Minnedosa Credit Union Limited
Financial Statements
December 31, 2009

To the Members of Minnedosa Credit Union Limited:

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

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

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

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

March 15, 2010

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Don Farr - General Manager

Auditors' Report

To the Members of Minnedosa Credit Union Limited:

We have audited the balance sheet of Minnedosa Credit Union Limited as at December 31, 2009 and the statements of income and retained surplus and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Brandon, Manitoba

March 15, 2010

Chartered Accountants

Minnedosa Credit Union Limited
Balance Sheet
As at December 31, 2009

	2009	*2008*
Assets		
Funds on hand and on deposit	**18,886,811**	16,580,824
Investments and accrued interest *(Note 4)*	**25,067,078**	20,195,111
Member loans receivable and accrued interest *(Note 5)*	**48,767,808**	45,560,948
Other assets	**40,934**	277,634
Property, plant and equipment *(Note 6)*	**345,527**	385,113
	93,108,158	82,999,630
Liabilities		
Member deposits and accrued interest *(Note 7)*	**85,716,718**	76,012,980
Accounts payable and accrued liabilities	**588,853**	582,335
Allowance for doubtful investments *(Note 8)*	**-**	124,000
	86,305,571	76,719,315
Retained surplus and members' equity *(Note 11)*		
Member shares *(Note 10)*	**1,837,047**	1,680,132
Retained surplus	**4,965,540**	4,600,183
	6,802,587	6,280,315
	93,108,158	82,999,630

Approved on behalf of the Board

______________________ **Director** ______________________ **Director**

The accompanying notes are an integral part of these financial statements

Minnedosa Credit Union Limited
Statement of Income and Retained Surplus
For the year ended December 31, 2009

	2009	*2008*
Financial income		
Member loans	**2,544,103**	2,889,031
Investments	**1,119,623**	1,295,521
	3,663,726	4,184,552
Cost of funds		
Interest paid to members	**1,313,454**	1,771,172
Financial margin	**2,350,272**	2,413,380
Operating expenses		
Administration	**401,535**	375,019
Occupancy	**177,961**	172,432
Organizational	**130,030**	103,552
Member security	**56,640**	78,545
Personnel	**1,012,193**	979,566
	1,778,359	1,709,114
Other revenue	**295,423**	279,180
Net operating expenses	**(1,482,936)**	(1,429,934)
Income from operations before provision	**867,336**	983,446
Provision for (recovery of):		
Impaired loans	**(18,139)**	679
Doubtful investment	**(124,000)**	-
Property held for resale	**142,762**	-
	623	679
Income before patronage refund	**866,713**	982,767
Patronage refund *(Note 12)*	**(450,062)**	(447,150)
Income before income taxes	**416,651**	535,617

Continued on next page

	2009	*2008*
Income before income taxes *(Continued from previous page)*	**416,651**	535,617
Provision for income taxes		
Current	**34,294**	121,658
Future	**17,000**	12,000
	51,294	133,658
Net income	**365,357**	401,959
Retained surplus, beginning of year	**4,600,183**	4,198,224
Retained surplus, end of year	**4,965,540**	4,600,183

The accompanying notes are an integral part of these financial statements

	2009	2008
Cash provided by (used for) the following activities		
Operating		
Interest received from member loans	**2,543,834**	2,946,776
Interest and dividends received from investments	**1,184,755**	1,297,955
Service charges and other income received	**363,962**	254,505
Income taxes paid	**(75,708)**	(124,658)
Interest paid to members	**(1,368,325)**	(1,727,466)
Operating expenses paid	**(1,701,602)**	(1,593,517)
	946,916	1,053,595
Financing		
Net change in member deposits	**9,758,609**	6,010,907
Issuance of member shares	**1,020**	900
Redemption of member shares	**(35,475)**	(38,688)
Cash dividends paid to members	**(223,998)**	(152,841)
	9,500,156	5,820,278
Investing		
Net change in loans receivable	**(3,188,452)**	175,267
Purchase of investments	**(5,137,099)**	-
Proceeds on disposal of investments	**200,000**	3,740,171
Purchase of property, plant and equipment	**(15,534)**	(14,479)
	(8,141,085)	3,900,959
Increase (decrease) in cash resources	**2,305,987**	10,774,832
Cash resources, beginning of year	**16,580,824**	5,805,992
Cash resources, end of year	**18,886,811**	16,580,824

1. Incorporation and nature of operations

Minnedosa Credit Union Limited was formed pursuant to the *Credit Unions and Caisses Populaires Act* of the Province of Manitoba and operates one Credit Union branch. The Credit Union serves members in Minnedosa and their surrounding communities.

2. Change in accounting policies

Fair value measurements

Effective June 2009, the Credit Union adopted the Canadian Institute of Chartered Accountants' new recommendations for disclosures relating to fair value measurements. Section 3862 *Financial Instruments - Disclosures* has been amended to require enhanced disclosures for fair value measurements recognized in the balance sheet. The Credit Union is required to classify and disclose fair value measurements using a three-tier fair value hierarchy based on the lowest level input that is significant to that fair value measurement.

The adoption of this amendment did not have a material impact on the Credit Union's financial statements.

Liquidity risk

Effective June 2009, the Credit Union adopted the Canadian Institute of Chartered Accountants' new recommendations for disclosures relating to liquidity risk. *Section 3862 Financial Instruments - Disclosures* has been amended to require enhanced disclosures for liquidity risk in response to current market conditions. The Credit Union is required to disclose maturity analysis for derivative and non-derivative financial liabilities based on how the Credit Union manages its liquidity risk.

The adoption of this amendment did not have a material impact on the Credit Union's financial statements.

3. Accounting policies

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

Investments and accrued interest

Investments in securities are valued at cost or amortized cost, adjusted to recognize other than a temporary impairment in the underlying value. Investments are purchased with the intention to hold them to maturity, or until market conditions cause alternative investments to become more attractive. Gains and losses on the disposal of securities are included in income in the year in which they occur.

Member loans receivable and accrued interest

Loans to members are recorded at principal amounts, less an allowance for anticipated losses plus accrued interest. Interest revenue is recorded on the accrual basis, except that the accrual of interest is discontinued when, in management's judgment, the interest may not be collected.

Interest income from loans is recorded on the accrual basis for all loans not classified as impaired.

When interest or principal is past due 90 days, the loan is classified as impaired unless there is no reasonable doubt as to the collectibility of all interest and principal. When a loan is classified as impaired, recognition of interest income in accordance with the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the recorded investment in the loan.

3. Accounting policies ***(Continued from previous page)***

Allowance for loan impairment

The Credit Union maintains an allowance for loan impairment that reduces the carrying value of loans to their estimated realizable amount. The allowance is increased by a charge for loan impairment, which is charged to income, and reduced by write-offs, net of recoveries.

A specific allowance is established on an individual loan basis, to reduce the carrying values to estimated realizable amounts. Estimated realizable values are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amount and timing of future cash flows can not be reliably established, estimated realizable values are determined by reference to market prices for the loans or their underlying security value.

In addition, a non-specific allowance may be established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio, for which a specific allowance cannot yet be determined. A non-specific provision is established when evidence of impairment exists within groups of loans but is not sufficient to allow identification of individually impaired loans. Impairment is estimated based on historical credit loss experience, known portfolio risks and current economic conditions and trends.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is recorded on a straight-line basis over the estimated useful lives.

	Method	Rate
Buildings	straight-line	2.5 %
Computer equipment	straight-line	20-40 %
Furniture and equipment	straight-line	10-33 %
Parking lot	straight-line	20 %
Security equipment	straight-line	10-30 %

Financial instruments

The financial instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in net income. The Credit Union's financial instruments classified as held for trading include funds on hand and on deposit.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Credit Union's shares with Credit Union Central of Manitoba have been classified as available for sale.

The financial assets classified as loans and receivables are measured at amortized cost. The Credit Union's financial instruments classified as loans and receivables include all loans, accrued interest, Credit Union Central of Manitoba term deposits and other receivable balances.

Financial instruments classified as other financial liabilities include all deposits, borrowing, payables and accruals. Other financial liabilities are measured at amortized cost.

Fair value measurements

The Credit Union classified fair value measurements recognized in the balance sheet using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy base on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

3. Accounting policies ***(Continued from previous page)***

Property held for resale

Property held for resale is recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Property held for resale is recorded in "other assets".

Income taxes

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

Revenue recognition

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of the interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Investment income is recognized as interest is earned on interest-bearing investments.

Other revenue is recognized as services are provided to the members.

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 the exchange rates at the balance sheet date. Translation gains and losses are included in current income.

Measurement uncertainty (use of estimates)

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

Loans are stated after evaluation as to their collectibility and an appropriate allowance for doubtful loans is provided where considered necessary. As the valuation of the underlying security cannot be ascertained with any degree of accuracy, a measurement of uncertainty exists in the valuation of loans and the allowance for loan impairment.

Amortization of property, plant, and equipment is provided based on the Credit Union's estimate of useful lives of those assets.

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

3. Accounting policies *(Continued from previous page)*

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity of the Credit Union, except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that, in accordance with Canadian generally accepted accounting principles, require recognition, but are excluded from net income (loss). The Credit Union does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in net income for the period.

Recent accounting pronouncements

Adoption of International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises, such as investment funds and other reporting issuers. From this date forward, the financial statements, including comparative information, will be reported in accordance with IFRS. The Credit Union Deposit Guarantee Corporation requires management to provide progress updates on the entity's IFRS changeover plan quarterly up until the changeover date.

The Credit Union is developing a changeover plan to adopt IFRS on January 1, 2011. The key elements of the plan include assessing the impact of adopting IFRS on:

- Accounting policies;
- IT and data systems;
- Internal controls over financial reporting; and
- Disclosure controls and procedures;

The changeover plan is still in the early stages and, as such, the impact of adopting IFRS on the Credit Union's financial reporting is not reasonably determinable.

4. Investments and accrued interest

	2009	*2008*
Credit Union Central of Manitoba		
Term and contract deposits	**22,541,258**	17,531,759
Shares	**2,383,877**	2,256,277
Other investments		
Manitoba Hydro bond	**-**	200,000
Accrued interest	**141,943**	207,075
	25,067,078	20,195,111

Term and contract deposits consist of twenty-four term deposits earning interest between 1.09% and 5.24% maturing between 2010 and 2014.

5. Member loans receivable and accrued interest

Principal and allowance by loan type

	Principal Performing	Principal Impaired	Allowance Specific	Allowance Non-specific	2009 Net carrying value	2008 Net carrying value
Personal and other	**9,492,755**	**148,440**	**36,239**	**97,629**	**9,507,327**	9,094,262
Residential mortgage	**13,927,911**	**-**	**-**	**140,037**	**13,787,874**	11,368,039
Commercial	**9,952,487**	**10,098**	**20,000**	**102,357**	**9,840,228**	11,013,128
Agricultural	**15,069,019**	**994,204**	**265,000**	**165,844**	**15,632,379**	14,085,519
	48,442,172	**1,152,742**	**321,239**	**505,867**	**48,767,808**	45,560,948
Total allowance				**827,106**		

Loan allowance details

	2009	2008
Balance, beginning of year	**867,713**	900,000
Provision for (recovery of) impaired loans	**(18,139)**	679
	849,574	900,679
Less: accounts written off	**(22,468)**	(32,966)
Balance, end of year	**827,106**	867,713

6. Property, plant and equipment

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Land	**16,290**	**-**	**16,290**	16,290
Buildings	**528,100**	**288,795**	**239,305**	252,507
Computer equipment	**121,775**	**115,192**	**6,583**	22,833
Furniture and equipment	**280,787**	**206,722**	**74,065**	78,716
Parking lot	**7,190**	**7,190**	**-**	-
Security equipment	**74,684**	**65,400**	**9,284**	14,767
	1,028,826	**683,299**	**345,527**	385,113

Amortization expense for the year amounted to $55,120 (2008 - $47,250).

7. Member deposits and accrued interest

	2009	2008
Chequing	**25,119,845**	24,025,194
Savings	**35,634,117**	27,943,334
Plan 24	**6,018,144**	5,515,995
Term deposits	**6,434,261**	6,823,212
Registered retirement savings plans	**9,589,893**	8,796,109
Registered retirement income funds	**2,603,929**	2,537,736
Accrued interest savings and deposits	**316,529**	371,400
	85,716,718	76,012,980

8. Allowance for doubtful investments

The allowance for doubtful investments has been put into place on the recommendation of management. This allowance has been recorded to offset an estimate of the Credit Union's potential exposure related to two loans made by Credit Union Central of Manitoba, from the system liquidity pool, to a related company Everlink Payment Services Inc. This allowance will remain in place until the financial results of Everlink Payment Services Inc. indicate that the investment is properly valued.

9. Line of credit

The Credit Union has an approved borrowing limit of 10% of member deposits. Borrowings are secured by an assignment, hypothecation, charge and pledge of all book debts and accounts to the Credit Union Central of Manitoba and bear an annual interest rate based on the Chartered banks overnight funds rate, with no fixed repayment date.

10. Share capital

Authorized:

Unlimited number of Common shares, at an issue price of $5
Unlimited number of Surplus shares, at an issue price of $1

Issued:

	2009	2008
3,708 Common shares (2008 - 3,652)	**18,540**	18,260
1,627,137 Surplus shares (2008 - 1,438,720)	**1,627,137**	1,438,720
Provision for issuance of Surplus shares	**191,370**	223,152
	1,837,047	1,680,132

Each member of the Credit Union has one vote regardless of the number of shares held.

Surplus shares are established as a means of returning excess earnings to the members and at the same time increasing the Credit Union's equity base. The Articles of Incorporation for Minnedosa Credit Union Limited disclose the conditions concerning Surplus shares.

During the year, the Credit Union issued 204 and redeemed 148 Common shares, and also issued 223,152 and redeemed 34,735 Surplus shares.

11. Members' equity and capital requirement

Section 21(1) of the Regulations to the Credit Unions and Caisses Populaires Act requires that the Credit Union establish and maintain a level of capital as follows:

	2009	*2008*
Equity not less than 5% of assets	**7.31 %**	7.57 %
Retained surplus not less than 3% of assets	**5.33 %**	5.54 %
Capital not less than 8% of the risk-weighted value of assets	**19.08 %**	18.44 %

Section 1535: Capital Disclosures requires the Credit Union to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

The Credit Union provides financial services to its members and is subject to the capital requirements set out in the Credit Union Act of Manitoba (the Act). The Credit Union complied with these capital requirements as at December 31, 2009.

Capital management: The Credit Union's objectives when managing capital are:

- 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.
- To comply at all times with the capital requirements set out in the Act.

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

- Total capital as a percent of total assets;
- Total capital as a percent 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 Credit Union Deposit Guarantee Corporation. The more risk associated with an asset, a higher weighting is assigned. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

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

- Establishing policies for capital management, monitoring and reporting;
- Establishing policies for related areas such as asset liability management;
- Reporting to the Board of Directors regarding financial results and capital adequacy;
- Reporting to the Credit Union Deposit Guarantee Corporation on its capital adequacy; and
- Establishing budgets and reporting variances to those budgets.

The Credit Union is required under the Act to hold capital equal to or exceeding the greater of:

- 5% of total assets; and
- 8% of risk-weighted assets.

12. Patronage refund

The Board of Directors have authorized a $450,062 patronage refund, $191,370 (2008 - $223,152) to be allocated to purchase surplus shares and $258,692 (2008 - $223,998) to be paid out to the members based on a formula determined by the Board of Directors.

The patronage refund of $450,062 has been reflected in the income statement with the related tax savings of approximately $110,000 reflected in the current year's provision for income taxes.

13. Related party transactions

Directors, committee members, management and staff

Transactions with directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union.

Payments made for honoraria and per diems amounted to $15,535 (2008 - $13,070), reimbursement of expenses amounted to $4,818 (2008 - $4,987) and meeting, training and conference costs amounted to $30,737 (2008 - $30,945) for the year ended December 31, 2009.

Loans to directors and staff as at December 31, 2009 amounted to 3.13% (2008 - 3.41%) of assets of the Credit Union.

Credit Union Central of Manitoba

The Credit Union is a member of the Credit Union Central of Manitoba, which acts as a depository for surplus funds from, and makes loans to Credit Unions.

Interest earned on investments during the year ended December 31, 2009 amounted to $1,128,779 (2008 - $1,239,641).

Interest and charges paid on borrowings during the year ended December 31, 2009 amounted to Nil (2008 - Nil).

Payments made for affiliation dues, liquidity assessment, research and development assessment and cheque clearing for the year ended December 31, 2009 amounted to $201,988 (2008 - $145,151).

The Credit Union Deposit Guarantee Corporation

The Credit Union Deposit Guarantee Corporation is a deposit insurance company which protects the savings and deposits of all Credit Union members in every credit union within Manitoba.

The payments made to the Corporation during the year ended December 31, 2009 represent the net statutory annual assessment in the amount of $74,600 (2008 - $88,350).

Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the delivery of banking system services and the maintenance of the infrastructure needed to ensure uninterrupted delivery of such services. Celero Solutions is a company formed as a joint venture by the Credit Union Centrals of Alberta, Saskatchewan and Manitoba along with Concentra Financial Services Association and Credit Union Electronic Transaction Services.

14. Liquidity requirements

The Credit Union has met the liquidity requirements at year end as prescribed in the regulations under the Credit Union and Caisses Populaires Act.

15. Loan commitments

The Credit Union has authorized $24,656,097 for line of credit loans, of which $16,226,359 has not been advanced as of year end. In addition, there were no member loans have been authorized but have not been advanced as of the year end.

16. Interest rate sensitivity reporting

The Credit Union's primary source of income is financial margin, which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits. The objective of managing the financial margin is to manage repricing or maturity dates of loans and investments and members' savings and deposits within policy limits that are intended to limit the Credit Union's exposure to changing interest rates. The differential represents the net mismatch between loans and investments and members' savings and deposits by maturity dates.

Amounts with variable interest rates, or due on demand, are classified as maturing within six months.

A significant amount of loans and deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

Interest rate re-price

					2009	*2008*
	Assets	***Average yield %***	***Liabilities***	***Average costs %***	***Differential***	*Differential*
Interest sensitive:						
Variable to 6 months	**48,990,836**	**3.22 %**	**51,203,130**	**1.73 %**	**(2,212,294)**	4,473,895
6 months to 1 year	**6,540,414**	**2.91 %**	**3,318,379**	**2.25 %**	**3,222,035**	1,099,132
1 to 2 years	**7,067,218**	**4.48 %**	**10,265,111**	**1.62 %**	**(3,197,893)**	837,152
2 to 3 years	**9,725,290**	**5.15 %**	**1,876,985**	**3.56 %**	**7,848,305**	(388,258)
3 to 4 years	**9,814,453**	**4.56 %**	**2,307,309**	**4.09 %**	**7,507,144**	6,917,693
4 to 5 years	**8,286,721**	**4.57 %**	**2,055,262**	**3.02 %**	**6,231,459**	5,242,356
Non interest bearing items	**2,683,226**		**22,081,982**		**(19,398,756)**	(18,181,970)
	93,108,158		**93,108,158**		**-**	-

17. Fair value of financial instruments

Fair value is the consideration that would be agreed to in an arm's-length transaction between knowledgeable and willing parties with no compulsion to act. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

The following methods and assumptions were used to estimate fair values of financial instruments:

a) the stated value for cash, short term investments, other assets, other liabilities, accrued income or expense and certain other assets and liabilities approximate their fair value.

b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments.

17. Fair value of financial instruments ***(Continued from previous page)***

c) for variable interest rate loans that are frequently re-priced, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates.

d) fair value of deposits with no specified maturity term is its stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.

Estimated fair values of financial instruments are summarized as follows:

			2009			*2008*
	Fair value	***Book value***	***Fair value over book value***	*Fair value*	*Book value*	*Fair value over book value*
Financial assets						
Funds on hand and on deposit	**18,886,811**	**18,886,811**	**-**	16,580,824	16,580,824	-
Investments and accrued interest	**25,067,078**	**25,067,078**	**-**	20,195,111	20,195,111	-
Member loans receivable and accrued interest	**45,787,553**	**48,767,808**	**(2,980,255)**	47,381,034	45,560,948	1,820,086
Accounts receivable	**6,247**	**6,247**	**-**	12,910	12,910	-
	89,747,689	**92,727,944**	**(2,980,255)**	84,169,879	82,349,793	1,820,086
Financial liabilities						
Member deposits and accrued interest	**84,917,054**	**85,716,718**	**(799,664)**	75,071,057	76,012,980	(941,923)
Accounts payable and accrued liabilities	**588,853**	**588,853**	**-**	582,335	582,335	-
	85,505,907	**86,305,571**	**(799,664)**	75,653,392	76,595,315	(941,923)

Fair value hierarchy

Following the recently updated CICA Handbook Section 3862, "Financial Instrument Disclosure", financial instruments measured at fair value on the balance sheet date have been classified within the fair value hierarchy.

At both December 31, 2009 and the prior year, December 31, 2008, all financial instruments measured at fair value on the balance sheet have been classified to Level 2; measured using inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly.

18. Nature and extent of risk arising from financial instruments

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how the Credit Union manages the exposure to them.

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally as a result of the Credit Union's lending activities with members.

Risk measurement

The Credit Union employs a risk measurement process for its loan portfolio which is designed to assess and quantify the level of risk inherent in credit granting activities. Risk is measured by reviewing qualitative and quantitative factors that impact the loan portfolio.

18. Nature and extent of risk arising from financial instruments ***(Continued from previous page)***

Credit quality performance

Refer to Note 3 for additional information on the potential loss exposure related to the Credit Union's loan portfolio.

Objectives, policies and processes

The Credit Union is committed to the following principles in managing credit risk exposure:

- Credit risk assessment includes the establishment of policies and processes related to credit risk management and risk rating;
- Credit risk mitigation includes credit structuring, collateral, and guarantees;
- Credit risk approval limits includes establishing credit risk limits and reporting exceptions thereto;
- Credit risk documentation focuses on documentation and administration; and
- Credit risk monitoring and review.

The Credit Union's credit risk policies, processes and methodologies are reviewed annually to ensure they remain relevant and effective in managing credit risk.

Market Risk

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's income from its loan and deposit portfolios. The Credit Union's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting member-owner needs.

Risk Measurement

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides monthly reports on these matters to the Credit Union's Board of Directors.

Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Credit Union's cash and funding requirements, statutory liquidity requirements, or both.

Risk measurement

- The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgment pertaining to current and prospective market conditions and the related investing and borrowing activities of members.

Objectives, policies and processes

The acceptable amount of risk is defined by policies that are approved by the Board of Directors.

The Credit Union manages liquidity by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. Management provides monthly reports on these matters to the Board of Directors.

Key features of liquidity management include:

- Daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position; and
- Consideration of the term structure of loans and deposits, with emphasis on deposit maturities, as well as expected loan funding and other commitments to ensure the Credit Union can maintain, required levels of liquidity while meeting its obligations.