NORTHERN LIGHTS
CREDIT UNION LIMITED

Financial Statements

Year Ended December 31, 2013

chartered
accountants
professional corporation

INDEPENDENT AUDITORS' REPORT

To the members of Northern Lights Credit Union Limited

We have audited the accompanying financial statements of Northern Lights Credit Union Limited, which comprise the statement of financial position as at December 31, 2013, and the statements of comprehensive income, changes in equity and cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Northern Lights Credit Union Limited as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Thunder Bay, Ontario
February 25, 2014

Professional Corporation
Chartered Accountants
Authorized to practise public accounting by
The Institute of Chartered Accountants of Ontario

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NORTHERN LIGHTS CREDIT UNION LIMITED
Statement of Financial Position
December 31, 2013

	2013	2012
ASSETS		
Cash *(Note 3)*	$ 13,488,457	$ 5,645,022
Investments *(Note 4)*	17,063,626	12,380,512
Derivative financial instruments *(Note 5)*	137,945	230,338
Income taxes recoverable	259,576	-
Future income taxes *(Note 12)*	159,027	22,538
Other assets *(Note 9)*	1,103,882	660,999
Loans to members *(Note 6)*	128,397,931	139,450,407
Intangible assets *(Note 8)*	91,018	106,385
Property and equipment *(Note 8)*	3,492,337	3,700,543
	$ 164,193,799	$ 162,196,743
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Accounts payable and accruals	$ 904,580	$ 956,534
Income taxes payable	-	19,031
Distribution payable *(Note 13)*	-	53,478
Derivative financial instruments *(Note 5)*	137,945	230,338
Members' shares *(Note 13)*	217,449	226,341
Members' deposits *(Note 10)*	156,374,551	151,599,606
Total Liabilities	157,634,525	153,085,328
Members' equity		
Members' shares *(Note 13)*	2,279,250	2,260,351
Retained earnings	3,970,821	6,630,768
Accumulated other comprehensive income	309,203	220,296
Total Members' Equity	6,559,274	9,111,415
	$ 164,193,799	$ 162,196,743

ON BEHALF OF THE BOARD:

_____________________________ Director

_____________________________ Director

(see also notes to financial statements)

NORTHERN LIGHTS CREDIT UNION LIMITED
Statement of Comprehensive Income
Year Ended December 31, 2013

	2013	2012
INTEREST REVENUE		
Interest on mortgages	$ **4,336,636**	$ 4,687,342
Interest on personal loans	**2,704,397**	3,031,707
Interest on investments	**269,457**	282,603
	7,310,490	8,001,652
INTEREST AND LOAN RELATED EXPENSES		
Interest on members' deposits	**1,317,201**	1,436,533
Distribution to members *(Note 13)*	**-**	-
Interest on current account	**9,521**	41,905
Provision for loan impairment	**3,278,900**	(186,506)
	4,605,623	1,291,932
OPERATING MARGIN	**2,704,867**	6,709,720
OTHER INCOME *(Note 14)*	**2,032,323**	2,311,879
	4,737,191	9,021,599
OPERATING EXPENDITURES (see schedule of operating expenses)		
Remuneration of staff	**4,254,056**	4,381,313
Occupancy costs	**670,595**	693,920
Other administrative	**2,870,729**	3,045,466
	7,795,381	8,120,699
OPERATING INCOME BEFORE THE FOLLOWING	**(3,058,190)**	900,899
Current income tax recovery (expense) *(Note 12)*	**245,445**	(64,556)
Future income tax recovery (expense) *(Note 12)*	**152,798**	(76,661)
NET INCOME	$ **(2,659,947)**	$ 759,682
Other comprehensive income (net of tax)		
Reclassification in unrealized gains / (losses) on available-for-sale-investments	$ **88,907**	$ 159,896
Total other comprehensive income for the year	$ **88,907**	$ 159,896
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ **(2,571,040)**	$ 919,578

(see also notes to financial statements)

NORTHERN LIGHTS CREDIT UNION LIMITED
Statement of Equity
Year Ended December 31, 2013

	Accumulated Other Comprehensive Income	Members' shares	Retained Earnings	Total
Balance at January 1, 2012	$ 60,400	$ 2,735,066	$ 5,924,565	$ 8,720,031
Net Income	159,896	-	759,682	919,578
Distributions to members *(Note 13)*	-	-	(53,478)	(53,478)
Issue of Members' shares	-	30,271	-	30,271
Redemption of Members' shares	-	(504,986)	-	(504,986)
Balance at December 31, 2012	$ 220,296	$ 2,260,351	$ 6,630,768	$ 9,111,416
Net Income (Loss)	$ 88,907	$ -	$ (2,659,947)	$ (2,571,040)
Distributions to members *(Note 13)*	-	-	-	-
Issue of Members' shares	-	48,574	-	48,574
Redemption of Members' shares	-	(29,675)	-	(29,675)
Balance at December 31, 2013	**$ 309,203**	**$ 2,279,250**	**$ 3,970,821**	**$ 6,559,274**

(see also notes to financial statements)

NORTHERN LIGHTS CREDIT UNION LIMITED
Statement of Changes in Cash Flows
Year Ended December 31, 2013

	2013	2012
CASH PROVIDED BY (USED IN) ;		
OPERATING ACTIVITIES		
Net income	**$ (2,571,040)**	$ 919,578
Adjustment for charges (income) not requiring a current payment or receipt		
Future income taxes	**(136,489)**	110,241
Amortization of intangible assets	**28,312**	20,082
Amortization of capital assets	**349,906**	379,655
	(2,329,311)	1,429,556
Changes in non-cash working capital components:		
Other assets	**(442,883)**	160,641
Derivative financial instruments	**92,393**	59,242
Derivative financial liabilities	**(92,393)**	(59,242)
Income taxes recoverable	**(259,576)**	-
Accounts payable and accruals	**(51,955)**	40,394
Distribution payable	**(53,478)**	(51,681)
Membership shares	**(8,892)**	(41,277)
Income taxes payable	**(19,031)**	(69,221)
	(3,165,127)	1,468,412
INVESTMENT ACTIVITIES		
Investments	**(4,683,114)**	(410,641)
Loans receivable - net of impaired loans	**11,052,479**	(3,312,467)
Purchase of intangible assets	**(12,945)**	(64,727)
Purchase of capital assets	**(141,701)**	(119,014)
	6,214,719	(3,906,849)
FINANCING ACTIVITIES		
Deposits - net of interest paid	**4,774,944**	2,058,009
Dividends	**-**	(53,478)
Proceeds from issuance of membership shares	**48,574**	30,271
Redemptions of membership shares	**(29,675)**	(504,986)
	4,793,843	1,529,815
Net cash increase (decrease) during the year	**7,843,435**	(908,622)
Cash position, beginning of year	**5,645,022**	6,553,644
CASH POSITION, END OF YEAR *(Note 3)*	**$ 13,488,457**	$ 5,645,022

(see also notes to financial statements)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Northern Lights Credit Union Limited (the Credit Union) is incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario and is a member of Central 1 Credit Union Limited (Central 1). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal, commercial, syndicated and agricultural loans, chequing and savings accounts, term deposits, RRSP's, mutual funds, automated banking machines, ("ABMs"), debit and credit cards and internet banking. The Credit Union head office is located at 97 Duke Street, Dryden, Ontario.

These financial statements have been authorized for issue by the Audit Committee on February 25, 2014.

Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available -for-sale financial assets and derivative financial instruments measured at fair value.

The Credit Union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Significant Accounting Policies

<u>Cash and Cash Equivalents</u>

Cash and cash equivalents includes cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less; and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

<u>Investments</u>

<u>Central 1 Deposits</u>

These deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost, which approximates fair value.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Instruments

These instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between the trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

Derivative Financial Instruments and Hedging

Hedges

The Credit Union, in accordance with its risk management strategies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the Statement of Financial Position.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

i. At the inception of the hedge there is a formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;

ii. For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;

iii. The effectiveness of the hedge can be reliably measured; and

iv. The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on quarterly basis.

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of floating rate deposits as well as commercial and personal loans.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For cash flow hedges that meet the hedges documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income.

If the Credit Union closed out its hedge position early, the cumulative gains and (losses) recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method. The ineffective portion of gains and (losses) on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue.

Other Non-Hedge Derivatives

The Credit Union designates certain financial assets upon recognition at fair value through profit or loss (fair value option). Financial instruments included in this category are the embedded derivatives and derivatives related to index linked term deposits and interest rate swaps not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

Member Loans

All member 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.

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment (losses).

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

If there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate. Short-term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If it is determined that no objective evidence of impairment exists for any individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. This impairment calculation is based upon a weighted average of the last 5 years of actual provision expense for the year prior to the collective allowance adjustments. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bad Debts Written Off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

Property and Equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment (losses), with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	2.5%, 4% & 5%
Electronic equipment	20%
Computer hardware	33.3%
Furniture and fixtures	10%, 20% &33.3%
Automotive	20%
Leasehold improvements	term of lease

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

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 depreciation and any accumulated impairment (losses). Software is amortized on a straight-line basis over its estimated useful life of 3 years.

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. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

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, except to the extent they reverse gains previously recognized in other comprehensive income.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Member Deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

Pension Plan

The Credit Union participates in a multi-employer defined contribution pension plan. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

Accounts Payable and Other Payables

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Members' Shares

Members' 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 or financial asset.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirement of IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments.*

Patronage Distributions

Patronage distributions are recognized in net income when circumstances indicate the Credit Union has a constructive obligation that it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and (losses) arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and (losses) on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2012 or later periods that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union are:

i.

IFRS 9 *Financial Instruments* is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2013. The Credit Union is in the process of evaluating the impact of the new standard.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii.

IFRS 13 *Fair Value Measurement* defines fair value, provides guidance on the measurement of fair value, and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirement of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The standard is effective for annual periods beginning on or after January 1, 2013. The Credit Union is in the process of evaluating the impact of the new standard.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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, for financial instruments that are not quoted in an active market are disclosed in Note 4.

Member Loan Loss Provision

In determining whether an impairment loss should be recorded in the statement of comprehensive income the Credit Union makes judgments on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 7.

Income Taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

3. CASH AND CASH EQUIVALENTS

The Credit Union's cash and current accounts are held with Central 1, Credit Union Central of Manitoba and the Royal Bank. The average yield on the accounts at December 31, 2013 is 1.10% (2012 - 0.16%).

4. INVESTMENTS

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below.

Deposits

	2013	2012
Liquidity reserve deposits	**$ 10,238,171**	$ 10,239,658
Discount deposits	**3,010,334**	-
Concentra Mortgage Pool	**1,868,965**	-
Total Deposits	**$ 15,117,470**	$ 10,239,658

The Credit Union must maintain liquidity reserves with Central 1 Credit Union (Central 1) at 6% of total assets at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1.

There are six liquidity reserve deposits and two discount deposits maturing between January 15, 2014 and May 29, 2015. These deposits bear an interest rate of between 1.01% and 1.74%. At maturity, these deposits are reinvested at market rates for various terms. The carrying amount for deposits at Central 1 approximate fair value due to having similar characteristics as cash and cash equivalents.

Equity Instruments

	2013	2012
Central 1 Credit Union - Class A	**$ 565,715**	$ 565,401
Central 1 Credit Union - Class E	**714,700**	714,700
CUCO Co-op Class B Investment shares	**652,090**	847,102
Other investments	**13,650**	13,650
Total Equity instruments	**$ 1,946,155**	$ 2,140,853
Total Investments	**$ 17,063,626**	$ 12,380,512

The Credit Union previously maintained a membership in Credit Union Central of Ontario (CUCO). As of July 31, 2008, CUCO sold substantially all of its net assets to Credit Union Central of British Columbia (CUCBC) to form a new national financial services entity named Central 1.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

4. INVESTMENTS (Continued)

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

Class E Central 1 shares are issued with a par value however are redeemable at $714,700 at the option of Central 1. There is no separately quoted market value for these shares and the fair value could not be measured reliably. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, they are recorded at cost.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day-to-day activities of the Credit Union.

Dividends on these shares are at the discretion of the Board of Directors of Central 1.

As a condition of the sale of assets of CUCO to CUCBC, CUCO was required to divest itself of investments in certain non-bank sponsored asset-backed commercial paper (ABCP). A resolution was approved to facilitate the sale, which created a limited partnership (ABCP 2008 LP) to acquire these investments funded by member credit unions in proportion to their share investments in CUCO.

At a special general meeting held June 18, 2012, the shareholders' of the original ABCP LP approved a resolution to transfer all limited partnership units to CUCO Co-op. Each ABCP Limited Partner received an equivalent amount of CUCO Co-op Class B Investment shares in exchange for their partnership interest in ABCP LP. This transaction was done on a tax free basis.

Each share has the following characteristics:

1) Non-voting;
2) Non-par value;
3) Non-retractable;
4) Non-convertible;
5) No fixed dividend right, whether or not determined by formula;
6) Redeemable for an amount equal to the fair market value of such share at the time of redemption only upon approval of the board of CUCO Co-op;
7) Transferrable only upon approval of the board of CUCO Co-op;
8) Discretionary dividend entitlement; and
9) Rank pari passu with the Co-op Membership shares in the event of CUCO Co-op's wind-up.

The Co-op is governed by a Board of Directors and each shareholder will record its proportionate share of net income or loss in CUCO Co-op as determined by Canadian generally accepted accounting principles and subject to an annual external audit.

At December 30, 2013, and December 30, 2012 an independent valuation was completed on the underlying investments of the CUCO Co-op (ABCP 2008 LP) utilizing valuation techniques based on discounting expected future cash flows. The valuation was based on conditions existing at the balance sheet date. During the year the Credit Union received $300,217 from the Co-op which has been recorded as a return of the initial capital invested. In addition, as these investments are classified as available-for-sale instruments, a fair value adjustment of $84,800 (2012 - $159,896) has been recorded to other comprehensive income net of tax.

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union has outstanding $4,490,783 (2012 - $5,025,884) in Index linked term deposits to its members. The Index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits are presented in liabilities.

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the Credit Union pays a fixed rate of interest for the term of each Index linked term deposit on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2013, the Credit Union had entered into such contracts on Index linked term deposits for a total of $4,490,783. The agreements are secured by a general security agreement covering all assets of the Credit Union.

6. MEMBER LOANS

	2013	2012
Residential mortgages	**$ 61,731,581**	$ 58,979,038
Personal loans	**27,900,807**	29,237,932
Commercial loans	**29,763,696**	32,459,462
Agricultural loans	**227,477**	238,892
Syndicated loans	**11,557,818**	18,257,649
	131,181,380	139,172,973
Accrued interest receivable	**573,655**	648,362
Allowance for impaired loans (Note 7)	**(3,357,103)**	(370,928)
Net loans to members	**$ 128,397,931**	$ 139,450,407

Terms and Conditions

Member loans can have either a variable or fixed rate of interest and they mature within five years.

The interest rate offered on fixed rate loans being advanced at December 31, 2013 ranges from 2.75% to 9.00%. The rate offered to a member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Personal loans consist of term loans and lines of credit that are non real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

Agricultural loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships, and corporations for agricultural purposes and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, assignments of crops and livestock, investments, and personal guarantees.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

6. MEMBER LOANS (Continued)

Average Yields to Maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	Principal	**2013 Yield**	Principal	2012 Yield
Variable rate	**$ 39,749,000**	**5.10%**	$ 48,446,534	6.89%
Fixed rate due less than one year	**22,624,000**	**5.00%**	10,300,621	5.76%
Fixed rate due between one and five years	**68,808,380**	**4.86%**	80,425,818	5.41%
	$ 131,181,380		$ 139,172,973	

Credit Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2013	2012
Loans	**$ 64,427,392**	$ 71,803,200
Fully secured	**117,737**	226,127
Residential mortgages	**37,006,547**	33,239,739
Residential mortgages insured by government	**29,629,704**	33,742,024
	$ 131,181,380	$ 139,011,090

Fair Value

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

	2013		2012	
	Fair Value	**Book Value**	Fair Value	Book Value
Variable rate	**$ 39,749,000**	**$ 39,749,000**	$ 48,446,534	$ 48,446,534
Fixed rate	**92,263,000**	**91,432,380**	97,682,671	90,726,439
	$ 132,012,000	**$ 131,181,380**	$ 146,129,205	$ 139,172,973

Concentration of Risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

Individual or related groups of members' loans which exceed 10% of members' equity:

	2013	2012
Residential mortgages	**$ -**	$ -
Personal loans	**-**	-
Commercial	**14,934,609**	16,238,965
	$ 14,934,609	$ 16,238,965

Most member loans are with members located in and around Northwestern Ontario.

7. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loan provision comprises:

	2013	2012
Collective provision	**$ 970,180**	$ 235,535
Individual specific provision	**2,386,923**	135,393
Total provision	**$ 3,357,103**	$ 370,928

Movement in individual specific provision for impairment:

2013	**Residential Mortgages**	**Personal**	**Agricultural**	**Commercial**	**Total**
Balance at January 1, 2013	**$ -**	**$ 95,495**	**$ -**	**$ 39,898**	**$ 135,393**
Recoveries of loans previously written off	**-**	**-**	**-**	**2,171**	**2,171**
Provision charged to net income	**-**	**209,687**	**-**	**2,335,021**	**2,544,708**
	$ -	**$ 305,182**	**$ -**	**$ 2,377,090**	**$ 2,682,272**
Loans written off	**-**	**(109,671)**	**-**	**(185,678)**	**(295,349)**
Balance at December 31, 2013	**$ -**	**$ 195,511**	**$ -**	**$ 2,191,412**	**$ 2,386,923**
Gross principal balance of individually impaired	**$ 1,526,511**	**$ 585,677**	**$ -**	**$ 7,911,881**	**$ 10,024,069**

2012	Residential Mortgages	Personal	Agricultural	Commercial	Total
Balance at January 1, 2012	$ -	$ 59,639	$ -	$ 2,066,575	$ 2,126,214
Recoveries of loans previously written off	-	4,152	-	32,069	36,221
Provision charged to net income	-	41,941	-	36,707	78,648
	$ -	$ 105,732	$ -	$ 2,135,351	$ 2,241,083
Loans written off	-	(10,237)		(2,095,453)	(2,105,690)
Balance at December 31, 2012	$ -	$ 95,495	$ -	$ 39,898	$ 135,393
Gross principal balance of individually impaired	$ 497,660	$ 209,469	$ -	$ 7,244,144	$ 7,951,273

7. ALLOWANCE FOR IMPAIRED LOANS (Continued)

Analysis of individual loans that are impaired or potentially impaired based on age of repayments outstanding:

	December 31, 2013		December 31, 2012	
	Carrying Value	**Individual Specific Provision**	Carrying Value	Individual Specific Provision
Period of delinquency				
Less than 30 days	**$ 3,633,569**	**$ 38,992**	$ 1,850,309	$ 42,153
30 to 90 days	**908,192**	**16,407**	256,856	2,754
Over 90 days	**7,755,635**	**2,331,524**	7,589,381	90,486
Total loans in arrears	**12,297,396**	**2,386,923**	9,696,546	135,393
Loans not in arrears	**118,883,984**	**-**	129,476,427	-
Total loans	**$ 131,181,380**	**$ 2,386,923**	$ 139,172,973	$ 135,393

Key Assumptions in Determining the Allowance for Impaired Loans Collective Provision

The Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment (losses). The methodology and assumptions used for estimating future cash flows are reviewed regularly by management to reduce any differences between loss estimates and actual loss experience.

An estimate of the collective provision is based on a weighted average of the past five years of the actual loan/loss provision prior to the collective allowance.

8. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land	Buildings	Electronic Equipment	Computer Hardware	Furniture and Fixtures	Automotive	Leasehold Improvements	Total	Intangible Asset Computer Software
Cost									
Balance at January 1, 2012	$ 697,973	$ 5,717,413	$ 750,501	$ 431,514	$ 2,523,675	$ -	$ 70,450	$ 10,191,525	$ 61,740
Additions	-	26,571	19,084	68,844	4,514	-	-	119,013	64,727
Disposals	-	-	-	-	-	-	-	-	-
Balance on December 31, 2012	$ 697,973	$ 5,743,984	$ 769,585	$ 500,358	$ 2,528,189	$ -	$ 70,450	$ 10,310,538	$ 126,467
Additions	-	-	82,645	35,252	6,319	19,426	-	143,642	12,945
Disposals	-	-	(535,526)	(182,900)	(2,068,994)	-	(70,450)	(2,857,870)	-
Balance on December 31, 2013	$ 697,973	$ 5,743,984	$ 316,704	$ 352,710	$ 465,514	$ 19,426	$ (0)	$ 7,596,311	$ 139,412
Accumulated depreciation									
Balance at January 1, 2012	$ -	$ 2,853,159	$ 618,861	$ 310,375	$ 2,377,495	$ -	$ 70,450	$ 6,230,339	$ -
Depreciation expense	-	193,973	47,900	90,529	47,254	-	-	379,655	$ 20,082
Impairment (losses)	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-
Balance on December 31, 2012	$ -	$ 3,047,131	$ 666,761	$ 400,904	$ 2,424,748	$ -	$ 70,450	$ 6,609,994	$ 20,082
Depreciation expense	-	194,027	56,068	55,790	44,021	1,943	-	351,849	28,312
Impairment (losses)	-	-	-	-	-	-	-	-	-
Disposals	-	-	(535,526)	(182,900)	(2,068,994)	-	(70,450)	(2,857,870)	-
Balance on December 31, 2013	$ -	$ 3,241,159	$ 187,304	$ 273,794	$ 399,775	$ 1,943	$ (0)	$ 4,103,973	$ 48,394

Overall net book value	Capital assets	Intangibles
December 31, 2012	$ 3,700,543	$ 106,385
December 31, 2013	$ 3,492,337	$ 91,018

9. OTHER ASSETS

		2013		2012
Prepaid expenses	$	**592,041**	$	587,801
Accrued interest and dividends on investments		**23,314**		6,470
Other accounts receivable		**488,527**		66,728
	$	**1,103,882**	$	660,999

10. MEMBER DEPOSITS

		2013		2012
Chequing	$	**24,954,306**	$	21,793,977
Demand		**78,149,482**		72,649,857
Life insured savings		**37,552**		38,280
Term deposits		**20,771,456**		23,396,183
Registered retirement savings plans		**25,247,244**		26,270,744
Registered retirement income funds		**6,786,618**		6,938,830
		155,946,659		151,087,871
Accrued interest payable		**427,893**		511,735
	$	**156,374,551**	$	151,599,606

Terms and Conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 0.40% at December 31, 2013.

Demand deposits are due on demand and bear interest at a variable rate up to 1.0% at December 31, 2013. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2013 range from 0.10% to 2.75%.

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to 1.85% at December 31, 2013.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

10. MEMBER DEPOSITS (Continued)

Fair Value

The fair values of deposits with no stated or variable interest rates and repayable on demand are assumed to approximate their carrying values. The fair values of fixed interest rate deposits with specific maturities were determined by calculations similar to discounting contractual future cash flows using interest rates currently offered for deposits with similar terms and conditions.

	2013		2012	
	Fair Value	**Book Value**	Fair Value	Book Value
Variable rate	**$ 109,393,278**	**$ 109,393,278**	$ 68,144,182	$ 68,144,182
Fixed rate	**47,487,000**	**46,553,381**	83,096,242	82,943,689
	$ 156,880,278	**$ 155,946,659**	$ 151,240,424	$ 151,087,871

Average Yields to Maturity

Members' deposits bear interest at both variable and fixed rates with the following average yields at:

	Principal	**2013 Yield**	Principal	2012 Yield
Variable rate	**$ 109,393,278**	**0.10%**	$ 68,144,182	0.10%
Fixed rate due less than one year	**21,061,381**	**1.00%**	26,540,362	1.00%
Fixed rate due between one and five years	**25,492,000**	**1.35%**	56,403,327	1.23%
	$ 155,946,659		$ 151,087,871	

Concentration of Risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

As at December 31, there are no individuals or related groups of members' deposits which exceed 10% of the total member deposits.

Most members' deposits are with members located in and around Northwestern, Ontario.

11. PENSION PLAN

The Credit Union makes contributions to a Pension Plan, which is a multi-employer plan, on behalf of members of its staff. The plan is a defined contribution plan. The amount contributed to the plan for 2013 was $181,980 (2012 - $182,163). The contributions were made for current service and these have been recognized in net income.

12. INCOME TAXES

The significant components of tax expense included in net income are comprised of:

	2013	2012
Current tax expense (recovery)		
Based on current year taxable income	**$ (245,445)**	$ 64,556
Deferred tax expense		
Origination and reversal of temporary differences	**$ (4,030)**	$ 4,705
Change in unrecognized deferred tax assets	**(148,768)**	71,956
Total deferred tax expense (recovery)	**$ (152,798)**	$ 76,661

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	2013	2012
Deferred tax		
Change in unrealized gain / (losses) on available for sale investments	**$ 16,309**	$ 33,580
Total tax affect of amounts recorded in other comprehensive income	**$ 16,309**	$ 33,580

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 39.75% (2012 - 39.75%) are as follows:

	2013	2012
Net income for the year before tax	**$ (2,816,485)**	$ 984,134
Expected taxes based on the statutory rate of 39.75%	**(1,119,553)**	391,193
Reduction due to small business deduction	**682,998**	(238,653)
Capital cost allowance difference from depreciation	**4,030**	(13,908)
Loan reserves	**148,699**	(96,740)
Other	**38,381**	22,663
Total income tax (recovery) expense	**$ (245,445)**	$ 64,556

12. INCOME TAXES (Continued)

The movement in 2013 deferred tax liabilities and assets are:

	Opening Balance at Jan 1, 2013	Recognize In Net Income	Recognize In OCI	Closing Balance at Dec, 31, 2013
2013				
Deferred tax liabilities				
Unrealized adjustments related to investments	$ 34,212	$ -	$ 16,309	**$ 50,521**
Deferred tax liability	$ 34,212	$ -	$ 16,309	**$ 50,521**
Deferred tax assets				
Property and equipment	$ 18,143	$ 4,030	$ -	**$ 22,173**
Non deductible collective allowance	36,508	113,870	-	**150,378**
Non deductible impaired loans	2,099	34,898	-	**36,997**
Deferred tax asset	$ 56,750	$ 152,798	$ -	**$ 209,548**
2013 net deferred tax asset (liability)	**$ 22,538**	**$ 152,798**	**$ (16,309)**	**$ 159,027**

The movement in 2012 deferred tax liabilities and assets are:

	Opening Balance at Jan 1, 2012	Recognize In Net Income	Recognize In OCI	Closing Balance at Dec, 31, 2012
2012				
Deferred tax liabilities				
Unrealized adjustments related to investments	632	-	33,580	34,212
Deferred tax liability	$ 632	$ -	$ 33,580	$ 34,212
Deferred tax assets				
Property and equipment	$ 22,848	$ (4,705)	$ -	$ 18,143
Non deductible collective allowance	77,607	(41,099)	-	36,508
Non deductible impaired loans	32,956	(30,857)	-	2,099
Deferred tax asset	$ 133,411	$ (76,661)	$ -	$ 56,750
2012 net deferred tax asset (liability)	$ 132,779	$ (76,661)	$ (33,580)	$ 22,538

12. INCOME TAXES (Continued)

		2013		2012
Deferred tax liabilities				
Deferred tax liabilities to be settled within 12 months	**$**	**-**	$	-
Deferred tax liabilities to be settled after more than 12 months		**50,521**		34,212
	$	**50,521**	$	34,212
Deferred tax assets				
Deferred tax assets to be recovered within 12 months	**$**	**22,173**	$	18,143
Deferred tax assets to be recovered after more than 12 months		**187,375**		38,607
	$	**209,548**	$	56,750
Net deferred tax asset	**$**	**159,027**	$	22,538

13. MEMBERSHIP SHARES

	Authorized		**2013 Equity**		2012 Equity
Membership shares	unlimited	**$**	**322,205**	$	325,495
Patronage shares			**303,745**		312,230
Investment shares			**1,653,300**		1,622,626
		$	**2,279,250**	$	2,260,351

Patronage or Investment shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32, Financial Instrument Presentation and IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments. If they are classified as equity, they are recognized at cost. If they are recognized as liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Terms and Conditions

Membership Shares

As a condition of membership, which is required to use the services of the Credit Union, each member eighteen (18) years or older and every entity who is a member, is required to hold five (5) $5.00 membership shares. Each member under the age of eighteen (18) is required to hold one (1) $5.00 membership share. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by DICO. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 18), as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity.

13. MEMBERSHIP SHARES Continued

Patronage Shares

Funds invested by members in patronage shares are not insured by DICO. Patronage shares are issued as part of patronage rebates. They are non-voting, can be issued only to members of the Credit Union, and are redeemable at par only when a membership is withdrawn. There is no limit on the number of shares which can be held by a member. The withdrawal of patronage shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 18), as is the payment of any distributions on these shares. This is also subject to a limitation of 10% of the outstanding prior year balance. Patronage shares that are available for redemption are classified as a liability. Any difference between the total patronage shares and the liability amount are classified as equity.

Patronage rebates are at the discretion of the Board of Directors unless a constructive obligation exists for distribution.

Investment Shares

Funds invested by members in investment shares are not insured by DICO. Investment shares are non-voting, can be issued only to members of the Credit Union, and pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares, initially issued in 1998, are not redeemable for the first five years except under exceptional circumstances. They are redeemable thereafter subject to the Credit Union maintaining adequate regulatory capital (see Note 18) subject to a limitation of 10% of the prior year outstanding balance.

Where the Credit Union has met its regulatory capital requirements, through subordinate classes of shares, the investment shares are deemed to be a compound instrument. The liability component is measured as the present value of the amount redeemable and the equity component which represents the discretionary dividends is measured as the residual.

Where the Credit Union has not met its regulatory capital requirements, investments shares that are available for redemption are classified as a liability, measured at the present value of the amount redeemable, and the difference is classified as equity.

Distributions to Members

	2013 Net Income	**2013 Equity**	2012 Net Income	2012 Equity
Dividends on membership shares	**$ -**	**$ -**	$ -	$ 2,968
Dividends on patronage shares	**-**	**-**	-	3,495
Dividends on investment shares	**-**	**-**	-	47,015
	$ -	**$ -**	$ -	$ 53,478

14. OTHER INCOME

	2013	2012
Commissions and fees	**$ 1,598,040**	$ 1,791,964
Foreign exchange	**280,878**	342,252
Other	**69,191**	109,737
Rental income	**84,215**	67,925
	$ 2,032,323	$ 2,311,879

15. RELATED PARTY TRANSACTIONS

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management. In acccordance with Ontario Regulation 237/09, section 28 of the Credit Unions and Caisses Populaires Act, 1994, disclosure is required of the five highest paid officers and employees where the total remuneration exceeds $150,000.

		2013		2012
Mr. Ernie Remillard, CEO				
Salaries and other short term employee benefits	**$**	**148,206**	$	303,340
Total pension and other post-employment benefits		**12,348**		25,084
Other long-term benefits		**9,451**		20,187
	$	**170,005**	$	348,611

No other officer or employee had remuneration greater than $150,000 for the year. The prior year included Mr. Doug Robinson, former CEO. There was also no remuneration paid during the year to directors and committee members.

		2013		2012
Loans to key management personnel				
Aggregate value of loans advanced	**$**	**933,530**	$	2,461,384
Interest received on loans advanced	**$**	**69,372**	$	97,592
Total value of lines of credit advanced	**$**	**66,300**	$	9,400
Interest received on lines of credit advanced	**$**	**22**	$	23
Unused value of lines of credit	**$**	**45,411**	$	-

		2013		2012
Deposits from key management personnel				
Aggregate value of term and savings deposits	**$**	**707,863**	$	632,427
Total interest paid on term and savings deposits	**$**	**30,521**	$	29,294

The Credit Union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit.

16. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

The following table represents the carrying amount by classification.

	Available for-Sale	Fair Value through Profit or Loss	Cash Flow Hedges	Loans and Receivables	Other Financial Liabilities
December 31, 2013					
Cash	$ -	$ -	$ -	$ 13,488,457	$ -
Investments	1,946,155	-	-	15,117,470	-
Derivative financial instruments	-	-	137,945	-	-
Loans to members	-	-	-	128,397,931	-
Other assets	-	-	-	1,103,882	-
Member deposits	-	(427,893)	-	-	(155,946,659)
Derivative financial instruments	-	-	(137,945)	-	-
Members' shares	-	-	-	-	(2,279,250)
Other liabilities	-	-	-	-	(904,580)
	$ 1,946,155	$ (427,893)	$ -	$ 158,107,741	$ (159,130,488)
December 31, 2012					
Cash	$ -	$ -	$ -	$ 5,645,022	$ -
Investments	2,140,853	-	-	10,239,658	-
Derivative financial instruments	-	-	230,338	-	-
Loans to members	-	-	-	139,450,407	-
Other assets	-	-	-	660,999	-
Member deposits	-	(511,735)	-	-	(151,087,871)
Derivative financial instruments	-	-	(230,338)	-	-
Members' shares	-	-	-	-	(2,260,351)
Other liabilities	-	-	-	-	(956,534)
	$ 2,140,853	$ (511,735)	$ -	$ 155,996,086	$ (154,304,756)

16. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (Continued)

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Central 1 Credit Union - Class A	$ -	$ 565,715	$ -	**$ 565,715**
Central 1 Credit Union - Class E	-	-	714,700	**714,700**
Co-operative Class B	-	-	652,090	**652,090**
Other equity investments	-	13,650	-	**13,650**
	$ -	**$ 579,365**	**$ 1,366,790**	**$ 1,946,155**
December 31, 2012				
Central 1 Credit Union - Class A	$ -	$ 565,401	$ -	$ 565,401
Central 1 Credit Union - Class E	-	-	714,700	714,700
ABCP 2008 LP	-	-	847,102	847,102
Other equity investments	-	13,650	-	13,650
	$ -	$ 579,051	$ 1,561,802	$ 2,140,853

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2013 and 2012. The following table presents a reconciliation of equities which are the Level 3 investments.

	2013	2012
Balance, beginning of year	**$ 1,561,802**	1,449,071
Gains / (losses) recognized in other comprehensive income net of deferred tax	**88,907**	159,896
Deferred tax on other comprehensive income	**16,309**	33,591
Purchases	**-**	-
Return of capital	**(300,228)**	(80,756)
Balance, end of year	**$ 1,366,790**	$ 1,561,802

17. FINANCIAL INSTRUMENT RISK MANAGEMENT

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's financial function. The Board of Directors receives quarterly reports from the Credit Union's Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk Measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration;

Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;

Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;

Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;

Loan delinquency controls regarding procedures followed for loans in arrears; and

Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

A sizable portfolio of the loan book is secured by residential property in Northwestern, Ontario. Therefore the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of (losses) from loans undertaken is primarily reduced by the nature and quality of the security taken.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity Risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

Objectives, Policies and Procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Union's and Caisse Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 10%.

The Credit Union manages liquidity risk by:

Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
Monitoring the maturity profiles of financial assets and liabilities;
Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
Monitoring the liquidity ratios monthly.

The Board of Directors receive monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year except for at year end due to year end adjustments.

As at December 31, 2013, the position of the Credit Union is as follows:

	Maximum Exposure
Qualifying liquid assets on hand	
Cash	$ 13,488,457
Liquidity reserve deposit	10,238,171
Discount deposits and term deposits	4,879,299
	28,605,927
Total liquidity requirement	16,419,380
Excess liquidity requirement	$ 12,186,547

The maturities of liabilities are shown below under market risk. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value of future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending and on its investment in Co-op class B shares.

The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk Measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to members as well as funds transfer pricing rates.

Objectives, Policies and Procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members' loans and interest paid on member deposits. The objective of asset/liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Deposit Insurance Corporation of Ontario in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the Deposit Insurance Corporation of Ontario as required by Credit Union regulations. For the year ended 2013, the Credit Union was in compliance with this policy.

The following schedule shows the Credit Union's sensitivity to interest rate changes. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

	Variable Rate	Less than one year	One to five years	Non-rate sensitive	Total
Cash resources	$ 10,970,628	$ -	$ -	$ 2,517,829	$ 13,488,457
Investments	-	15,117,470	-	1,946,155	17,063,626
Loans to members	39,749,000	22,624,000	68,808,380	-	131,181,380
Total	50,719,628	37,741,470	68,808,380	4,463,985	161,733,463
Members' deposits	109,393,278	21,061,381	25,492,000	-	155,946,659
Liabilities qualifying as regulatory capital	-	-	-	2,279,250	2,279,250
Total	109,393,278	21,061,381	25,492,000	2,279,250	158,225,909
Matching gap	$ (58,673,650)	$ 16,680,090	$ 43,316,380	$ 2,184,735	$ 3,507,554

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectations of borrower's and depositors.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net income of $212,000, while a decrease in interest rates of 1% could result in a decrease to net income of $358,637.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk. The Credit Union subcontracts a third party provider of interest risk management services to assist in its risk mitigation techniques and analysis.

Currency Risk

Currency risk relates to the Credit Union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

Risk Measurement

The Credit Union's position is monitored weekly. Measurement of risk is based on rates charged to members as well as currency purchase costs.

Objectives, Policies and Procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to 50 bps of total assets.

For the year-ended December 31, 2013, the Credit Union's exposure to foreign exchange risk is outside policy due to timing differences only.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

The Credit Union's portfolio includes unlisted Canadian stocks.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

18. CAPITAL MANAGEMENT

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

Regulations to the Credit Unions and Caisses Populaires Act ("The Act") require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

Capital calculated in accordance with the Act shall not be less than 4.0% of the value of its total assets.
Capital calculated in accordance with the Act shall not be less than 8.0% of the risk weighted value of its assets.

The Credit Union maintains an internal policy that total members' capital as shown on the balance sheet shall not be less than 5.0% of the book value of all assets.

The Credit Union considers its capital to include membership, patronage and investment shares, members equity and its collective loan provision. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the regulations of Credit Unions and Caisses Populaires Act which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2013 was $89,494,075.

As at December 31, 2013, the Credit Union met the capital requirements of the Act with a calculated members' capital ratio of 4.72% and a risk weighted asset ratio of 8.66%.

Regulatory capital consists of the following:

	2013	2012
Tier I Capital		
Membership, patronage and investment shares	**$ 2,279,250**	$ 2,260,351
Retained earnings	**3,970,821**	6,630,768
Total regulatory capital	**$ 6,250,071**	$ 8,891,119
Tier II Capital		
Redeemable portion of investment and patronage shares	**$ 217,449**	$ 226,341
Collective loan provision	**970,180**	235,535
Accumulated other comprehensive income	**309,203**	220,296
	$ 1,496,832	$ 682,172
Total regulatory capital	**$ 7,746,903**	$ 9,573,291
Total assets	**164,193,799**	162,196,743
% of total assets	**4.72%**	5.90%
% of total risk weighted assets	**8.66%**	9.38%

19. COMMITMENTS

Credit Facilities

The Credit Union has authorized lines of credit with Central 1 totaling $3,000,000 and an authorized US current account line of credit totalling $800,000. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union. There is also a $200,000 capital market (swap) letter of credit and a $4,310,000 term loan limit.

The Credit Union has an additional borrowing ability, though not committed by Central 1, to a maximum of $8,110,000 which would entirely depend upon Central 1's willingness to advance the funds if required by the Credit Union. If the Credit Union borrowed an amount under this uncommitted facility, then such borrowing would be secured by a general security agreement covering all assets of the Credit Union.

Member Loans

The Credit Union has the following commitments to its members at the year-end date on account of loans, unused lines of credit and letters of credit:

Unadvanced loans	$	1,676,122
Unused lines of credit	$	16,463,482
Letters of credit	$	73,795

Contractual Obligations

The Credit Union leases land and building for the James Street Branch in Thunder Bay at a yearly rental of $22,544. This is a 5 year lease and the lease expires on June 30, 2016.

The Credit Union has an agreement with CDSL Canada Limited which provides the Credit Union with data processing services and access to various automated banking machines and electronic funds transfer at point of sale networks. The agreement expires December 31, 2016.

NORTHERN LIGHTS CREDIT UNION LIMITED
Schedule of Operating Expenses
Year Ended December 31, 2013

		2013		2012
REMUNERATION OF STAFF				
Salaries	**$**	**3,465,308**	$	3,579,627
Employee benefits		**788,748**		801,686
	$	**4,254,056**	$	4,381,313
OCCUPANCY COSTS				
Amortization - buildings	**$**	**194,027**	$	193,973
Insurance - buildings and equipment		**60,558**		63,166
Maintenance and repairs		**129,277**		143,199
Municipal taxes		**157,887**		161,271
Utilities		**106,303**		109,768
Rent		**22,544**		22,544
	$	**670,595**	$	693,920
OTHER ADMINISTRATIVE				
Advertising and promotion	**$**	**217,728**	$	280,297
Amortization - automotive		**1,943**		-
Amortization - equipment		**44,021**		47,254
Amortization - computer equipment		**55,790**		90,529
Amortization - intangibles		**28,312**		20,082
Amortization - electronic equipment		**56,068**		47,900
Annual meeting		**5,362**		8,142
Bank charges		**316,435**		326,930
Collection costs		**528,383**		457,743
Data processing charges		**545,121**		611,215
Director's and committee meetings		**22,458**		52,082
Education		**83,519**		128,494
Insurance - bonding		**56,265**		71,706
Insurance - DICO		**151,754**		150,193
League dues		**36,740**		36,771
Office supplies and administration		**508,833**		510,611
Professional fees		**113,231**		104,550
Plan administration fees		**25,670**		28,256
Telephone		**73,095**		72,711
	$	**2,870,729**	$	3,045,466