960,525</u>	<u>\$ 21,077,734</u>	<u>\$ 52,922,847</u>	<u>\$ 76,961,106</u>

LAKELAND CREDIT UNION LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2013

	<u>2013</u>	<u>2012</u>
Operating Activities		
Net Income	\$ 5,644,719	\$ 5,392,421
Adjustments for:		
Provision for Loan Impairment (Recovery)	47	(44,628)
Depreciation of Property and Equipment	269,727	261,322
Amortization of Intangible Assets	51,786	51,428
Net Interest Income	(16,014,889)	(15,204,177)
Current Income Tax Expense	1,748,047	1,301,192
Change in Member Loans	(11,078,700)	(8,704,949)
Change in Member Deposits	64,859,405	23,791,230
Deferred Income Tax	(94,774)	167,969
Change in Accounts Receivable	-	461,793
Change in Prepaid Expenses	4,510	14,868
Change in Accounts Payable and Accrued Liabilities	(160,370)	130,882
Loss on Disposal of Property and Equipment	1,064	-
Interest Received	21,671,905	21,074,118
Interest Paid	(5,847,884)	(6,175,993)
Income Taxes Paid	(838,849)	(3,047,811)
	<u>60,215,744</u>	<u>19,469,665</u>
Financing Activities		
Change in Allocation Distributable	(5,226)	(271,416)
Change in Member Shares	(127,228)	1,680,052
Dividends on Member Shares	(900,055)	(903,488)
	<u>(1,032,509)</u>	<u>505,148</u>
Investing Activities		
Purchase of Property and Equipment	(440,302)	(370,776)
Purchase of Intangible Assets	-	(4,297)
Change in Investments	(54,157,265)	(24,531,135)
	<u>(54,597,567)</u>	<u>(24,906,208)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	4,585,668	(4,931,395)
Cash and Cash Equivalents, Beginning of Year	<u>3,505,009</u>	<u>8,436,404</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,090,677</u>	<u>\$ 3,505,009</u>

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

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

1. NATURE OF OPERATIONS

Lakeland Credit Union (the "Credit Union") is incorporated under the *Credit Union Act* of the Province of Alberta and operates branches in the communities of Bonnyville and Cold Lake.

The Credit Union Deposit Guarantee Corporation (the "Corporation"), a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act*, provides that the Province will ensure that the Corporation carries out this obligation.

LCU Financial Ltd. is a wholly owned subsidiary of the Credit Union and is incorporated under the *Business Corporations Act* of Alberta. It provides investment services and financial advice.

2. BASIS OF PRESENTATION

(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 January 7, 2014.

(b) Basis of Measurement

The consolidated financial statements have been prepared using the historical cost basis unless otherwise noted in the significant accounting policies.

(c) Functional Currency

The consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

(d) Use of Estimates and Judgments

The preparation of the 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 amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in Notes 3 and 4.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of Consolidation

The consolidated financial statements of Lakeland Credit Union Ltd. include the assets, liabilities, income and expenses of its subsidiary, LCU Financial Ltd., after eliminating inter-company transactions and balances.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and operating accounts with Credit Union Central Alberta ("Central").

(c) Investments

Investments are initially measured at fair value and subsequently accounted for depending on their classification as either loans and receivables, held-to-maturity or available for sale financial assets.

(d) Member Loans

Loans are measured initially at fair value plus transaction costs, and subsequently at amortized cost using the effective interest method, less any impairment losses. All loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

(e) Financial Instruments

All financial instruments are initially recognized on the statement of financial position at fair value through acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available for sale, held-to-maturity, loans and receivables, or other financial liabilities. During the year there has been no reclassification of financial instruments.

(i) Financial Assets

The Credit Union designates financial assets as follows: fair value through profit or loss, loans and receivables, held-to-maturity investments and available for sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(Continues)

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial Instruments (Continued)

(ii) Fair Value Through Profit or Loss

Fair value through profit or loss financial assets are measured at fair value with unrealized gains and losses recognized through the statement of comprehensive income. The Credit Union's fair value through profit or loss financial assets include cash and cash equivalents and derivatives.

(iii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Member loans, accrued interest and other receivables are designated as loans and receivables. Loans and receivables are initially recognized at fair value - which is the cash consideration to originate or purchase the loan net of any transaction costs - and measured subsequently at amortized cost using the effective interest rate method.

(iv) Held-to-Maturity

Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the positive intention and ability to hold until its maturity date, and which are not designated as a fair value through profit or loss or as available for sale. The Credit Union's held-to-maturity investments includes its term deposits with Central and Concentra Financial. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

(v) Available for Sale Financial Assets

Available for sale ("AFS") investments are financial assets that are intended to be held for an indefinite period of time and are not classified as loans and receivables. The Credit Union's AFS investments include its shares in Central. AFS financial assets are initially recognized at fair value plus transaction costs and measured subsequently at fair value with gains and losses being recognized in the statement of comprehensive income, except for impairment losses, until the financial asset is derecognized.

If an AFS financial asset is determined to be impaired, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized in the statement of net income. However, interest is calculated using the effective interest method, and dividends on AFS equity instruments are recognized in the statement of comprehensive income in investment income when the right to receive payment is established.

(vi) Financial Liabilities

The Credit Union designates member deposits, and accounts payable and accrued liabilities as other financial liabilities. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

(Continues)

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial Instruments (Continued)

(vii) Impairment of Financial Assets

The Credit Union assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recorded only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and the loss event(s) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by the borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as conditions that correlate with defaults in the group.

(viii) De-Recognition of Financial Instruments

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. If control has been retained, the Credit Union recognizes the transferred asset to the extent of its continuing involvement. If control has not been retained, the Credit Union derecognizes the transferred asset.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

(f) Derivatives and Hedge Accounting

The Credit Union uses option contract derivatives to manage its exposure to Canadian equity indices. Derivatives are initially recognized at fair value at the date that the derivative contract is entered into and subsequently measured at fair value with changes in fair value recognized through profit and loss immediately, unless the derivative is designated in a qualifying hedging relationship.

The Credit Union designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Credit Union formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. Premiums paid to enter into these hedges are recorded in member deposits and are amortized over the contract life.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Foreclosed Property

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure on the loans that are in default. Foreclosed properties are classified as assets held-for-sale and are measured at the lower of the carrying amount and the fair value less costs to sell.

The Credit Union does not, as a rule, occupy repossessed property for its business use. These assets are normally sold in a manner that maximizes the benefit to the Credit Union, the member and the member's other creditors and may involve the use of realtors and auctioneers.

(h) Impairment of Non-Financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and its value in use.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income.

(i) Investment in Associate

The equity method of accounting is used to account for the investment in associate in which the Credit Union has an ownership interest which results in it having significant influence to participate in the financial and operating policy decisions of the investee but not control. Under this method, the investment is initially recorded at cost and is adjusted thereafter for the post-acquisition change in the Credit Union's share of net assets of the investee.

The carrying value of the investment accounted for using the equity method are based on the initial investment in these companies adjusted for the Credit Union's share of profit or loss of the investee which is deemed to be a reasonable estimate of fair value. As these investments are not publicly traded it is not possible to determine what the actual trading value might be should a sale occur.

The Credit Union holds a one third proportionate ownership interest in InStride Resources Ltd. The fiscal year end for InStride Resources Ltd. is October 31.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Property and Equipment

Land is measured at cost. Other items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated. Depreciation of other items of property and equipment are calculated at the following annual rates and methods:

Buildings	2.5%	Straight-line
Parking lot	8%	Straight-line
Furniture and equipment	20%	Declining balance
Security equipment	20%	Straight-line
Computer equipment	10%, 20% and 33%	Straight-line

Depreciation is recorded in the initial month of acquisition; no depreciation is recorded in the month of disposal. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Gains and losses on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net income within Other Income.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(k) Intangible Assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses). Software is amortized on a straight-line basis over its estimated useful life of 10 years.

The useful lives of the intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in net income within Other Income.

(l) Income Taxes

Tax expense for the period is comprised of current and deferred income taxes.

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

Deferred income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences between the carrying amounts and the income tax basis of the Credit Union's member loans and property and equipment. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Provisions

Provisions are recognized when the Credit Union has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense of any provision is recognized in the statement of net income. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

(n) Member Shares

Member shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability.

Common and surplus shares are accounted for in accordance with *IFRIC 2 - Members' Shares in Co-operative Entities and Similar Instruments* ("IFRIC 2"). Common and surplus shares that are available for redemption are classified as a liability. In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in equity, net of income tax benefits. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends, interest or otherwise.

(o) Dividends

Dividends are accounted for when they have been approved by the Board of Directors (the "Board").

(p) Revenue Recognition

Interest income and expense for all interest-bearing financial instruments is recognized using the effective interest rate method. Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss.

Fees and commissions are recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

(q) Foreign Currency Translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect exchange rates at the statement of financial position date. Translation gains and losses are included in Other income.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Future Accounting Changes

The following revised standards and amendments may be applicable to the Credit Union:

- i) *IFRS 9 - Financial Instruments* ("IFRS 9"), addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. When such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

This standard is required to be applied for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Credit Union is currently assessing the impact of this standard.

- ii) *IFRS 10 - Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements by building on existing principles identifying the concept of control as the determining factor in whether an entity should be included within the financial statements of the parent Credit Union. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess; It supersedes the consolidation requirements in SIC-12 Consolidated – Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Credit Union is currently assessing the impact of this standard.

- iii) *IFRS 12 - Disclosure of Interests in Other Entities*, is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Credit Union is currently assessing the impact of this standard.

- iv) *IFRS 13 - Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that 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. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Credit Union is currently assessing the impact of this standard.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

4. USE OF ESTIMATES AND KEY JUDGMENTS

The preparation of the 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 amounts of assets, liabilities, income and expenses during the reporting year. Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. Revisions to accounting estimates are recognized in the year in which the estimate is revised if it affects only that period or in the period of revision and future periods if the revision affects both current and future years.

The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described as follows:

(a) Fair Value of Financial Instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, are disclosed in Note 21.

(b) Allowance for Impaired Loans

The specific allowance component of the total allowance for impairment applies to financial assets evaluated individually for impairment. In particular, management judgment is required in the estimate of the amount and timing of the future cash flows the Credit Union expects to receive from these specific loans. These estimates are based on a number of factors, including the net realizable value of any underlying collateral.

For the purpose of the collective allowance component of loan impairment, financial assets are grouped on the basis of the Credit Union's internal system that considers credit risk, characteristics such as asset type, industry, geographical location, collateral, delinquency status and other relevant economic factors. Future cash flows on the group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical credit loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical credit loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year such as changes in unemployment rates, inflation, borrowing rates, consumer fuel prices, vehicle auction values or other factors that are indicative of incurred losses in the group and their magnitude.

(c) Property and Equipment

Depreciation methods, useful lives and residual values require estimation and are reviewed annually and adjusted if appropriate.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2013

4. USE OF ESTIMATES AND KEY JUDGMENTS (CONTINUED)

(d) Income Taxes

Management exercises judgment in estimating the provision for income taxes. The Credit Union is subject to income tax laws in the federal and provincial jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the Credit Union and the relevant tax authority. To the extent that the Credit Union's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Significant management judgment is also required to determine the deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized, based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable profits will exist in the future.

5. CASH AND CASH EQUIVALENTS

The Credit Union's cash and cash equivalents are held with Central. The average yield on the accounts at October 31, 2013 is 0.25% (2012 - 0.25%).

6. INVESTMENTS

	<u>2013</u>	<u>2012</u>
Held-to-Maturity		
Central - term deposits	\$101,464,000	\$ 66,964,000
Concentra - term deposits	31,065,000	16,610,320
Other - term deposits	5,000,000	-
Accrued interest	<u>179,449</u>	<u>160,615</u>
	137,708,449	83,734,935
Available for Sale		
Central - shares	<u>5,339,192</u>	<u>5,042,342</u>
	<u>\$143,047,641</u>	<u>\$ 88,777,277</u>

All term deposits mature within one year with interest rates ranging from 0.31% to 2.00%. As required by the *Credit Union Act*, the Credit Union holds investments in Central to maintain its statutory liquidity requirements.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

7. MEMBER LOANS

Principal and Allowance by Loan Type

	<u>Principal Performing</u>	<u>Principal Impaired</u>	<u>Specific Allowance</u>	<u>Collective Allowance</u>	2013 Net
Consumer loans	\$ 48,703,892	\$ 156,357	\$ 122,757	\$ 238,813	\$ 48,498,679
Residential mortgages	241,577,804	938,484	339,150	514,044	241,663,094
Commercial loans	44,586,716	187,481	187,481	181,672	44,405,044
Commercial mortgages	86,810,095	480,982	130,982	126,924	87,033,171
Agricultural loans	1,139,583	-	-	-	1,139,583
Agricultural mortgages	6,312,603	-	-	-	6,312,603
Authorized and unauthorized overdrafts	<u>15,924,695</u>	<u>352,848</u>	<u>332,342</u>	<u>462,577</u>	<u>15,482,624</u>
	445,055,388	2,116,152	1,112,712	1,524,030	444,534,798
Accrued interest	<u>1,161,555</u>	<u>-</u>	<u>94,267</u>	<u>-</u>	<u>1,067,288</u>
	<u>\$ 446,216,943</u>	<u>\$ 2,116,152</u>	<u>\$ 1,206,979</u>	<u>\$ 1,524,030</u>	<u>\$ 445,602,086</u>

	<u>Principal Performing</u>	<u>Principal Impaired</u>	<u>Specific Allowance</u>	<u>Collective Allowance</u>	2012 Net
Consumer loans	\$ 52,748,215	\$ 276,717	\$ 176,816	\$ 214,938	\$ 52,633,178
Residential mortgages	222,659,507	1,493,823	532,310	275,919	223,345,101
Commercial loans	46,035,233	307,795	282,795	181,029	45,879,204
Commercial mortgages	90,609,976	496,250	146,250	93,621	90,866,355
Agricultural loans	822,451	-	-	-	822,451
Agricultural mortgages	8,181,186	-	-	108,616	8,072,570
Authorized and unauthorized overdrafts	<u>12,258,124</u>	<u>336,449</u>	<u>424,862</u>	<u>332,425</u>	<u>11,837,286</u>
	433,314,692	2,911,034	1,563,033	1,206,548	433,456,145
Accrued interest	<u>1,188,677</u>	<u>-</u>	<u>79,964</u>	<u>-</u>	<u>1,108,713</u>
	<u>\$ 434,503,369</u>	<u>\$ 2,911,034</u>	<u>\$ 1,642,997</u>	<u>\$ 1,206,548</u>	<u>\$ 434,564,858</u>

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2013

7. MEMBER LOANS (CONTINUED)

Loans Past Due but Not Impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year-end that are past due but not classified as impaired because they are either i) less than 90 days past due, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

	2013	2012
	30-59	30-59
	<u>Days</u>	<u>Days</u>
Consumer loans	\$ 497,234	\$ 79,962
Residential mortgages	283,183	318,015
Commercial loans	18,642	376,990
Agricultural loans	<u>-</u>	<u>-</u>
	<u>\$ 799,059</u>	<u>\$ 774,967</u>

At October 31, 2013 the Credit Union had \$NIL (2012 - \$NIL) loans equal to or greater than 60 days past due but not impaired.

Credit Quality of Loans

The Credit Union holds collateral against loans to customers in the form of interests over property, other securities over assets, and guarantees. It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

8. ALLOWANCE FOR IMPAIRED LOANS

Details of the changes in the allowance for loan impairment are as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 2,849,546	\$ 2,974,671
Provision for loan impairment (recovery)	47	(44,628)
Loans written off during the year, net of recoveries	<u>(118,584)</u>	<u>(80,497)</u>
Balance, end of year	<u>\$ 2,731,009</u>	<u>\$ 2,849,546</u>

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

9. INCOME TAXES

The significant components of income tax expense included in the calculation of net income are composed of:

	<u>2013</u>	<u>2012</u>
Current income tax expense		
Based on current year taxable income	\$ 1,748,047	\$ 1,301,192
Deferred income tax expense		
Origination and reversal of temporary differences	<u>(94,774)</u>	<u>167,969</u>
Total income tax expense	<u>\$ 1,653,273</u>	<u>\$ 1,469,161</u>

The total provision for income taxes in the consolidated statement of comprehensive income is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

	<u>2013</u>	<u>2012</u>
	%	%
Statutory rate	22.73	23.81
Income tax rate adjusted for the effect of:		
Credit union deduction and other tax adjustments	(9.66)	(5.75)
Non-deductible expenses and other	<u>9.58</u>	<u>3.35</u>
Effective income tax rate	<u>22.65</u>	<u>21.41</u>

The deferred income tax asset is comprised of temporary deductible (taxable) differences between the tax bases and carrying values in the following accounts:

	<u>2013</u>	<u>2012</u>
Property and equipment	\$ (90,161)	\$ (153,531)
Intangible assets	(72,354)	(96,614)
Allowance for impaired loans	<u>373,846</u>	<u>366,702</u>
	<u>\$ 211,331</u>	<u>\$ 116,557</u>

The Credit Union has \$12,327 of capital losses available for application against future capital gains.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

10. DERIVATIVES

The Credit Union has \$11,350,728 (2012 - \$9,657,049) in index-linked deposits to its members. These deposits mature in years 2014 to 2018 and pay bonus interest to the depositors, at the end of the term, based upon the performance of the index. The Credit Union has entered into option agreements with Central to offset the exposure on these deposits and, at the end of the term, the Credit Union will receive payments from Central which will offset the amounts that will be paid to the depositors.

The unamortized portion of the equity-linked option contracts are \$483,992 (2012 - \$491,771) and are included in member deposits. Amortization in the amount of \$261,291 (2012 - \$219,362) is calculated on a straight-line basis over the term of the deposits and is included in interest on member deposits.

The notional amounts of equity-linked derivative contracts maturing at various times are as follows:

	<u>2013</u>	<u>2012</u>
Within 1 year	\$ 1,360,475	\$ 1,562,600
Within 2 years	3,187,801	1,360,475
Within 3 years	2,889,541	3,187,801
Within 4 years	2,302,249	1,243,924
Within 5 years	<u>1,610,662</u>	<u>2,302,249</u>
	<u>\$11,350,728</u>	<u>\$ 9,657,049</u>

11. OPERATING DEMAND LOAN AND TERM LOAN

The Credit Union has an approved operating demand loan with Central which is secured by a general assignment of book debts and assignment of investments and deposits held at Central. The authorized limit on the operating demand loan is \$7,500,000 including a US dollar component equivalent to \$100,100 CDN. The demand loan bears interest at Central's prime rate for CDN dollar advances and Central's US base rate on US advances, in both cases plus or minus Central's applicable discount or margin rates in effect from time to time. At October 31, 2013, the Credit Union had \$NIL outstanding on its operating demand loan (2012 - \$NIL).

The Credit Union has an approved term loan with Central which is secured by a general assignment of book debts and assignment of investments and deposits held at Central. The authorized limit on the term loan is \$17,500,000 (2012 - \$17,500,000). The term loan bears interest at (i) Central's prime rate plus or minus Central's applicable discount or margin rates in effect from time to time, or (ii) at the option of the Credit Union for terms of more than 30 days at a fixed rate equal to Central's money market deposit rate or the equivalent paid fixed swap rate for the term plus or minus the applicable discount or margin rate. At October 31, 2013, the Credit Union had \$NIL outstanding on its term loan (2012 - \$NIL).

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

12. PROPERTY AND EQUIPMENT

	<u>Land</u>	<u>Buildings</u>	<u>Parking Lots</u>	<u>Furniture and Equipment</u>	<u>Security Equipment</u>	<u>Computer Equipment</u>	<u>Total</u>
COST:							
Balance at October 31, 2012	\$ 1,065,100	\$ 4,703,667	\$ 64,998	\$ 899,123	\$ 103,294	\$ 334,802	\$ 7,170,984
Additions	9,240	292,902	-	6,300	-	131,860	440,302
Disposals / Adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,607)</u>	<u>-</u>	<u>-</u>	<u>(7,607)</u>
Balance at October 31, 2013	<u>\$ 1,074,340</u>	<u>\$ 4,996,569</u>	<u>\$ 64,998</u>	<u>\$ 897,816</u>	<u>\$ 103,294</u>	<u>\$ 466,662</u>	<u>\$ 7,603,679</u>
ACCUMULATED DEPRECIATION:							
Balance at October 31, 2012	\$ -	\$ 1,334,377	\$ 38,396	\$ 628,758	\$ 66,242	\$ 168,455	\$ 2,236,228
Depreciation	-	117,280	4,137	54,871	11,754	81,685	269,727
Disposals / Adjustments	-	-	-	(6,545)	-	-	(6,545)
Balance at October 31, 2013	<u>\$ -</u>	<u>\$ 1,451,657</u>	<u>\$ 42,533</u>	<u>\$ 677,084</u>	<u>\$ 77,996</u>	<u>\$ 250,140</u>	<u>\$ 2,499,410</u>
NET BOOK VALUE:							
October 31, 2012	<u>\$ 1,065,100</u>	<u>\$ 3,369,290</u>	<u>\$ 26,602</u>	<u>\$ 270,365</u>	<u>\$ 37,052</u>	<u>\$ 166,347</u>	<u>\$ 4,934,756</u>
October 31, 2013	<u>\$ 1,074,340</u>	<u>\$ 3,544,912</u>	<u>\$ 22,465</u>	<u>\$ 220,732</u>	<u>\$ 25,298</u>	<u>\$ 216,522</u>	<u>\$ 5,104,269</u>

Buildings cost includes \$298,300 (2012 - \$12,600) of work in progress which no depreciation has been expensed.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2013

13. INTANGIBLE ASSETS

	Computer Software
COST:	
Balance at October 31, 2012	\$ 517,860
Additions	<u>-</u>
Balance at October 31, 2013	<u>\$ 517,860</u>
ACCUMULATED AMORTIZATION:	
Balance at October 31, 2012	\$ 136,837
Amortization	<u>51,786</u>
Balance at October 31, 2013	<u>\$ 188,623</u>
NET BOOK VALUE:	
October 31, 2012	<u><u>\$ 381,023</u></u>
October 31, 2013	<u><u>\$ 329,237</u></u>

14. MEMBER DEPOSITS

	<u>2013</u>	<u>2012</u>
Demand deposits	\$328,018,701	\$ 275,185,374
Term deposits	142,653,567	133,680,852
Registered Retirement Savings Plans (RRSPs)	37,727,972	37,371,969
Registered Retirement Income Funds (RRIFs)	8,439,421	7,287,834
Tax-Free Savings Account (TFSA)	<u>6,470,687</u>	<u>4,924,914</u>
	523,310,348	458,450,943
Accrued interest	<u>1,527,132</u>	<u>1,646,324</u>
	<u>\$524,837,480</u>	<u>\$ 460,097,267</u>

Concentra Financial Services Association is the trustee of the RRSPs, RRIFs and TFSAs offered to members. Under an agreement with Concentra, members' contributions to the plans, as well as income earned, are deposited in the Credit Union.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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15. ALLOCATIONS DISTRIBUTABLE

The Board of Directors declared patronage allocations and a dividend allocation to be paid to members by way of the issuance of common shares and cash, depending on the balance in the members common share account. The balance of the allocation distributable was paid between November 28 and December 4, 2013 and is calculated as follows:

	<u>2013</u>	<u>2012</u>
Patronage allocation	\$ 2,060,470	\$ 2,062,263
Dividend allocation	<u>900,055</u>	<u>903,488</u>
	<u>\$ 2,960,525</u>	<u>\$ 2,965,751</u>

For 2013, patronage allocations were determined based on 11% bonus interest on member deposit account interest (2012 - 11%), 8% interest rebate on member loan interest (2012 - 8%) and 8% rebate on member service charges (2012 - 8%).

For 2013, the Board has declared a 4.25% dividend on member common shares (2012 - 4.25%).

16. MEMBER SHARES

The *Credit Union Act* identifies a class of equity shares, known as common shares, having the following characteristics:

- i) an unlimited number may be issued;
- ii) a par value of \$1, but fractional shares may be issued;
- iii) transferable only in restricted circumstances;
- iv) non-assessable; and
- v) redemption of common shares is at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the *Credit Union Act* and Regulations, including limitations to 10% of outstanding balances.

Memberships and shares to become a member are voluntary. Redemption of member equity accounts shall be with the approval of the Board or in a manner approved by the Board and in accordance with the *Credit Union Act*. Credit Union policy requires all members to make a minimum investment of \$25 (\$5 for minors and members over 65 years).

The Corporation does not guarantee common shares which represent "at risk" capital.

17. PENSION PLAN

The Credit Union has a defined contribution pension plan for qualifying employees. The assets are held in trust by the CUMIS Life Insurance Company and are not recorded in these financial statements. The Credit Union matches employee contributions at a rate ranging from 5% to 9% of the employee's salary determined by years of employment. The expense and payments for the year ended October 31, 2013 were \$274,824 (2012 - \$259,997). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

18. RELATED PARTY TRANSACTIONS

Key management personnel ("KMP") of the Credit Union are those persons having authority and responsibility for planning, directing, and controlling the activities of the Credit Union, directly or indirectly. KMP have been taken to comprise members of management responsible for the day-to-day financial and operational management of the Credit Union.

The Credit Union, in accordance with its policy, grants loans to its management and staff at rates established by the Board. For mortgage loans, the rates staff pay are based on a blended rate between the Canada Revenue Agency prescribed rate and regular member rates. For other loans, rates are blended between prime and regular member rates. Directors pay regular member rates on loans.

There are no loans that are impaired in relation to loan balances with KMP or directors. There are no benefits or concessional terms and conditions applicable to the family members of KMP or directors. There are no loans that are impaired in relation to the loan balances with family of KMP or directors. As at October 31, 2013, loans to KMP and directors totaled 0.52% (2012 - 0.45%), in aggregate, of the assets of the Credit Union. The aggregate value of loans disbursed to KMP and directors was \$2,302,321 (2012 - \$1,969,604).

Deposit accounts are held by the directors, management and staff of the Credit Union. For RRSP and term deposits the Credit Union's management and staff receive an interest rate bonus of 1% above the posted rates for amounts of \$500 or more with a minimum of one year investment. Directors receive regular member rates on deposits.

Aggregate value of assets and liabilities held by KMP and directors is as follows:

	<u>2013</u>	<u>2012</u>
Aggregate value of loans advanced	\$ 6,855,078	\$ 5,023,458
Aggregate value of unadvanced loans	\$ 649,120	\$ 1,235,732
Demand deposits	\$ 7,622,772	\$ 6,433,397
Term and TFSA deposits	\$ 3,111,026	\$ 2,760,001
Registered plans	\$ 585,710	\$ 676,634
Member shares	\$ 282,264	\$ 320,579
Interest and other revenue earned on loans	\$ 246,332	\$ 151,054
Interest on deposits	\$ 78,013	\$ 73,590
Patronage allocation	\$ 25,877	\$ 20,229

Aggregate compensation of KMP and directors during the years is as follows:

	<u>2013</u>	<u>2012</u>
Salaries and short-term benefits	\$ 1,454,731	\$ 1,363,346
Post-employment benefits	\$ 96,947	\$ 96,553
Directors and committee remuneration	\$ 24,150	\$ 18,957
Directors meetings and training	\$ 71,283	\$ 82,283

There was no compensation for long-term benefits, termination benefits, or share-based compensation during 2013 and 2012. The Credit Union's KMP is comprised of 11 (2012 - 11) employees for the year. Amounts paid to directors in 2013 range from \$300 to \$5,550 (2012 - \$300 to \$4,125) with an average of \$2,195 (2012 - \$2,498). The Credit Union maintained 9 (2012 - 9) directors for the year.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

19. RISK MANAGEMENT

The Credit Union's risk management policies are designed to identify and analyze risk, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of profitability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets and products.

Risk management is carried out by management who reports to the Board. The Board provides written principles for risk tolerance and overall risk management. Management reports to the Board on compliance with the risk management policies of the Credit Union.

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and floating rates for various periods. The Credit Union seeks to earn an interest rate margin by investing these funds in high quality financial instruments – principally loans and mortgages. The primary types of financial risk that arise from this activity are credit risk, liquidity risk and market risk which is comprised of interest rate risk.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the types of methods that may be used in managing those risks.

Activity	Risks	Method of managing risks
Investments	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching, monitoring of investment restrictions and monitoring of counterparty risk
Member loans	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching and monitoring of counterparty risk
Member deposits	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching and periodic use of derivatives
Equity-linked derivative contracts	Sensitivity to changes in Canadian equity indices	Options

Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in prevailing market interest rates. Financial margin reported in the consolidated statement of comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by management and reported to the Board.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

19. RISK MANAGEMENT (CONTINUED)

To manage the re-pricing of asset and liability mismatch opportunities the Credit Union will undertake campaigns to procure deposits or loans that re-price/mature within a specific time period, buy/sell assets that re-price/mature within a specific time period and may purchase derivative instruments. These decisions are based on economic conditions, member behaviour, capital and liquidity levels and compliance with Credit Union policy.

Other types of interest rate risk may involve basis risk, the risk of loss from changes in the relationship of interest rates which may not have identical characteristics (for example the difference between prime rate and variable rate loans and variable rate deposits) and prepayment risk (the risk of loss of interest income arising from early repayment of fixed rate mortgages and loans). These risks are also monitored on a regular basis and reported to the Board.

Interest rate risk is measured by:

- Static gap analysis which aggregates cash flows into re-pricing periods based on the maturity dates of the assets and liabilities.
- Income simulation models that use current interest revenue, current interest expense and market values. These models incorporate assumptions about pricing strategies, growth, volume, new business and interest rates. The assumptions in the models are updated quarterly.
- Market value of portfolio equity determines the present value of all assets and liabilities. This provides an estimate of the equity value of the Credit Union.

The following schedule shows the Credit Union's sensitivity to interest rate changes as at October 31, 2013. Fixed rate assets and fixed rate liabilities are reported based on scheduled repayments. Variable rate assets and liabilities that are linked to prime rate are reported in the floating rate category. Non-interest bearing assets and non-interest bearing liabilities are reported in the non-rate sensitive category.

As At October 31, 2013

	<u>Floating Rate</u>	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Non-Rate Sensitive</u>	<u>Total</u>
Assets					
Cash	\$ 7,621,602	\$ -	\$ -	\$ 469,075	\$ 8,090,677
<i>Effective Interest Rate</i>	<i>0.25%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.25%</i>
Investments	5,339,192	137,529,000	-	179,449	143,047,641
<i>Effective Interest Rate</i>	<i>2.00%</i>	<i>1.21%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>1.24%</i>
Member loans	186,855,892	47,684,388	212,614,127	(1,552,321)	445,602,086
<i>Effective Interest Rate</i>	<i>4.46%</i>	<i>4.55%</i>	<i>4.11%</i>	<i>0.00%</i>	<i>4.30%</i>
Other	-	-	-	6,550,212	6,550,212
	<u>199,816,686</u>	<u>185,213,388</u>	<u>212,614,127</u>	<u>5,646,415</u>	<u>603,290,616</u>
Liabilities					
Member deposits	312,165,084	123,430,025	68,714,772	20,527,599	524,837,480
<i>Effective Interest Rate</i>	<i>0.66%</i>	<i>1.29%</i>	<i>1.94%</i>	<i>0.00%</i>	<i>0.99%</i>
Equity	-	-	-	-	76,961,106
76,961,106					
Other	-	-	-	1,492,030	1,492,030
	<u>312,165,084</u>	<u>123,430,025</u>	<u>68,714,772</u>	<u>98,980,735</u>	<u>603,290,616</u>
Net mismatch	<u>\$(112,348,398)</u>	<u>\$ 61,783,363</u>	<u>\$ 143,899,355</u>	<u>\$(93,334,320)</u>	<u>\$ -</u>

As At October 31, 2012

Net mismatch	<u>\$(41,344,000)</u>	<u>\$ 591,000</u>	<u>\$ 137,744,000</u>	<u>\$(96,991,000)</u>	<u>\$ -</u>
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LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

19. RISK MANAGEMENT (CONTINUED)

The following table provides the potential before-tax impact of a 1% increase or decrease in the Credit Union's financial margin before provision for loan impairment. These measures are based on assumptions made by management and validated by experience. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives.

Before tax impact on financial margin before provision for loan impairment of:

	<u>2013</u>	<u>2012</u>
1% increase in rates	\$ 1,241,000	\$ 1,260,000
1% decrease in rates	\$ (1,469,000)	\$ (1,006,000)

Credit Risk

Credit risk is the risk that financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union arising from member loans, investments, securities and derivative instruments with positive market values. The primary credit risk arising from loans is the possibility that members will be unable or unwilling to repay some or all of the principal and interest on their loans. Allowances for credit losses are made for losses that have been incurred at the statement of financial position date.

Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in member loans and advances and treasury activities that result in investments in cash resources. The overall management of credit risk is centralized in the Credit Committee, which reports to the Board, and the respective operating units of the Credit Union.

Concentration of loans is managed by the implementation of sectoral and member specific limits.

The Credit committee is responsible for approving and monitoring the Credit Union's tolerance for credit exposures, which it does through review and approval of the Credit Union's lending policies and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits, and prior to advancing funds to a member, an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and establishes that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The credit quality of the commercial loan portfolio for those loans that are neither past due nor impaired can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the quality of loans using an internal rating tool taking into consideration as number of factors, such as the security, the borrower's management performance, current and projected financial results and industry statistics related to the borrower's industry and utilizes the experience and judgment of the Credit department. The current risk rating format consists of nine categories reflecting various degrees of risk and the availability of collateral.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

19. RISK MANAGEMENT (CONTINUED)

The following information represents the maximum exposure to credit risk before taking into consideration any collateral. For financial assets recognized on the balance sheet, the exposure to credit risk is their stated carrying amount. For off balance sheet items, the maximum exposure is the full amount of the undrawn facilities or loan commitment.

	<u>2013</u>	<u>2012</u>
On balance sheet exposure		
Cash and cash equivalents	\$ 8,090,677	\$ 3,505,009
Investments	143,047,641	88,777,277
Member loans	<u>445,602,086</u>	<u>434,564,858</u>
	<u>\$596,740,404</u>	<u>\$ 526,847,144</u>
Off balance sheet exposure		
Letters of guarantee	\$ 5,876,055	\$ 5,050,751
Commitments to extend credit		
Original terms to maturity of 1 year or less	37,798,209	38,258,409
Original terms to maturity of 1 year or more	<u>54,418,244</u>	<u>59,017,565</u>
	<u>\$ 98,092,508</u>	<u>\$ 102,326,725</u>

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicates the sensitivity of the Credit Union to developments affecting a particular segment of borrowers or geographic region.

Geographic credit risk exists for the Credit Union due to its primary service area being in Bonnyville, Cold Lake and surrounding areas.

Market Risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Fair Value Risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its member loans, investments and member deposits. The Credit Union does hedge its fair value risk regarding its equity linked derivatives. For further information on fair value of financial instruments see Note 21.

Foreign Exchange Risk

Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financed investments for an extended period.

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

19. RISK MANAGEMENT (CONTINUED)

Liquidity Risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity at all times as described in note 20. The Credit Union has established policies which include minimum liquidity requirements, eligibility requirements for liquid assets, investments with counterparties, deposit concentration and diversification limits. The Credit Union monitors expected cash inflows and outflows on a daily, cyclical and long-term basis. The Credit Union's preferred source of funding is member deposits; however, borrowing from Central is permitted during periods where loan demand exceeds deposit growth. Other sources of funding such as sale of assets, deposits from other credit unions and wholesale deposits are acceptable.

On a periodic basis management ensures that it has adhered to the regulatory requirement of the *Credit Union Act* of Alberta's minimum liquidity ratio of 6% of total assets. The Credit Union's liquidity ratio was 7.94% at October 31, 2013 (2012 – 8.22%).

Management reviews its compliance with these policies and reports its statutory liquidity position to the Board of Directors on an exception basis. It reports the operating liquidity to the Board of Directors on a monthly basis. The Finance Committee ensures that a periodic review/audit is performed to verify compliance with policy and procedures (no less than annually).

20. CAPITAL MANAGEMENT

The Credit Union's objectives when managing capital are:

- (a) To ensure the long term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses.
- (b) To comply at all times with the capital requirements set out in the *Credit Union Act*.

The Credit Union measures the adequacy of capital using two methods:

- i) Total capital as a percentage of total assets; and
- ii) Total capital as a percentage of risk weighted assets. Under this method the Credit Union reviews its loan portfolio and other assets and assigns a risk weighting using definitions and formulas set out in the Act and by the Corporation. The more risk associated with an asset, a higher weighting is assigned. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

The Credit Union management ensures compliance with capital adequacy through the following:

- (a) Setting policies for capital management, monitoring and reporting;
- (b) Setting policies for related areas such as asset liability management;
- (c) Reporting to the Board of Directors or its committees regarding financial results and capital adequacy;

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

20. CAPITAL MANAGEMENT (CONTINUED)

(d) Reporting to the Corporation on its capital adequacy; and

(e) Setting budgets and reporting variances to those budgets.

The Credit Union is required under the Act to have a capital balance that is equal to or exceeds the greater of:

- i) 4% of total assets; and
- ii) 8% of risk weighted assets

As at October 31, 2013 the Credit Union's total capital as a percent of assets was 13.0% (2012 – 13.5%) and the total capital as a percent of risk weighted assets was 24.0% (2012 – 26.5%). Therefore, the Credit Union has exceeded its minimum capital requirement at October 31, 2013.

21. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

The carrying amount of the Credit Union's financial instruments by classification is as follows:

	<u>October 31, 2013</u>					
	Fair Value Through Profit or Loss	Available-for- Sale	Held-to Maturity	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 8,090,677	\$ -	\$ -	\$ -	\$ -	\$ 8,090,677
Investments	-	5,339,192	137,708,449	-	-	143,047,641
Member loans	-	-	-	445,602,086	-	445,602,086
Derivative assets	578,167	-	-	-	-	578,167
Members' deposits	-	-	-	-	(524,837,480)	(524,837,480)
Accounts payable and accrued liabilities	-	-	-	-	(913,863)	(913,863)
Derivative liabilities	(578,167)	-	-	-	-	(578,167)
	<u>\$ 8,090,677</u>	<u>\$ 5,339,192</u>	<u>\$ 137,708,449</u>	<u>\$ 445,602,086</u>	<u>\$(525,751,343)</u>	<u>\$ 70,989,061</u>

	<u>October 31, 2012</u>					
	Fair Value Through Profit or Loss	Available-for- Sale	Held-to Maturity	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 3,505,009	\$ -	\$ -	\$ -	\$ -	\$ 3,505,009
Investments	-	5,042,342	83,734,935	-	-	88,777,277
Member loans	-	-	-	434,564,858	-	434,564,858
Derivative assets	623,389	-	-	-	-	623,389
Members' deposits	-	-	-	-	(460,097,267)	(460,097,267)
Accounts payable and accrued liabilities	-	-	-	-	(1,074,233)	(1,074,233)
Derivative liabilities	(623,389)	-	-	-	-	(623,389)
	<u>\$ 3,505,009</u>	<u>\$ 5,042,342</u>	<u>\$ 83,734,935</u>	<u>\$ 434,564,858</u>	<u>\$(461,171,500)</u>	<u>\$ 65,675,644</u>

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

21. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (CONTINUED)

Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. The Credit Union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent the Credit Union's best estimates based on a range of methods and assumptions. Since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instrument. Interest rate changes are the main cause of changes in the fair value of the Credit Union's financial instruments.

The following methods and assumptions are used to estimate the fair market value:

- i) The fair values of cash, demand deposits, certain other assets and certain other liabilities approximate their carrying values, due to their short-term nature.
- ii) The estimated fair values of floating-rate investments, member loans and member deposits are assumed to equal carrying value as the interest rates automatically re-price to market.
- iii) The estimated fair values of fixed-rate investments, member loans and member deposits are determined by discounting the expected future cash flows of these items at current market rates for products with similar terms and credit risks.

The total value of loans determined using the above assumptions is reduced by the allowance for impaired loans.

	<u>2013</u>			<u>2012</u>		
	Fair Value (FV)	Carrying Value (CV)	Change	Fair Value (FV)	Carrying Value (CV)	Change
Assets						
Cash	\$ 8,090,677	\$ 8,090,677	\$ -	\$ 3,505,009	\$ 3,505,009	\$ -
Investments	143,471,020	143,047,641	423,379	89,283,614	88,777,277	506,337
Members' loans	438,807,903	445,602,086	(6,794,183)	431,836,150	434,564,858	(2,728,708)
Other	<u>6,550,212</u>	<u>6,550,212</u>	<u>-</u>	<u>7,071,950</u>	<u>7,071,950</u>	<u>-</u>
	<u>\$ 596,919,812</u>	<u>\$ 603,290,616</u>	<u>\$ (6,370,804)</u>	<u>\$ 531,696,723</u>	<u>\$ 533,919,094</u>	<u>\$ (2,222,371)</u>
Liabilities						
Members' deposits	\$ 524,321,435	\$ 524,837,480	\$ 516,045	\$ 459,443,989	\$ 460,097,267	\$ 653,278
Other liabilities	<u>1,492,030</u>	<u>1,492,030</u>	<u>-</u>	<u>1,697,622</u>	<u>1,697,622</u>	<u>-</u>
	<u>\$ 525,813,465</u>	<u>\$ 526,329,510</u>	<u>\$ 516,045</u>	<u>\$ 461,141,611</u>	<u>\$ 461,794,889</u>	<u>\$ 653,278</u>
	<u>\$ 71,106,347</u>	<u>\$ 76,961,106</u>	<u>\$ (5,854,759)</u>	<u>\$ 70,555,112</u>	<u>\$ 72,124,205</u>	<u>\$ (1,569,093)</u>

LAKELAND CREDIT UNION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2013

21. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (CONTINUED)

Assets and liabilities recorded at fair value in the statement of the financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1: Unadjusted quoted prices in an active market for identical assets and liabilities.

Assets measured at fair value and classified as Level 1 include cash and cash equivalents and derivatives.

- Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e. derived from prices).

Level 2 inputs include quoted prices for assets in markets that are considered less active. There are no assets measured at fair value and classified as Level 2.

- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.

Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. There are no assets measured at fair value classified as Level 3.

There were no transfers between fair value hierarchy levels for the years ended October 31, 2013 and 2012.

22. PATRONAGE INCOME

On March 15, 2013 and October 16, 2013 the Credit Union received before taxes a patronage distribution from Central in the amounts of \$654,950 and \$521,554, respectively. These distributions have been recorded separately on the Statement of Consolidated Comprehensive Income as patronage income.

LAKELAND CREDIT UNION LIMITED
SCHEDULE OF CONSOLIDATED OPERATING EXPENSES

SCHEDULE I

FOR THE YEAR ENDED OCTOBER 31, 2013

	<u>2013</u>	<u>2012</u>
Personnel		
Salaries and wages	\$ 4,716,677	\$ 4,524,526
Employee benefits	664,191	620,495
Training	145,074	133,776
Other	<u>143,710</u>	<u>174,326</u>
	<u>5,669,652</u>	<u>5,453,123</u>
Occupancy		
Maintenance, utilities and janitorial	241,929	231,883
Depreciation	121,417	122,269
Property taxes	60,226	60,900
Insurance	42,362	42,443
Rent	<u>1,973</u>	<u>1,928</u>
	<u>467,907</u>	<u>459,423</u>
Security		
Deposit guarantee assessment	686,182	672,900
Bonding	38,444	42,232
Depreciation	<u>11,754</u>	<u>11,187</u>
	<u>736,380</u>	<u>726,319</u>
Organization		
Credit Union Central dues	129,821	117,367
Director meetings and training	71,283	82,283
Directors and committee remuneration	24,150	18,957
Membership meetings	<u>23,079</u>	<u>30,462</u>
	<u>248,333</u>	<u>249,069</u>
General		
Computer services	758,060	768,741
Cash, service charges and other fees	661,767	721,094
Advertising and marketing	323,123	270,760
InStride Resources Ltd. contributions	181,350	39,000
Consulting and professional fees	170,197	152,727
Office and communication	139,918	138,613
Depreciation	136,556	127,866
Other	102,183	86,776
Amortization of intangible capital assets	51,786	51,428
Equipment leases, repairs and maintenance	40,682	36,987
Staff travel	39,311	27,826
Dues and subscriptions	13,548	11,870
Member life insurance program	<u>-</u>	<u>36,024</u>
	<u>2,618,481</u>	<u>2,469,712</u>
	<u>\$ 9,740,753</u>	<u>\$ 9,357,646</u>