HAWKINGS EPP DUMONT LLP
CHARTERED ACCOUNTANTS

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, 2015 and the consolidated statements of net income and comprehensive income, changes in members' equity, and cash flows for the year ended October 31, 2015, 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, 2015 and its financial performance and cash flows for the year ended October 31, 2015 in accordance with International Financial Reporting Standards.

Edmonton, Alberta
January 14, 2016

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 a Finance 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 Finance 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 Finance 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 14, 2016

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, 2015

	2015	2014
ASSETS		
Cash and Cash Equivalents (Note 5)	**$ 7,240,602**	$ 10,801,746
Investments (Note 6)	**118,289,206**	130,074,916
Member Loans (Note 8)	**503,657,074**	493,510,790
Income Taxes Receivable	**98,585**	189,180
Prepaid Expenses	**67,305**	5,454
Derivative Assets (Note 11)	**201,596**	476,051
Property and Equipment (Note 13)	**13,980,446**	7,034,247
Intangible Assets (Note 14)	**277,800**	277,451
Deferred Income Tax Asset (Note 10)	**299,689**	257,393
	$644,112,303	$ 642,627,228
LIABILITIES		
Member Deposits (Note 15)	**$555,727,508**	$ 558,351,776
Accounts Payable and Accrued Liabilities	**1,937,803**	1,812,631
Derivative Liabilities (Note 11)	**201,596**	476,051
	557,866,907	560,640,458
MEMBERS' EQUITY		
Allocation Distributable (Note 17)	**2,948,387**	2,831,164
Member Shares (Note 18)	**22,389,380**	21,993,697
Retained Earnings	**60,907,629**	57,161,909
	86,245,396	81,986,770
	$644,112,303	$ 642,627,228

Commitment (Note 22)

ON BEHALF OF THE BOARD:

Tracy Cowden, Board Chair

Glenna Beale, Finance Committee Chair

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

LAKELAND CREDIT UNION LIMITED

CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED OCTOBER 31, 2015

	2015	2014
Financial Income		
Interest from member loans	**$ 19,890,511**	$ 19,568,431
Investment income	**1,340,773**	1,571,195
Patronage income (Note 16)	**205,501**	263,538
	21,436,785	21,403,164
Financial Expenses		
Interest on member deposits	**4,778,953**	5,478,102
Interest on financing	**8,966**	15,375
	4,787,919	5,493,477
Financial Margin before Provision for Loan Impairment	**16,648,866**	15,909,687
Provision for Loan Impairment (Note 9)	**241,482**	117,036
Financial Margin after Provision for Loan Impairment	**16,407,384**	15,792,651
Other Income	**2,995,619**	2,925,462
Gross Margin	**19,403,003**	18,718,113
Operating Expenses (Schedule 1)	**11,447,304**	10,299,885
Income before Patronage Allocation and Income Taxes	**7,955,699**	8,418,228
Patronage Allocation (Note 17)	**1,990,273**	2,060,114
Income before Income Taxes	**5,965,426**	6,358,114
Income Taxes (Note 10)		
Current	**1,549,873**	1,586,826
Deferred (Recovery)	**(42,296)**	(46,062)
	1,507,577	1,540,764
Net Income and Comprehensive Income	**$ 4,457,849**	$ 4,817,350

LAKELAND CREDIT UNION LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

FOR THE YEAR ENDED OCTOBER 31, 2015

	Allocation Distributable	Member Shares	Retained Earnings	**Total**
Balance, October 31, 2014	$ 2,831,164	$ 21,993,697	$ 57,161,909	**$ 81,986,770**
Net Income	-	-	4,457,849	**4,457,849**
Patronage Paid Through Issuance of Member Shares	(2,060,114)	2,060,304	-	**190**
Patronage Accrued	1,990,273	-	-	**1,990,273**
Dividends Paid Through Issuance of Member Shares (Note 17)	(771,050)	771,050	-	**-**
Dividends Accrued (Note 17)	958,114	-	(958,114)	**-**
Tax Recovery on Member Shares	-	-	245,985	**245,985**
Issuance of Member Shares	-	271,642	-	**271,642**
Redemption of Member Shares	-	(2,707,313)	-	**(2,707,313)**
Balance, October 31, 2015	$ 2,948,387	$ 22,389,380	$ 60,907,629	**$ 86,245,396**

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

LAKELAND CREDIT UNION LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED OCTOBER 31, 2015

	2015	2014
Operating Activities		
Net Income	$ 4,457,849	$ 4,817,350
Adjustments for:		
Provision for Loan Impairment	241,482	117,036
Depreciation	308,070	265,731
Amortization of Intangible Assets	72,208	51,786
Net Interest Income	(16,648,866)	(15,909,687)
Current Income Tax Expense	1,549,873	1,586,826
Change in Member Loans	(10,396,343)	(48,019,047)
Change in Member Deposits	(2,481,657)	33,642,000
Deferred Income Tax	(42,296)	(46,062)
Change in Prepaid Expenses	(61,851)	677
Change in Accounts Payable and Accrued Liabilities	125,172	898,768
Loss on Disposal of Property and Equipment	117,662	-
Interest Received	21,698,093	21,266,185
Interest Paid	(4,930,531)	(5,621,181)
Income Taxes Paid	(1,210,917)	(1,264,105)
	(7,202,052)	(8,213,723)
Financing Activities		
Change in Allocation Distributable	117,223	(129,361)
Change in Member Shares	395,683	915,963
Dividends on Member Shares	(958,114)	(771,050)
	(445,208)	15,552
Investing Activities		
Purchases of Property and Equipment	(7,380,552)	(2,195,709)
Purchase of Intangible Assets	(72,557)	-
Change in Investments	11,530,605	13,104,949
Proceeds on Disposal of Property and Equipment	8,620	-
	4,086,116	10,909,240
Net Increase (Decrease) In Cash and Cash Equivalents	(3,561,144)	2,711,069
Cash and Cash Equivalents, Beginning of Year	10,801,746	8,090,677
Cash and Cash Equivalents, End of Year	$ 7,240,602	$ 10,801,746

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

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.

The Credit Union's registered office and principal place of business is:

Lakeland Credit Union Limited
5016 50 Avenue
Box 8057
Bonnyville AB T9N 2J3

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 14, 2016.

(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) 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.

(Continues)

2. BASIS OF PRESENTATION

(d) Functional Currency

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

(e) Changes in Accounting Policies

Changes to IFRS standards which became effective November 1, 2014 include various minor changes and amendments to existing standards. These changes have all been reviewed to determine their effect on the Credit Union. It has been determined that none of these minor changes and amendments resulted in any changes to the consolidated financial statements of the Credit Union.

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

Member 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.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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, Concentra Financial and other credit unions. 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.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial Instruments (Continued)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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. Foreclosed property is presented on the statement of financial position under member loans with separate disclosure in Note 8.

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.
For additional information on the Credit Union's investment in associate see Note 7.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Future Accounting Changes

At October 31, 2015 a number of standards and interpretations, and amendments thereto have been issued by the IASB, which are not effective for these financial statements. Those which could have an impact on the Credit Union's financial statements are discussed below:

(i) IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 Financial Instruments issued on July 24, 2014 replaces *IAS 39 Financial Instruments Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and is required to be applied retrospectively when initially applied.

Impairment

IFRS 9 introduces an expected loss model for all financial assets not classified as or designated as at FVTPL. Allowances are measured according to the model which has three stages: (1) on initial recognition and where there has been no significant increase in credit risk or the resulting credit risk is considered to be low, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly since initial recognition, and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

The assessment of changes in credit risk since initial recognition and the estimation of expected credit losses are required to incorporate all relevant information which is available as at the reporting date. This includes information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation of expected credit losses is a discounted probability-weighted estimate.

The recognition and measurement of impairment losses under IFRS 9 is intended to be more forward-looking than under IAS 39 and the resulting provision for credit losses is expected to be more volatile. Because all financial assets within the scope of the IFRS 9 impairment model will be assessed for at least 12-months of expected credit losses, and the population of financial assets to which full lifetime expected credit losses applies is larger than the population of impaired loans for which there is objective evidence of impairment in accordance with IAS 39, the allowance for credit losses is expected to increase.

Classification and measurement

IFRS 9 also introduces a principles-based approach to the classification of financial assets based on an entity’s business model and the nature of the cash flows of the assets. All financial assets, including hybrid contracts, are measured at FVTPL, fair value through other comprehensive income or amortized cost replacing the existing IAS 39 classifications of held-to-maturity, loans and receivables, and available-for-sale. The combined application of the business model and contractual cash flow characteristics test may result in some differences in the population of financial assets measured at amortized cost or fair value compared with IAS 39. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Future Accounting Changes (Continued)

Hedge accounting

The new hedge accounting model under IFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting.

The new standard does not explicitly address the accounting for macro hedging activities, which is being addressed by the IASB in a separate project. As a result, IFRS 9 includes an accounting policy choice to retain IAS 39 for hedge accounting requirements until the standard resulting from the IASB's project on macro hedge accounting is effective. The new hedge accounting disclosures, however, are required for the annual period beginning November 1, 2017.

Transition

The impairment and classification and measurement requirements of IFRS 9 will be applied retrospectively by adjusting the opening balance sheet at November 1, 2017. There is no requirement to restate comparative periods. Hedge accounting, if adopted, will be applied prospectively, with limited exceptions. At this stage, it is not possible to quantify the potential financial effect of adoption of IFRS 9 to the Credit Union.

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 24.

4. USE OF ESTIMATES AND KEY JUDGMENTS (CONTINUED)

(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. The purpose of the adjustment is 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. This includes for example 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.

(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. This is 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 consist of cash on hand and operating accounts with Central. The average yield on the accounts at October 31, 2015 is 0.25% (2014 - 0.25%).

6. INVESTMENTS

	2015	2014
Held-to-Maturity		
Central - term deposits	**$ 59,514,000**	$ 83,114,000
Concentra - term deposits	**35,211,800**	32,628,800
Other Credit Union - term deposits	**17,000,000**	8,000,000
Accrued interest	**116,114**	284,924
	111,841,914	124,027,724
Available for Sale		
Central - shares	**6,447,192**	6,047,192
CUSO Wealth Strategies Inc. - shares	**100**	-
	$118,289,206	$ 130,074,916

All term deposits mature within one year with interest rates ranging from 0.27% to 1.54%. As required by the *Credit Union Act*, the Credit Union holds investments in Central to maintain its statutory liquidity requirements.

7. INVESTMENT IN ASSOCIATE

The Credit Union holds a 33 1/3% proportionate ownership interest in InStride Resources Ltd. ("InStride"). Management has determined that the Credit Union has significant influence, but not control, over InStride.

InStride was incorporated under the *Business Corporations Act* of Alberta in 2012 and operates as a shared information and resource centre for its members. Other Credit Union's hold the remainder of the ownership as follows: Mountain View Credit Union holds 33 1/3% and 1st Choice Savings and Credit Union Ltd. holds the remaining 33 1/3%. There are no significant risks encountered by InStride in the normal course of operations. The Credit Union has not incurred any contingent or future liabilities relating to its investment in associates.

InStride had assets of $105,434 (2014 - $174,810), liabilities and equity of $105,434 (2014 - $174,810), income of $1,122,296 (2014 - $850,932) and expenses of $1,122,296 (2014 - $850,321) for the year ended October 31, 2015.

8. MEMBER LOANS

Principal and Allowance by Loan Type

	Principal Performing	Principal Impaired	Specific Allowance	Collective Allowance	**2015 Net**
Consumer loans	$ 53,672,216	$ 127,240	$ 113,231	$ 239,848	**$ 53,446,377**
Residential mortgages	293,191,593	1,859,799	511,975	619,874	**293,919,543**
Commercial loans	27,360,433	1,681	38,785	108,373	**27,214,956**
Commercial mortgages	105,530,216	441,836	87,728	504,274	**105,380,050**
Agricultural loans	1,807,252	-	-	28,547	**1,778,705**
Agricultural mortgages	6,579,958	-	-	103,937	**6,476,021**
Authorized and unauthorized overdrafts	14,535,740	332,327	243,452	248,597	**14,376,018**
	502,677,408	2,762,883	995,171	1,853,450	**502,591,670**
Accrued interest	1,100,562	-	35,158	-	**1,065,404**
	$ 503,777,970	$ 2,762,883	$ 1,030,329	$ 1,853,450	**$ 503,657,074**

Principal and Allowance by Loan Type

	Principal Performing	Principal Impaired	Specific Allowance	Collective Allowance	2014 Net
Consumer loans	$ 63,872,174	$ 171,228	$ 110,236	$ 300,519	$ 63,632,647
Residential mortgages	280,743,277	1,326,975	317,620	451,510	281,301,122
Commercial loans	35,180,966	43,407	31,849	134,449	35,058,075
Commercial mortgages	91,345,676	824,005	110,144	399,792	91,659,745
Agricultural loans	1,130,804	224,734	-	18,934	1,336,604
Agricultural mortgages	6,496,060	-	-	90,735	6,405,325
Authorized and unauthorized overdrafts	13,016,660	661,169	381,669	252,869	13,043,291
	491,785,617	3,251,518	951,518	1,648,808	492,436,809
Accrued interest	1,193,060	-	119,079	-	1,073,981
	$ 492,978,677	$ 3,251,518	$ 1,070,597	$ 1,648,808	$ 493,510,790

During the year, the Credit Union obtained residential property by taking possession of collateral held as security with a carrying value of $1,244,923 against which a specific allowance of $581,123 is recorded. Repossessed property is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified as foreclosed property and is included within member loans on the consolidated statement of financial position.

8. 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.

	30-59 Days	60-89 Days	**2015 Total**
Consumer loans	$ 401,497	$ 111,964	**$ 513,461**
Residential mortgages	406,844	849,274	**1,256,118**
Commercial loans	1,858,937	1,065,370	**2,924,307**
	$ 2,667,278	$ 2,026,608	**$ 4,693,886**

	30-59 Days	60-89 Days	2014 Total
Consumer loans	$ 477,692	$ 425,874	$ 903,566
Residential mortgages	56,000	228,822	284,822
Commercial loans	146,662	20,461	167,123
	$ 680,354	$ 675,157	$ 1,355,511

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.

9. ALLOWANCE FOR IMPAIRED LOANS

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

	2015	2014
Balance, beginning of year	**$ 2,719,406**	$ 2,731,009
Provision for loan impairment	**241,482**	117,036
Loans written off during the year, net of recoveries	**(77,109)**	(128,639)
Balance, end of year	**$ 2,883,779**	$ 2,719,406

10. INCOME TAXES

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

	2015	2014
Current income tax expense		
Based on current year taxable income	**$ 1,549,873**	$ 1,586,826
Deferred income tax expense		
Origination and reversal of temporary differences	**(42,296)**	(46,062)
Total income tax expense	**$ 1,507,577**	$ 1,540,764

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

	2015 %	2014 %
Statutory rate	**25.37**	23.75
Income tax rate adjusted for the effect of:		
Credit union deduction and other tax adjustments	**(1.30)**	(5.31)
Non-deductible expenses and other	**1.20**	5.79
Effective income tax rate	**25.27**	24.23

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

	2015	2014
Property and equipment	**$ (127,030)**	$ (95,157)
Intangible assets	**(69,640)**	(64,469)
Allowance for impaired loans	**496,359**	417,019
	$ 299,689	$ 257,393

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

11. DERIVATIVES

The Credit Union has $11,240,885 (2014 - $12,422,620) in index-linked deposits to its members. These deposits mature in years 2016 to 2020 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 $369,602 (2014 - $462,556) and are included in member deposits. Amortization in the amount of $258,694 (2014 - $281,175) 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:

	2015	2014
Within 1 year	**$ 2,889,541**	$ 3,187,801
Within 2 years	**3,297,301**	2,889,541
Within 3 years	**2,615,112**	3,297,301
Within 4 years	**1,437,315**	1,610,662
Within 5 years	**1,001,616**	1,437,315
	$11,240,885	$ 12,422,620

12. 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 $8,500,000 including a US dollar component equivalent to $140,000 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, 2015, the Credit Union had $NIL outstanding on its operating demand loan (2014 - $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 $21,500,000 (2014 - $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, 2015, the Credit Union had $NIL outstanding on its term loan (2014 - $NIL).

LAKELAND CREDIT UNION LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2015

13. PROPERTY AND EQUIPMENT

	Land	Buildings	Parking Lots	Furniture and Equipment	Security Equipment	Computer Equipment	Total
COST:							
Balance at October 31, 2014	$ 1,074,340	$ 7,163,934	$ 64,998	$ 878,035	$ 103,294	$ 490,552	$ 9,775,153
Additions	-	6,305,161	73,994	678,040	38,942	284,415	7,380,552
Disposals / Adjustments	-	(88,667)	-	(413,722)	-	(250)	(502,639)
Balance at October 31, 2015	**1,074,340**	**13,380,428**	**138,992**	**1,142,353**	**142,236**	**774,717**	**16,653,066**
ACCUMULATED DEPRECIATION:							
Balance at October 31, 2014	-	1,569,100	45,227	698,073	89,750	338,756	2,740,906
Depreciation	-	117,255	3,681	93,043	14,192	79,899	308,070
Disposals / Adjustments	-	(13,848)	-	(362,258)	-	(250)	(376,356)
Balance at October 31, 2015	**-**	**1,672,507**	**48,908**	**428,858**	**103,942**	**418,405**	**2,672,620**
NET BOOK VALUE:							
October 31, 2015	**$ 1,074,340**	**$ 11,707,921**	**$ 90,084**	**$ 713,495**	**$ 38,294**	**$ 356,312**	**$ 13,980,446**
October 31, 2014	$ 1,074,340	$ 5,594,834	$ 19,771	$ 179,962	$ 13,544	$ 151,796	$ 7,034,247

14. INTANGIBLE ASSETS

	Computer Software
COST:	
Balance at October 31, 2014	$ 517,860
Additions	72,557
Balance at October 31, 2015	590,417
ACCUMULATED AMORTIZATION:	
Balance at October 31, 2014	240,409
Amortization	72,208
Balance at October 31, 2015	**312,617**
NET BOOK VALUE:	
October 31, 2015	**$ 277,800**
October 31, 2014	$ 277,451

15. MEMBER DEPOSITS

	2015	2014
Demand deposits	**$370,092,556**	$ 368,867,065
Term deposits	**128,210,169**	132,903,088
Registered Retirement Savings Plans (RRSPs)	**36,366,452**	37,160,441
Registered Retirement Income Funds (RRIFs)	**9,705,528**	9,818,183
Tax-Free Savings Accounts (TFSA)	**10,095,986**	8,203,571
	554,470,691	556,952,348
Accrued interest	**1,256,817**	1,399,428
	$555,727,508	$ 558,351,776

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.

16. PATRONAGE INCOME

On March 13, 2015 the Credit Union received, before taxes, a patronage distribution from Central in the amount of $205,501 (2014 - $263,538). This distribution has been recorded separately on the Statement of Consolidated Comprehensive Income as patronage income.

17. 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 25 - 27, 2015 and is calculated as follows:

	2015	2014
Patronage allocation	$ 1,990,273	$ 2,060,114
Dividend allocation	958,114	771,050
	$ 2,948,387	$ 2,831,164

For 2015, patronage allocations were determined based on 11% bonus interest on member deposit account interest (2014 - 11%), 8% interest rebate on member loan interest (2014 - 8%) and 8% rebate on member service charges (2014 - 8%).

For 2015, the Board has declared a 3.50% dividend + 0.75% one-time 75th anniversary bonus dividend on member common shares (2014 - 3.50%).

18. 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.

19. 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, 2015 were $296,752 (2014 - $276,647). 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.

20. 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, 2015, loans to KMP and directors totaled 1.50% (2014 - 1.35%), in aggregate, of the assets of the Credit Union. The aggregate value of loans disbursed and renewed during the year to KMP and directors was $3,531,270 (2014 - $4,461,423).

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:

	2015	2014
Aggregate value of loans advanced	**$ 9,686,736**	$ 8,661,356
Aggregate value of unadvanced loans	**$ 222,852**	$ 296,082
Demand deposits	**$ 3,802,336**	$ 4,477,225
Term and TFSA deposits	**$ 589,460**	$ 1,524,457
Registered plans	**$ 543,573**	$ 512,828
Member shares	**$ 157,271**	$ 218,087
Interest and other revenue earned on loans	**$ 354,924**	$ 243,437
Interest on deposits	**$ 25,259**	$ 31,612
Patronage allocation	**$ 25,626**	$ 22,560

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

	2015	2014
Salaries and short-term benefits	**$ 1,725,313**	$ 1,375,093
Post-employment benefits	**$ 104,152**	$ 95,135
Termination benefits	**$ -**	$ 30,269
Directors and committee remuneration	**$ 21,250**	$ 23,825
Directors meetings and training	**$ 38,443**	$ 66,636

There was no compensation for long-term benefits, or share-based compensation during 2015 and 2014. The Credit Union's KMP is comprised of 12 (2014 - 11) employees for the year. Amounts paid to directors in 2015 range from $NIL to $5,700 (2014 - $725 to $4,475) with an average of $2,656 (2014 - $2,383). The Credit Union maintains 8 (2014 - 9) directors for the year.

21. 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 a 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.

21. 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 repricing 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.

21. RISK MANAGEMENT (CONTINUED)

The following schedule shows the Credit Union's sensitivity to interest rate changes as at October 31, 2015. 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, 2015

	Floating Rate	Within 1 Year	1 to 5 Years	Non-Rate Sensitive	Total
Assets					
Cash	$ 7,240,602	$ -	$ -	$ -	$ 7,240,602
Effective Interest Rate	*0.23%*	*0.00%*	*0.00%*	*0.00%*	*0.25%*
Investments	6,447,192	111,725,800	-	116,214	118,289,206
Effective Interest Rate	*2.00%*	*0.80%*	*0.00%*	*0.00%*	*1.29%*
Member loans	162,660,446	72,566,686	268,968,235	(538,293)	503,657,074
Effective Interest Rate	*4.25%*	*4.41%*	*3.60%*	*0.00%*	*3.93%*
Other	-	-	-	14,925,421	14,925,421
	176,348,240	184,292,486	268,968,235	14,503,342	644,112,303
Liabilities					
Member deposits	350,114,262	116,369,747	64,015,709	25,227,790	555,727,508
Effective Interest Rate	*0.43%*	*1.66%*	*2.05%*	*0.00%*	*0.98%*
Equity	-	-	-	86,245,396	86,245,396
Other	-	-	-	2,139,399	2,139,399
	350,114,262	116,369,747	64,015,709	113,612,585	644,112,303
Net mismatch	$ (173,766,022)	$ 67,922,739	$ 204,952,526	$ (99,109,243)	$ -

As At October 31, 2014

Net mismatch	$ (158,425,288)	$ 77,822,895	$ 180,419,564	$ (99,817,171)	$ -

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 management's risk initiatives.

Impact on financial margin before taxes and provision for loan impairment of:

	2015	2014
1% increase in rates	**$ 618,000**	$ 744,000
1% decrease in rates	**$ (1,252,000)**	$ (1,415,000)

21. RISK MANAGEMENT (CONTINUED)

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 potential losses that have been identified 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. It accomplishes this 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. This rating tool takes into consideration a 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 seven categories reflecting various degrees of risk and the availability of collateral.

21. 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.

	2015	2014
On balance sheet exposure		
Cash and cash equivalents	**$ 7,240,602**	$ 10,801,746
Investments	**118,289,206**	130,074,916
Member loans	**503,657,074**	493,510,790
	$629,186,882	$ 634,387,452
Off balance sheet exposure		
Letters of guarantee	**$ 4,004,076**	$ 5,364,641
Commitments to extend credit		
Original terms to maturity of 1 year or less	**41,020,404**	40,737,534
Original terms to maturity of 1 year or more	**55,836,140**	55,251,918
	$100,860,620	$ 101,354,093

Concentration of Risk

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.

There were no individual or related groups of loans to members which exceed 3.90% (2014 - 2.70%) of total assets at October 31, 2015.

There were no individuals or related groups of members for which deposits exceeded 4.35% (2014 - 4.00%) of total assets at October 31, 2015.

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 24.

21. RISK MANAGEMENT (CONTINUED)

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.

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 23. 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 8.21% at October 31, 2015 (2014 – 8.12%).

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).

22. COMMITMENT

Retail Banking Services Agreement

The Credit Union recently entered into an amended *eroWORKS* Retail Banking Services Agreement with Celero Solutions Inc. The Agreement is effective for a ten year term commencing January 1, 2016. Under the terms of this Agreement the Credit Union is committed to annual operating fees of approximately $321,000.

23. 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.

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;

(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, 2015 the Credit Union's available capital as a percent of total assets was 13.6% (2014 – 12.9%) and the available capital as a percent of risk weighted assets was 23.9% (2014 – 24.4%). Therefore, the Credit Union has exceeded its minimum capital requirement at October 31, 2015.

Furthermore, the Corporation requires an additional regulatory capital buffer of 2.5% (2014 - 2%) of total risk weighted assets for 2015.

The Corporation also expects the Credit Union to hold an additional internal capital buffer equal to a minimum of 2% of total risk weighted assets.

24. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

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

October 31, 2015

	Fair Value Through Profit or Loss	Available-for-Sale	Held-to Maturity	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	$ 7,240,602	$ -	$ -	$ -	$ -	$ 7,240,602
Investments	-	6,447,192	111,841,914	-	-	118,289,106
Member loans	-	-	-	503,657,074	-	503,657,074
Derivative assets	201,596	-	-	-	-	201,596
Members' deposits	-	-	-	-	(555,727,508)	(555,727,508)
Accounts payable and accrued liabilities	-	-	-	-	(1,937,803)	(1,937,803)
Derivative liabilities	(201,596)	-	-	-	-	(201,596)
	$ 7,240,602	$ 6,447,192	$ 111,841,914	$ 503,657,074	$(557,665,311)	$ 71,521,471

October 31, 2014

	Fair Value Through Profit or Loss	Available-for-Sale	Held-to Maturity	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	$ 10,801,746	$ -	$ -	$ -	$ -	$ 10,801,746
Investments	-	6,047,192	124,027,724	-	-	130,074,916
Member loans	-	-	-	493,510,790	-	493,510,790
Derivative assets	476,051	-	-	-	-	476,051
Members' deposits	-	-	-	-	(558,351,776)	(558,351,776)
Accounts payable and accrued liabilities	-	-	-	-	(1,812,631)	(1,812,631)
Derivative liabilities	(476,051)	-	-	-	-	(476,051)
	$ 10,801,746	$ 6,047,192	$ 124,027,724	$ 493,510,790	$(560,164,407)	$ 74,223,045

24. 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 reprice 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.

	2015			2014		
	Fair Value (FV)	**Carrying Value (CV)**	**Change**	Fair Value (FV)	Carrying Value (CV)	Change
Assets						
Cash	**$ 7,240,602**	**$ 7,240,602**	**$ -**	$ 10,801,746	$ 10,801,746	$ -
Investments	**118,146,358**	**118,289,206**	**(142,848)**	126,642,185	130,074,916	(3,432,731)
Members' loans	**496,194,396**	**503,657,074**	**(7,462,678)**	505,425,143	493,510,790	11,914,353
Other	**201,596**	**201,596**	**-**	476,051	476,051	-
	$ 621,782,952	**$ 629,388,478**	**$ (7,605,526)**	$ 643,345,125	$ 634,863,503	$ 8,481,622
Liabilities						
Members' deposits	**$ 555,395,866**	**$ 555,727,508**	**$ 331,642**	$ 554,633,995	$ 558,351,776	$ 3,717,781
Other liabilities	**2,139,399**	**2,139,399**	**-**	2,288,682	2,288,682	-
	$ 557,535,265	**$ 557,866,907**	**$ 331,642**	$ 556,922,677	$ 560,640,458	$ 3,717,781
	$ 64,247,687	**$ 71,521,571**	**$ (7,273,884)**	$ 86,422,448	$ 74,223,045	$ 12,199,403

24. 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, 2015 and 2014.

25. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

LAKELAND CREDIT UNION LIMITED

SCHEDULE I

SCHEDULE OF CONSOLIDATED OPERATING EXPENSES

FOR THE YEAR ENDED OCTOBER 31, 2015

	2015	2014
Personnel		
Salaries and wages	**$ 5,688,616**	$ 5,353,607
Employee benefits	**759,455**	712,282
Training	**303,456**	169,219
Other	**156,925**	135,743
	6,908,452	6,370,851
Occupancy		
Maintenance, utilities and janitorial	**309,328**	249,690
Depreciation	**120,936**	120,137
Property taxes	**75,222**	67,685
Insurance	**44,222**	42,736
Rent	**1,611**	2,005
	551,319	482,253
Security		
Deposit guarantee assessment	**868,530**	748,629
Bonding	**37,796**	40,689
Depreciation	**14,192**	11,754
	920,518	801,072
Organization		
Credit Union Central dues	**174,826**	138,272
Director meetings and training	**38,443**	66,636
Directors and committee remuneration	**21,250**	23,825
Membership meetings	**36,105**	19,745
	270,624	248,478
General		
Computer services	**772,939**	727,049
Cash, service charges and other fees	**722,644**	676,907
Advertising and marketing	**350,463**	320,501
Consulting and professional fees	**262,158**	173,158
Depreciation	**172,942**	133,839
Office and communication	**141,878**	133,131
Loss on disposal of property and equipment	**117,662**	-
Other	**82,950**	89,878
Amortization of intangible capital assets	**72,208**	51,786
Staff travel	**43,753**	35,476
Equipment leases, repairs and maintenance	**35,099**	34,887
Dues and subscriptions	**21,695**	20,619
	2,796,391	2,397,231
	$ 11,447,304	$ 10,299,885