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SPARK THE ENERGY CREDIT UNION LIMITED

Financial Statements

For the Year Ended October 31, 2020

MANAGEMENT'S RESPONSIBILITY

To the Members of Spark The Energy Credit Union Limited (the "Credit Union")

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgements and estimates in accordance with International Financial Reporting Standards 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 judgement 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 Finance Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board of Directors 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 of Directors fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Finance Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

RSM Alberta LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board of Directors 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 Audit Finance Committee and management to discuss their audit findings.

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Badriea Taha	JBazinet
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Badriea Taha	Jason Bazinet
President & CEO	Vice-President, Finance & Risk

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INDEPENDENT AUDITOR'S REPORT

To the Members of Spark The Energy Credit Union Limited

Opinion

We have audited the financial statements of Spark The Energy Credit Union Limited, (the "Credit Union"), which comprise the statement of financial position as at October 31, 2020 and the statements of loss and comprehensive loss, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at October 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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.

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

RSM Alberta LLP is a limited liability partnership that provides public accounting services. RSM is the brand used by a network of independent accounting and consulting firms, each of which practices in its own right. Visit rsmcanada.com/aboutus for more information regarding RSM Alberta LLP and RSM International.

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As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Credit Union's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

RSM Alberta LLP

Chartered Professional Accountants
January 28, 2021
Edmonton, Alberta

SPARK THE ENERGY CREDIT UNION LIMITED
Statement of Financial Position
October 31, 2020

	October 31, 2020	October 31, 2019
Assets		
Cash and cash equivalents (Note 5)	**$ 7,211,759**	$ 315,723
Income taxes receivable	91,058	169,280
Investments (Note 6)	48,953,294	43,119,156
Other assets (Note 9)	238,829	199,734
Loans to members (Note 8)	181,407,470	201,401,511
Derivative financial assets (Note 7)	33,566	---
Deferred income taxes (Note 14)	475,308	237,654
Property and equipment (Note 10)	297,753	387,323
Right-of-use lease assets (Note 22)	394,059	---
Intangible assets (Note 11)	184,330	73,327
	$ 239,287,426	$ 245,903,708
Liabilities		
Member deposits (Note 13)	**$ 224,985,466**	$ 230,957,741
Accounts payable and accrued liabilities	181,022	371,172
Right-of-use lease liabilities (Note 22)	399,590	---
Derivative financial liabilities (Note 7)	33,566	---
	225,599,644	231,328,913
Members' Equity		
Dividends distributable (Note 15)	---	166,203
Common shares (Note 15)	5,445,673	5,554,401
Retained earnings	8,242,109	8,854,191
	13,687,782	14,574,795
	$ 239,287,426	$ 245,903,708

Contingent liabilities and commitments (Note 18)
Subsequent events (Note 24)

Approved on behalf of the Board

DocuSigned by:
Tim Rose
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Tim Rose, Board Chair

DocuSigned by:
Darlene Harris
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Darlene Harris, Director

See accompanying notes to the financial statements

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SPARK THE ENERGY CREDIT UNION LIMITED
Statement of Loss and Comprehensive Loss
For the Year Ended October 31, 2020

	2020	2019
Financial income		
Interest on member loans	**$ 6,253,284**	$ 7,003,972
Investment (Note 20)	778,043	846,258
	7,031,327	7,850,230
Financial expenses		
Interest on member deposits	4,145,127	4,315,615
Interest on lease liability	16,125	---
Interest on borrowings	243	1,693
	4,161,495	4,317,308
Financial margin	2,869,832	3,532,922
Provisions for credit impairment (Note 6 and Note 8)	125,804	1,051,149
Net interest income after provision for credit impairment	2,744,028	2,481,773
Other income		
Service charges, commissions and other	560,356	657,735
Income before operating expenses	3,304,384	3,139,508
Operating expenses (Schedule 1)	4,154,121	4,693,156
Loss before income taxes	(849,737)	(1,553,648)
Income tax recovery		
Current income taxes recovery	---	(111,342)
Deferred income taxes recovery	(237,655)	(244,075)
	(237,655)	(355,417)
Net loss and comprehensive loss	**$ (612,082)**	$ (1,198,231)

See accompanying notes to the financial statements

SPARK THE ENERGY CREDIT UNION LIMITED
Statement of Changes in Members' Equity
For the Year Ended October 31, 2020

	Dividends Distributable	Common Shares	Retained Earnings	Total Equity
As at November 1, 2018	$ 174,448	$ 5,856,407	$ 10,400,458	$ 16,431,313
Adjustment for initial application of IFRS 9	---	---	(226,148)	(226,148)
Restated balance at November 1, 2018	174,448	5,856,407	10,174,310	16,205,165
Net loss for the year	---	---	(1,198,231)	(1,198,231)
Share capital issued and redeemed for cash, net	---	(476,454)	---	(476,454)
Shares issued to settle allocation distributable	(174,448)	174,448	---	---
Dividends declared, net of tax recovery of $44,315 (Note 15)	166,203	---	(121,888)	44,315
As at October 31, 2019	$ 166,203	$ 5,554,401	$ 8,854,191	$ 14,574,795
As at November 1, 2019	**$ 166,203**	**$ 5,554,401**	**$ 8,854,191**	**$ 14,574,795**
Net loss for the year	---	---	(612,082)	**(612,082)**
Share capital issued and redeemed for cash, net	---	(274,931)	---	(274,931)
Shares issued to settle allocation distributable	(166,203)	166,203	---	---
As at October 31, 2020	**$ ---**	**$ 5,445,673**	**$ 8,242,109**	**$ 13,687,782**

See accompanying notes to the financial statements

SPARK THE ENERGY CREDIT UNION LIMITED
Statement of Cash Flows
For the Year Ended October 31, 2020

	2020	2019
Cash flows (used in) from operating activities:		
Net loss	**$ (612,082)**	$ (1,198,231)
Adjustments for:		
Net interest income	(2,869,832)	(3,532,922)
Provisions for credit impairment	125,804	1,051,149
Provisions for deferred income taxes recovery	(237,655)	(244,075)
Interest paid for leased liabilities (Note 22)	(16,125)	---
Depreciation of property and equipment (Note 10)	131,555	123,963
Amortization of intangible assets (Note 11)	55,440	43,561
	(3,422,895)	(3,756,555)
Changes in other assets	(39,095)	(77,655)
Changes in accounts payable and accrued liabilities	(190,150)	11,481
Changes in income taxes receivable	78,221	5,130
	(151,024)	(61,044)
Changes in member activities (net):		
Changes in member loans	19,994,041	14,259,922
Changes in member deposits	(5,972,275)	(6,317,910)
	14,021,766	7,942,012
Cash flows related to interest:		
Interest received	7,031,327	7,896,957
Interest paid	(4,145,370)	(4,198,683)
	2,885,957	3,698,274
	13,333,804	7,822,687
Cash flows (used in) financing activities:		
Issuance of common shares	24,275	31,938
Redemption of common shares	(299,206)	(508,392)
Tax recovery on investment share dividends	---	44,315
	(274,931)	(432,139)
Cash flows (used in) from investing activities:		
Purchase of investments	(9,336,160)	(9,431,742)
Proceeds on redemption of investments	3,381,750	1,313,977
Additions to intangible assets (Note 11)	(166,443)	(43,625)
Additions to property and equipment (Note 10)	(41,984)	(73,900)
	(6,162,837)	(8,235,290)
Net (decrease) increase in cash and cash equivalents	6,896,036	(844,742)
Cash and cash equivalents, beginning of year	315,723	1,160,465
Cash and cash equivalents, end of year	**$ 7,211,759**	$ 315,723

See accompanying notes to the financial statements

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1. Reporting entity information

Entity information

Spark The Energy Credit Union Limited (the "Credit Union") is incorporated under the Credit Union Act ("Act") of Alberta and operates branches in Calgary and Fort Saskatchewan, Alberta. The Credit Union shall have no bond of association, with a specialized focus on energy industry workers and their affiliates. The Credit Union is headquartered at 117, 400 – 4th Avenue SW, Calgary, Alberta, T2P 0J4.

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

Statement of compliance

These financial statements and interpretations have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") being standards and interpretations as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors of the Credit Union on January 22, 2021.

Basis of measurement

These financial statements were prepared under the historical cost convention, except for derivatives and investments in equity instruments classified as fair value through profit and loss, which are measured at fair value.

Functional and presentation currency

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

2. Summary of significant accounting policies and changes in accounting policies

The Credit Union follows accounting policies appropriate to its activities and governing legislation, as set out below. These policies have been consistently applied to all the periods presented, with the exception of IFRS 16 Leases.

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2. **Summary of significant accounting policies and changes in accounting policies** (Continued)

Financial Instruments

Financial assets

Recognition and Measurement

The Credit Union recognizes financial assets when the Credit Union becomes a party to the contractual provisions of the financial instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at FVTPL, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at FVTPL are expensed in profit or loss when incurred. The Credit Union recognized financial instruments at the trade date.

Classification

On initial recognition, financial assets are classified and subsequently measured at:

- amortized cost; or
- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVTPL).

The classification is determined by both:

- the Credit Union's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

<u>Financial assets at amortized cost</u>

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. The Credit Union's cash and cash equivalents, loans to members, accounts receivable, Central liquidity and term deposits, term deposits and guaranteed investment certificates with other financial institutions are measured at amortized cost.

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2. **Summary of significant accounting policies and changes in accounting policies** (Continued)

Financial Instruments (Continued)

Financial assets (Continued)

Business model assessment

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Fair Value through other comprehensive income (FVOCI)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirement to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Interest revenue is calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union has not designated and does not hold any financial assets measured at FVOCI.

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2. **Summary of significant accounting policies and changes in accounting policies** (Continued)

Financial Instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss (FVTPL)

Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at FVTPL. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at FVTPL comprise of derivative financial instruments.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at FVTPL are comprised of shares of Central. The cost of Alberta Central's shares remains the best estimate of fair value as the most recent available information is not sufficient to measure fair value.

Reclassification of financial assets:

The Credit Union reclassifies debt instruments only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Derecognition

Financial assets are derecognized when contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

Modification of Financial Assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

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2. **Summary of significant accounting policies and changes in accounting policies** (Continued)

Financial Instruments (Continued)

Modification of financial assets (Continued)

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

The Credit Union employs an expected loss model developed by Central 1 (the model) to calculate expected credit losses (ECL). The expected credit loss model applies to debt instruments measured at amortized cost or at fair value through other comprehensive income and gives consideration to forward looking indicators. It also applies to loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss. These debt instruments are assessed for significant increases in credit risk from initiation at each reporting period.

The Credit Union measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured at 12-month ECL:

- other financial instruments on which credit risk has not increased significantly since their initial recognition.

In applying this forward-looking approach, a distinction is made between financial assets sorted into three stages of performance.

- Stage 1 – Performing and no increase in credit risk
- Stage 2 – Significant increase in credit risk
- Stage 3 - Impaired

12-month expected credit losses are recognized for the stage 1 financial instruments while lifetime expected credit losses are recognized for stage 2 and stage 3 financial assets. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

2. **Summary of significant accounting policies and changes in accounting policies** (Continued)

Financial Instruments (Continued)

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at FVTPL for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or FVTPL. When the transfer of a financial asset does not qualify for derecognition because the Credit Union has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in profit or loss.

All other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits, accounts payable and accrued liabilities.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in profit or loss while distributions to holders of instruments classified as equity are recognized in equity.

Financial liabilities are not reclassified subsequent to initial recognition.

Embedded derivatives

Certain derivatives embedded in other financial liabilities (such as the embedded option in an index linked term deposit product) are treated as separate derivative financial instruments when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at FVTPL. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

Derecognition of financial liabilities

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

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2. **Summary of significant accounting policies and changes in accounting policies** (Continued)

Financial Instruments (Continued)

Financial liabilities (Continued)

Modification of financial liabilities

The Credit Union derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include highly liquid financial assets with original maturities of three months or less, held for the purpose of meeting short-term cash commitments.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except those designated as FVTPL, is recognized within financial income or financial expense in the Statement of Loss as they accrue using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and incorporates any fees and transaction costs that are integral to establishing the contract.

Service charges and other income

Service charges and other income not directly attributable to the acquisition of financial instruments is recognized when the related service performance obligation is satisfied, either over time or at a point in time. Revenue is recognized by determining the transaction price of distinct goods or services and allocating the price to the satisfaction of each performance obligation (i.e. the delivery of each distinct good or service). The result is to recognize revenue in a manner that depicts the amount of consideration due to the transfer of each good or service. Service charges and other income that is directly attributable to acquiring or issuing a financial asset or financial liability not classified as FVTPL, is added to or deducted from the initial carrying value. Service charges and other income is then included in the calculation of the effective interest rate and amortized through profit or loss over the term of the financial asset or financial liability. For financial instruments carried at fair value through profit or loss, transaction costs are immediately recognized in profit or loss on initial recognition.

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2. **Summary of significant accounting policies and changes in accounting policies** (Continued)

Property and equipment

Property and equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation of property and equipment is calculated at the following annual rates and methods:

Computer equipment	36 months to 60 months
Furniture and equipment	36 months
Leasehold improvements	lesser of remaining term of lease or 60 months

Depreciation is recorded in the initial month of acquisition; no depreciation is recorded in the month of disposal. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably.

Intangible assets

Intangible assets are comprised of computer software costs that are capitalized when the future economic benefit is expected to exceed a period of one year. Otherwise, software costs are expensed when incurred. Capitalized software costs are initially recognized at cost and amortized using the straight-line method over the expected useful life of three to ten years. Amortization expense is recognized in the Statement of Loss as part of General Expense.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's or they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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2. **Summary of significant accounting policies and changes in accounting policies** (Continued)

Leases

The Credit Union as a Lessee

Leases are arrangements containing identified assets that the lessee has the right to control, obtain substantially all economic benefit and the right to direct the use of the asset.

The leased asset is equal to the value of the lease liability with adjustments for incentives received, initial direct costs, and an estimate of costs to restore the asset to the condition required by the contract. The lease liability is calculated as the present value of the lease payments taking into consideration all allowable adjustments, such as a penalty for termination or exercise price of a purchase option.
Subsequent to initial recognition, leased assets are depreciated on a straight-line basis over the shorter of the asset's estimated useful life and the lease term, in accordance with the accounting policy for property and equipment. Leased land is also depreciated over the lease term. Depreciation expense is recognized on the leased asset and interest expense on the lease liability is recorded in occupancy expenses.

The discount rate used in calculating the present value of the lease payment is either the interest rate implicit in the lease, if it is practicable to determine, or the incremental borrowing rate.

IFRS 16 Leases

On November 1, 2019 ("date of transition"), the Credit Union adopted IFRS 16 Leases (IFRS 16), which replaced the guidance from IAS 17 Leases. Adopting IFRS 16 has resulted in significant changes to accounting policies for the definition of a lease, recognition and calculation of a right-of-use-asset ("leased asset") and lease liability.

IFRS 16 does not require restatement of comparative period financial information. The Credit Union has elected to not restate comparative period financial information, as allowed by the selection of the modified retrospective approach for the transition. As part of the modified retrospective approach, the leased asset was made equal to the lease liability, which resulted in no adjustment to the retained earnings when IFRS 16 was adopted.

The Credit Union elected to not reassess current contracts for active leases prior to IFRS 16. If a contract was assessed as a lease prior to IFRS 16, it will remain a lease at transition to IFRS 16. IFRS 16 requirements will be applied to contracts that are entered into or changed after the transition date. Practical expedients the Credit Union adopted include relying on the previous assessments for onerous contracts at transition, using hindsight to determine lease terms, and excluding initial direct costs for leases that are active at transition. Finance costs will be recorded under occupancy expenses.

The weighted average incremental borrowing rate applied to lease liabilities on November 1, 2019 was 2.95%.

The following table reconciles the Credit Union's operating lease commitments at October 31, 2019, to the lease liabilities recognized on the initial application of IFRS 16 at November 1, 2019.

	Total
Operating lease commitments disclosed as at October 31, 2019	584,561
Adjustment related to the effect of discounting cash flows as at November 1, 2019	(37,963)
Lease liabilities recognized as at November 1, 2019	**546,598**

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2. **Summary of significant accounting policies and changes in accounting policies** (Continued)

Income taxes

Income tax expense comprises current and deferred tax.

(i) Current income tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.
(ii) Deferred income tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset the current income tax liabilities against current income tax assets and they related to income taxes levied by the same authority on the same taxable entity.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income 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.

Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in the Statement of Loss.

Member shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union Board of Directors are classified as equity.

Provisions

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the present value of the expected amount required to settle the obligation, taking into account the risks and uncertainties surrounding the obligation.

2. **Summary of significant accounting policies and changes in accounting policies** (Continued)

Employee Benefits

The Credit Union provides certain pension and other benefits to employees as follows: short term employee benefits, such as salaries, incentive pay programs, vacation, medical benefits, allowances, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services. The benefits are expensed as part of personnel expenses in the statement of loss.

Termination Benefits

Termination benefits are recognized when the Credit union is committed to terminating the employment of a current employee according to a formal plan without possibility of withdrawal.

Post Employment Benefits – Defined Contribution Registered Retirement Savings Plan

The Credit Union offers employees a defined contribution registered retirement savings plan where contributions are made by both the Credit Union and the employee. Contributions are based on a percentage of salary and no further contributions are required once the employee retires or leaves the Credit Union. Obligations for contributions to defined contribution plans are recognized in personnel expense in the statement of loss when they are due.

3. **Critical accounting estimates and judgements**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Credit Union's financial statements therefore present the financial position and results fairly.

Significant estimates made in the preparation of these financial statements include, but are not limited to the following areas, with further information contained in the applicable accounting policy as per Note 2.

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

COVID-19 Pandemic Considerations:

The Canadian economy experienced significant disruption and market volatility related to the global COVID-19 pandemic. The overall impact of the pandemic continues to be uncertain and is dependent on actions taken by Canadian governments, businesses and individuals to limit spread of the COVID-19 virus, as well as government economic response and support efforts.

The main effects of the COVID-19 pandemic on the Credit Union’s profit and loss and financial position are reduced margin due to lower interest rates and the economic uncertainty requiring management to make significant judgements in estimating the allowance for expected credit losses (Note 8). Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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3. **Critical accounting estimates and judgements** (Continued)

Income taxes:

The Credit Union computes an effective tax rate which includes an evaluation of the small business rate eligible to credit unions under the *Income Tax Act (Canada)*. This small business rate applies until retained earnings reach five percent of amounts owing to members, including deposits and shares.

This rate forms the effective tax rate used in computing the income tax provision. However, the actual amounts of income tax expense do not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the financial statements. To the extent that estimates differ from the final tax returns, net income would be affected in the subsequent year.

Deferred income taxes:

Deferred income tax assets are recognized in respect of unused tax losses or deductible temporary differences to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred income tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

Allowance for expected credit losses

Allowances for expected credit losses (“ECL”) are applied to financial assets measured at amortized cost or FVTOCI, other than equities. The measurement of ECL requires the use of complex models and significant assumptions about future economic conditions and credit behavior.

A number of critical accounting estimates and judgments are also required in applying the accounting requirements for measuring ECL (refer to Note 16), such as:

- Determining the criteria for a significant increase in credit risk (“SICR”);
- Establishing groups of similar financial assets for purposes of measuring ECL;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number, design and relative weightings of forward-looking scenarios to be incorporated into the measurement of ECL.

Useful lives of property and equipment

The Credit Union estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the non-current assets.

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3. **Critical accounting estimates and judgements** (Continued)

Impairment of non-financial assets

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on estimated future cash flows which are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

4. **Future changes in accounting policies**

The following amendments to existing accounting standards have been issued but are not yet effective. The Credit Union is currently assessing the impact of adopting the following standards.

Effective for the Credit Union — November 1, 2021

<u>Interest Rate Benchmark Interbank Offered Rate Reform Phase 2</u>
In August 2020, the IASB finalized its Phase 2 response to the ongoing IBOR and other interest rate benchmark reform by issuing a package of amendments to IFRS standards which focus on accounting and disclosure matters that will arise once an existing benchmark is replaced with an alternative benchmark rate. The amendments provide practical expedients if contract modifications result directly from IBOR reform and occur on an economic equivalent basis. In these cases, changes may be accounted for by updating the effective interest rate. Further, existing hedging relationships are not required to be discontinued if changes in hedge documentation are required solely by IBOR reform.

5. **Cash and cash equivalents**

The Credit Union's cash and cash equivalents are held with Central.

Included in cash and cash equivalents is $501,265 (2019 - $223,948) denominated in U.S. dollars.

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6. Investments

	October 31, 2020	October 31, 2019
Measured at fair value through profit or loss:		
Shares in Central	**$ 2,942,012**	$ 2,942,012
Measured at amortized cost:		
Term deposits with Central	19,000,000	22,050,000
Mortgage pools	177,747	509,497
Guaranteed Investment Certificates	26,567,037	17,431,742
Allowance for investment loss	(3,240)	(3,518)
Accrued interest	269,738	189,423
	46,011,282	40,177,144
	$ 48,953,294	$ 43,119,156
Current	**$ 37,867,037**	$ 23,550,000
Non-current	**$ 11,086,257**	$ 19,569,156

As of October 31, 2020, the Credit Union carries an allowance for investment loss of $3,240 (2019 - $3,518). During the 2020 year, the Credit Union reversed $278 in net provisions for investments.

Investments mature from November 2020 to October 2024 with interest rates ranging from 0.12% per annum to 2.95% per annum. As required by the *Credit Union Act*, the Credit Union holds investments in Central, to maintain its statutory liquidity requirements.

The Credit Union has invested in guaranteed investment certificates and term deposits as follows:

	October 31, 2020	October 31, 2019
ATB Financial	**$ 18,867,037**	$ 11,031,742
Concentra Bank	2,800,000	1,500,000
Encompass Credit Union Ltd.	2,900,000	2,900,000
Servus Credit Union Ltd.	2,000,000	2,000,000
	$ 26,567,037	$ 17,431,742

The Credit Union invests in mortgage pools with Concentra Financial Services Association (“Concentra”) of $177,747 (2019 - $509,497).

As of October 31, 2020, the Credit Union is at 6.50% (unit share percentage) participant in a residential mortgage pool with Concentra and had another mortgage pool that matured over the year with Concentra. The Credit Union receives its unit share percentage of the Concentra return on these pools, less any fees or charges on a monthly basis. These returns equated to 3.06% per annum (2019 - 3.48%) and 2.81% per annum (2019 - 3.65%) respectively.

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7. Derivative financial assets and liabilities

The Credit Union holds $311,950 (2019 - $132,659) of performance products for its members consisting of index-linked deposits. These groups of deposits mature in 2025 and pay bonus interest to the depositors, at the end of the term, based upon the performance of the index. The Credit Union has entered into option agreements with Central to offset the exposure on these deposits and, at the end of the term, the Credit Union will receive payments from Central which will offset the amounts that will be paid to the depositors. The Credit Union's policy is not to utilize these derivative financial instruments for trading or speculative purposes.

The unamortized portion of the index-linked option contracts are $19,736 (2019 - $716) and are included in member deposits. Amortization in the amount of $3,753 (2019 - $6,396) is calculated on a straight-line basis over the term of the deposits and is included in interest on member deposits.

The notional amount of these derivative financial instruments is not recorded in the financial statements. Derivatives are recorded at fair value on the statement of financial position. The notional amounts of equity-linked derivative contracts maturing at various terms are as follows:

	October 31, 2020	October 31, 2019
Notional amounts		
Mature within 1 year	**$ ---**	$ 132,659
Mature in 1-5 years	311,950	---
	$ 311,950	$ 132,659
Fair value of embedded derivative	**$ 33,566**	$ ---

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure.

Equity-linked options are used to fix costs on term deposit, registered retirement savings plans and tax-free savings account products which pay a return to the deposit holder based on the change in equity market indexes. The embedded derivative in these products as well as the option derivatives are marked to market through investment income.

8. Loans to members

Stage 1 represents performing loans with a 12-month expected credit loss, Stage 2 represents performing loans with a lifetime expected credit loss, and Stage 3 represents impaired loans with a lifetime expected credit loss.

Loans to members comprise as follows:

As at October 31, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total Loans**
Residential mortgages	148,696,967	9,238,603	555,557	158,491,127
Personal loans	9,972,846	1,308,176	161,618	11,442,640
Commercial loans	10,713,883	888,643	---	11,602,526
Gross loans	169,383,696	11,435,422	717,175	181,536,293
Accrued Interest	200,246	36,951	4,481	241,678
Allowance for credit losses	(124,072)	(145,249)	(101,180)	(370,501)
Net Loans	**169,459,870**	**11,327,124**	**620,476**	**181,407,470**

As at October 31, 2019	Stage 1	Stage 2	Stage 3	Total Loans
Residential mortgages	168,891,540	5,825,137	1,108,350	175,825,027
Personal loans	13,484,969	1,235,679	444,264	15,164,912
Commercial loans	10,241,136	610,991	---	10,852,127
Gross loans	192,617,645	7,671,807	1,552,614	201,842,066
Accrued Interest	205,062	12,730	35,165	252,957
Allowance for credit losses	(137,756)	(129,544)	(426,212)	(693,512)
Net Loans	192,684,951	7,554,991	1,161,567	201,401,511

Loans to members, excluding accrued interest, mature as follows:

	October 31, 2020	October 31, 2019
Under 1 year	**$ 69,869,712**	$ 86,242,005
1 to 2 years	**34,848,766**	33,278,317
2 to 3 years	**28,904,942**	35,213,066
3 to 4 years	**15,264,523**	30,572,159
Over 4 years	**32,648,350**	16,536,519
	$ 181,536,293	$ 201,842,066

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8. **Loans to members** (Continued)

Allowance for credit losses

A summary of the loan allowance for expected credit losses is as follows:

	12-Month ECL (Stage 1)	**Lifetime ECL Non-credit impaired (Stage 2)**	**Lifetime ECL Credit impaired (Stage 3)**	**Total**
As at November 1, 2018	161,612	46,401	387,965	595,978
Transfer to (from)				
Stage 1	33,249	(15,624)	(17,625)	---
Stage 2	(22,771)	91,564	(68,793)	---
Stage 3	(6,351)	(7,437)	13,788	---
Net remeasurements	(59,271)	172,707	941,543	1,054,979
Loans written-off, net of recoveries	---	---	(957,445)	(957,445)
As at October 31, 2019	106,468	287,611	299,433	693,512
Transfer to (from)				
Stage 1	(114,113)	85,893	28,220	---
Stage 2	11,260	(83,967)	72,707	---
Stage 3	---	---	---	---
Net remeasurements	122,470	(139,653)	288,602	271,419
Derecognitions and maturities	(12,738)	(7,605)	---	(20,343)
Loan originations	10,725	2,970	---	13,695
Loans written-off, net of recoveries	---	---	(587,782)	(587,782)
As at October 31, 2020	**124,072**	**145,249**	**101,180**	**370,501**

The total allowance for expected credit losses is reconciled as follows:

	October 31, 2020	October 31, 2019
Opening allowance for impairment	$ 693,512	$ 385,114
IFRS 9 transition adjustment	---	210,864
Restated November 1 allowance for expected credit losses	693,512	595,978
Charge for loan impairment:		
Net remeasurements	271,419	1,054,979
Derecognitions and maturities	(20,343)	---
Loan originations	13,695	---
Loans written-off, net of recoveries	(587,782)	(957,445)
Allowance for expected credit losses	**$ 370,501**	$ 693,512

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8. **Loans to members** (Continued)

Allowance for credit losses (Continued)

The charge for credit impairments on the statement of loss is reconciled as follows:

	October 31, 2020	October 31, 2019
Charge for loan impairment	$ 264,771	$ 1,162,836
Charge for off-balance sheet impairment	7,389	(3,875)
Charge for investment impairment (Note 6)	(278)	45
Recoveries	(146,078)	(107,857)
Provision for credit impairments	**$ 125,804**	$ 1,051,149

Credit quality of member loans

The following table outlines the ranges used for the categorization of credit risk assessments.

Risk Assessment	**Beacon Score Range for Residential Mortgage and Personal Loans**	**Risk Rating Range for Commercial Loans**
Very low risk	760+	1
Low risk	681 < 759	2 and 3
Medium risk	620 < 680	4 and 5
High risk / impaired	Less than 620	6,7,8 or 9

The following table presents the gross carrying amount of loans subject to impairment by risk category.

As at October 31, 2020	**Residential Mortgage Loans**	**Personal Loans**	**Commercial Loans**	**Total**
Risk Categories				
Very low risk	93,145,423	3,254,091	---	96,399,514
Low risk	40,667,291	4,128,195	5,401,296	50,196,782
Medium risk	14,245,004	2,584,396	5,312,587	22,141,987
High risk	9,877,852	1,314,340	888,643	12,080,835
Impaired	555,557	161,618	---	717,175
Total Member Loans	**158,491,127**	**11,442,640**	**11,602,526**	**181,536,293**

As at October 31, 2019	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
Risk Categories				
Very low risk	79,542,367	2,140,853	---	81,683,220
Low risk	64,791,369	7,474,861	4,614,053	76,880,283
Medium risk	21,843,221	3,463,575	5,627,083	30,933,879
High risk	8,539,720	1,641,359	610,991	10,792,070
Impaired	1,108,350	444,264	---	1,552,614
Total Member Loans	175,825,027	15,164,912	10,852,127	201,842,066

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8. **Loans to members** (Continued)

Performing status of member loans

The following table presents the performing status of the loan portfolio and ranges of delinquency.

As at October 31, 2020	**Residential Mortgages**	**Personal Loans**	**Commercial Loans**	**Total Loans**
Current	156,478,584	11,292,211	10,713,883	178,484,678
1 – 30 days delinquent	710,948	68,150	888,643	1,667,741
31 – 60 days delinquent	871,522	18,936	---	890,458
61 – 90 days delinquent	430,073	7,091	---	437,164
Greater than 90 days delinquent	---	56,252	---	56,252
Total Loans	**158,491,127**	**11,442,640**	**11,602,526**	**181,536,293**

As at October 31, 2019	Residential Mortgages	Personal Loans	Commercial Loans	Total Loans
Current	172,065,829	14,303,697	10,852,127	197,221,653
1 – 30 days delinquent	1,691,948	139,667	---	1,831,615
31 – 60 days delinquent	---	56,406	---	56,406
61 – 90 days delinquent	958,900	220,878	---	1,179,778
Greater than 90 days delinquent	1,108,350	444,264	---	1,552,614
Total Loans	175,825,027	15,164,912	10,852,127	201,842,066

See Note 16 – Risk Management, Credit Risk – for additional information on how the Credit Union manages and assesses credit risk within its loan and investment portfolios.

9. **Other assets**

	October 31, 2020	October 31, 2019
Accounts receivable	**$ 171,729**	$ 90,804
Prepaid expenses	**67,100**	108,930
	$ 238,829	$ 199,734
Current	**$ 221,337**	$ 182,242
Non-current	**$ 17,492**	$ 17,492

10. Property and equipment

	Leasehold Improvements	Furniture and Equipment	Computer Equipment	Total
Cost:				
Balance, October 31, 2019	$ 916,093	$ 185,146	$ 258,123	$ 1,359,362
Additions	---	1,810	40,174	41,984
Disposals	---	---	---	---
Balance, October 31, 2020	$ 916,093	$ 186,956	$ 298,297	$ 1,401,346
Accumulated Depreciation:				
Balance, October 31, 2019	$ 594,032	$ 177,021	$ 200,986	$ 972,038
Depreciation	97,772	1,775	32,008	131,555
Disposals	---	---	---	---
Balance, October 31, 2020	$ 691,804	$ 178,796	$ 232,994	$ 1,103,594
Net Book Value:				
October 31, 2019	$ 322,061	$ 8,125	$ 57,137	$ 387,323
October 31, 2020	**$ 224,289**	**$ 8,160**	**$ 65,303**	**$ 297,753**

11. Intangible assets

Cost:	
Balance, October 31, 2019	$ 772,101
Additions	166,443
Disposals	---
Balance, October 31, 2020	$ 938,544
Accumulated Amortization:	
Balance, October 31, 2019	$ 698,774
Amortization	55,440
Disposals	---
Balance, October 31, 2020	$ 754,214
Net Book Value:	
Balance, October 31, 2019	$ 73,327
Balance, October 31, 2020	**$ 184,330**

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12. Operating demand loan and term loan

The Credit Union has a revolving operating demand facility with Central of $7,400,000 (2019 - $7,600,000). The demand loan bears interest at Central's prime rate for Canadian dollar advances plus or minus Central's applicable discount or margin rates in effect from time to time. At October 31, 2020, the Credit Union had $nil outstanding on its operating demand loan (2019 - $nil).

The Credit Union has a revolving term facility with Central of $12,300,000 (2019 - $12,700,000). The term loan bears interest at (i) Central's prime rate plus or minus Central's applicable discount or margin rates in effect from time to time, or (ii) at the option of the Credit Union for terms of more than 30 days at a fixed rate equal to Central's money market deposit rate of the equivalent paid fixed swap rate for the term plus or minus the applicable discount or margin rate. Any borrowings over 5% of the Credit Union's total assets will be priced at a premium of 2%. At October 31, 2020, the Credit Union had $nil outstanding on its term loan (2019 - $nil).

The operating demand loan and the term loan are secured by a Registered Security Agreement covering accounts and instruments, along with a pledge of all investments, deposits and share accounts at Central.

13. Member deposits

	October 31, 2020	October 31, 2019
Demand	**$ 41,857,863**	$ 43,029,717
Term	**112,519,402**	116,395,754
Registered Retirement Savings Plan ("RRSP")	**36,536,803**	38,183,476
Registered Retirement Income Fund ("RRIF")	**19,154,763**	19,074,817
Tax-Free Savings Account ("TFSA")	**10,676,960**	9,801,774
Registered Educational Savings Plan ("RESP")	**2,459,069**	2,484,594
	223,204,860	228,970,132
Accrued interest	**1,780,606**	1,987,609
	$ 224,985,466	$ 230,957,741

Concentra Financial acts as the trustee of the Registered Retirement Savings Plan ("RRSP"), the Registered Education Savings Plan ("RESP"), the Tax-Free Savings Account ("TFSA") and the Registered Retirement Income Fund ("RRIF") offered to members. Under the agreement, Concentra Financial deposits the contributions to the plan, and the interest earned on them, in the Credit Union.

Member deposit accounts, not including the related accrued interest, mature as follows:

	October 31, 2020	October 31, 2019
Under 1 year	**$ 138,102,329**	$ 118,212,481
1 to 2 years	**32,707,785**	42,891,689
2 to 3 years	**20,939,398**	23,185,190
3 to 4 years	**26,457,229**	17,039,737
Over 4 years	**4,998,119**	27,641,035
	$ 223,204,860	$ 228,970,132

Concentration of risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments. The majority of member deposits are located in and around Calgary, Edmonton and Fort McMurray, Alberta. There are two (2019 – three) members or related group of members for which deposits exceed 1% of total assets at October 31, 2020.

14. Income taxes

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

Income tax expense reconciliation

Income tax expense differs from the amount that would be expected for the following reasons:

	October 31, 2020	October 31, 2019
Income taxes at statutory rate of 24.5% (2019 – 26.7%)	**$ (183,865)**	$ (414,250)
Income tax expense adjusted for the effect of:		
Under-provision in prior periods	(48,498)	12,636
Change in tax rates	12,350	46,479
Adjustment for loss carry-back	---	4,521
Non-deductible expenses and other	(17,642)	(4,803)
Income tax expense (recovery)	**$ (237,655)**	$ (355,417)

Components of deferred income tax asset/liability

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

	October 31, 2020	October 31, 2019
Loss carried forward	**$ 509,062**	$ 251,884
Lease payment obligation	91,906	---
Allowance for credit losses	6,812	11,532
Property, equipment and intangible assets	(132,472)	(25,762)
Deferred Income Tax Asset (Liability)	**$ 475,308**	$ 237,654

At October 31, 2020, the Credit Union had Canadian tax losses with a tax benefit of $509,062 (2019 - $251,884). The Credit Union recognizes the benefit of tax losses only to the extent of anticipated future taxable income that can be reduced by the tax losses. These losses may be carried forward and expire as follows:

Year:	**Loss Carry Forward:**
2039	$ 1,286,789
2040	$ 1,141,381

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15. Common shares and dividends distributable

The Credit Union's common shares have the following characteristics:

a) Are not guaranteed by CUDGC
b) A par value of $1, but fractional shares may be issued;
c) Transferable only in restricted circumstances;
d) Non-assessable; and
e) Redemption of common shares is at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the *Credit Union Act* and Credit Union By-Laws.

When an individual becomes a member of the Credit Union, they are issued a membership share at $1 per share. Equity accounts are established as a means of returning excess earnings to the members while maintaining the Credit Union's equity base. Member shares are not guaranteed by the Corporation. Characteristics include performances, freedom from mandatory charge and subordination to the rights of creditors and depositors. As at October 31, 2020, the Credit Union had 5,445,673 (2019 – 5,554,401) common shares issued and outstanding.

The Board of Directors did not declare a dividend for the current year.

	October 31, 2020	October 31, 2019
0% dividend on common shares (2019 – 3.00%)	**$ ---**	$ 166,203

16. Risk management

The Credit Union, as part of its operations, carries a number of financial instruments. It is management's opinion that the Credit Union is exposed to the following risks as a result of holding financial instruments:

- Credit risk;
- Market risk
- Fair value risk;
- Interest rate risk;
- Liquidity risk;
- Foreign exchange risk; and
- Price risk

The following is a description of these risks and how the Credit Union manages the exposure to them.

a) Credit risk

Credit risk is the risk that financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union arising from cash and cash equivalents, accounts receivable, member loans and investments. The primary credit risk arising from loans is the possibility that members will be unable or unwilling to repay some or all of the principal and interest on their loans.

Provision for impairment losses are made for losses that are anticipated at the statement of financial position date.

16. **Risk management** (Continued)

a) Credit risk (Continued)

Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in member loans and advances and treasury activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member. The overall management of credit risk is centralized in the Credit Committee, which reports to the Board.

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

The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral which may include residential and personal property. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default which may include seeking additional collateral.

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

Significant changes in the economies of the Calgary, Edmonton, Fort Saskatchewan and Fort McMurray areas or deterioration in the residential mortgage lending sectors represent a concentration within the Credit Union's loan portfolio that may result in losses that are different from those predicted for at the statement of financial position date.

Measurement of expected credit losses

The Credit Union measures expected credit losses for member loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type. Otherwise, expected credit losses are measured on an individual basis.

The key judgments and assumptions adopted by the Credit Union in addressing the requirements of IFRS 9 are discussed below.

Significant increase in credit risk (SICR):

The Credit Union assesses a range of both qualitative and quantitative factors when determining if there has been a SICR since initial recognition

16. **Risk management** (Continued)

a) Credit risk (Continued)

A SICR is deemed to have occurred if any of the criteria have been met:

- The loan is 30 days past due
- External credit metrics, including rating agency and credit bureau scores, have deteriorated by an amount considered by management to be significant
- Internal credit metrics, including Member risk ratings and early warning system scores, have deteriorated by an amount considered by management to be significant

Definition of default and credit-impaired assets:

The Credit Union's definition of default is consistent across credit management and accounting policies, with a financial instrument considered to be credit impaired when it meets one of the following criteria:

- The loan is 90 days past due
- The Member has filed for bankruptcy or consumer proposal in the current month or the bankruptcy is expected to result in the member not meeting the contractual terms of the loan
- The borrower has failed to meet the terms under which a loan has been granted and legal action has commenced
- Based on other objective evidence, the Member's internal risk rating has been set to 'Impaired' and Credit Recovery has taken over responsibility for the file

Measuring ECL – Explanation of inputs, assumptions and estimation techniques:

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in the expected credit losses include the following:

Probability of default (PD)

PD is an estimate of the likelihood of default over a given time horizon The PD of the portfolio is based on the historical loan losses experienced by credit unions in the province.

Exposure of default (EAD)

EAD is an estimate of the loan exposure amount at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and payments of interest, any prepayments or liquidations, expected drawdowns on committed facilities or any other term or condition in favor of the obligor that may alter the cash flow characteristics of the loan. These inputs include:

- The current outstanding balance of the loan at the reporting date;
- The payment amounts, assumed to be constant; and
- The interest rate paid per payment period.

The EAD for an amortizing loan decreases as payments are received. For loans that are only required to pay principal and interest by the end of the project, the EAD is assumed to be the outstanding balance at the reporting date.

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16. **Risk management** (Continued)

a) Credit risk (Continued)

Loss given default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive including from any collateral. It is usually expressed as a percentage of EAD. 12-month LGD only considers losses related to default events that occur in the 12-month time horizon following the observation date. For lifetime, LGD is estimated over the subsequent 12-month time horizons.

Estimating the LGD requires:

- Estimating the exposure at default, which is done as noted above; and
- Estimating the proceeds from the liquidation of the property.

Using the historical data which include the following:

- Outstanding balance of loans 90+ days in arrears;
- Write-offs; and
- Loan recoveries.

For residential mortgages and real estate secured lines of credit, estimating the proceeds from the liquidation of the property considers the following:

- The value of the property at its last valuation date;
- The type of property - single family, multi-family or condo; and
- The average regional property value.

For commercial loans, estimating the proceeds from the liquidation of the collateral considers the following:

- The potential that there may be more than one type of collateral;
- Collateral might be shared among many different loans

Forward-looking information

The model takes into consideration forward-looking information as follows:

- Residential mortgage and real estate secured lines of credit LGD - Collateral value adjustments based on local and regional economic factors.
- Retail and non-retail PD - Relationships with macro drivers derived from bank industry data series and Statistics Canada information.

DocuSign Envelope ID: 0E7007FB-4A4C-4980-B1F0-608810BC8234

16. **Risk management** (Continued)

a) Credit risk (Continued)

Allowance for credit losses:

Estimating the allowance for credit losses is based on a set of assumptions and methodologies placed around credit risk and future looking macroeconomic indicators and therefore requires significant judgement. As discussed in Note 3, the COVID-19 pandemic has created global uncertainty. This event is unprecedented, and its length and resolution are unknown. This uncertainty affects the assessment of credit risk on deferred loans, the probability of loan default (PD), forecasted future looking macroeconomic indicators (FLIs), and the weightings to be used on the base, best and worst-case scenarios for the FLIs.

The Credit Union uses a model created by Central 1 (the model) to estimate the expected credit loss. Central 1 updates the FLIs used in the model to reflect the current economic situation by forecasting 20 quarters out. Management performs an annual assessment to determine if the estimates the model calculates is reasonable or if a management overlay is required to increase or decrease the allowances.

The macroeconomic factors that affect the Credit Union ECL calculations are Alberta unemployment rates, Alberta Housing Price Index and three-month Bank of Canada bond/Bankers' Acceptance rates. Each factor is forecast in a base case, a best case and a worst-case scenario. These scenarios are weighted, and the weighted average is used to build the estimate for expected credit losses.

		12 Month Average Forecast			5 Year Average Forecast		
	As at	Base Case	Best Case	Worst Case	Base Case	Best Case	Worst Case
3 Month GOC Bond Rate*	**10/31/2020**	**0.23**	**0.31**	**0.23**	**0.61**	**1.58**	**0.31**
	10/31/2019	1.40	2.06	0.44	1.58	3.38	0.58
3 Month BA Rate**	**10/31/2020**	**0.33**	**0.54**	**0.54**	**0.92**	**1.93**	**0.73**
	10/31/2019	1.67	2.33	0.72	1.85	3.63	0.86
Unemployment Rate	**10/31/2020**	**10.75**	**9.5**	**12.77**	**8.12**	**6.26**	**9.38**
	10/31/2019	6.90	4.70	8.94	6.20	3.96	8.40
Housing Price Index (HPI)	**10/31/2020**	**186.02**	**198.52**	**180.3**	**191.40**	**216.63**	**179.56**
	10/31/2019	189.48	192.74	178.88	196.02	205.57	177.40

*GOC - Government of Canada
**BA- Bankers' Acceptance

When there is a significant increase in credit risk, a member loan will move to a higher stage and a higher ECL will be calculated. Loans that have been deferred could be considered to have a significant increase in credit risk, however guidance provided by standard setters and regulators have indicated that receiving a deferral should not be the only reason a loan would move to the next stage. Management has followed this guidance and did not consider the deferral of loans, by itself, to be an indication of significant increase in credit risk. The loan deferrals that were provided due to COVID-19 ended in the fourth quarter and payments have resumed.

DocuSign Envelope ID: 0E7007FB-4A4C-4980-B1F0-608810BC8234

16. **Risk management** (Continued)

a) Credit risk (Continued)

Maximum exposure to credit risk:

The following table outlines the Credit Union's maximum on- and off-balance sheet credit risk exposures.

(i) Credit risk exposure

	2020	2019
On-balance sheet exposures		
Cash and cash equivalents (1)	**$ 7,211,759**	$ 315,723
Investments (1)	48,953,294	43,119,156
Member loans (2)	181,407,470	201,401,511
Off-balance sheet exposures		
Commitments to extend credit (3):		
Original terms to maturity of 1 year or less	36,327,365	41,224,284
Total exposure	**$ 273,899,888**	$ 286,060,674

1. Cash and cash equivalents and investments

   Credit risk arises from investments in cash and cash equivalents and investments held by the Credit Union to meet regulatory and internal liquidity requirements as well as general business purposes. This aspect of credit risk is principally managed by management who reports to the Board. All of the Credit Union's liquidity investments are held with Central and various other financial institutions. Central invests on behalf of the Credit Union as per the investment policies approved by the Investment Committee of the Board of Directors of Central. The investment policy requires that all investments are highly rated and that all of the assets are readily convertible to cash.

2. Member loans

   Member loans consist of consumer loans, residential mortgages and lines of credit. Residential mortgages are fully secured by residential property with 26.3% in mortgages insured by Canada Mortgage and Housing Corporation and other mortgage insurance providers, and 61.0% in conventional mortgages with an ongoing maximum advance ratio to 80% of the appraised value. The remaining 12.7% of the member loan portfolio consists of consumer loans, lines of credit and syndicated loans which are either secured by residential personal property, commercial property or are unsecured.

3. Credit commitments

   In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts for these commitments as set out above represent the maximum exposure to the Credit Union should the contracts be fully drawn, and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements. Such commitments are not included on the statement of financial position.

DocuSign Envelope ID: 0E7007FB-4A4C-4980-B1F0-608810BC8234

16. **Risk management** (Continued)

a) Credit risk (Continued)

(ii) Concentration of credit risk

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

Geographic credit risk exists for the Credit Union due to its primary service area being in and around Calgary, Edmonton and Fort McMurray.

The Credit Union is exposed to credit risk at this time as members of the Credit Union are employed in the oil and gas commodity sector.

b) Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, foreign currency risk, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions.

The Credit Union uses various risk management processes to manage market risk.

Management of market risk is established in policies and procedures established by the Board of Directors. In addition, the Corporation establishes standards to which the Credit Union must comply.

The primary market risk policies and procedures include the following:

(i) Interest rate risk management framework to measure and control interest rate exposure:

1. Identify significant interest rate risk, including re-pricing risk and interest spread risk;
2. Utilize sensitivity tools to measure various risk positions and evaluate their possible impact;
3. Develop products and services, and related pricing to ensure consistent net interest margins and profitability; and
4. Utilize derivative products to assist in ensuring consistent interest margins.

(ii) Investments and derivative management to measure and control on and off-balance sheet assets to ensure investment objectives are met:

1. Established standards for safety, liquidity and yield;
2. Limits on eligible investments;
3. Limits on investment concentrations;
4. Limits on investment term to maturity;
5. Limits on the use of derivative products;
6. Controls on securities dealers utilized;
7. Limits on real property and equipment for the Credit Union's use; and
8. Processes that identify adverse situations and trends.

DocuSign Envelope ID: 0E7007FB-4A4C-4980-B1F0-608810BC8234

16. **Risk management** (Continued)

c) Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits and investments held. The Credit Union does not hedge its fair value risk. See Note 21 for further information on fair value of financial instruments.

d) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its loans and other interest-bearing financial instruments.

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

Based on the current financial instruments, it is estimated that a 1.0% increase in the prime interest rate would increase financial margin by $216,834 (2019 - $49,702). A 1.0% decrease in the prime interest rate would decrease financial margin by $94,275 (2019 - $138,773).

The following schedule shows the Credit Union's sensitivity to interest changes as at October 31, 2020. Fixed rate assets and liabilities are reported based on scheduled repayments. Variable rate assets and liabilities that are linked to the prime rate are reported in the floating rate category. Non-interest-bearing assets and liabilities are reported in the non-rate sensitive category.

(in thousands of dollars)	Floating Rate	Within One Year	One to Five Years	Non-Rate Sensitive	Total
Assets					
Cash	$ 7,279	$ ---	$ ---	$ (68)	$ 7,211
(effective yield)	0.25%	0.00%	0.00%	0.00%	0.25%
Investments	---	37,867	7,878	2,942	48,687
(effective yield)	0.00%	0.88%	2.07%	0.00%	1.02%
Member loans	34,379	35,491	111,666	---	181,536
(effective yield)	3.39%	3.01%	2.68%	0.00%	2.88%
Other	---	---	---	1,853	1,853
(effective yield)	0.00%	0.00%	0.00%	0.00%	0.00%
Subtotal	41,658	73,358	119,544	4,727	239,287
Liabilities and Equity					
Member deposits	34,306	90,138	85,103	13,657	223,204
(effective yield)	0.03%	1.85%	2.33%	0.00%	1.64%
Other ---	---	---	---	2,395	2,395
(effective yield)	0.00%	0.00%	0.00%	0.00%	0.00%
Equity	---	---	---	13,688	13,688
Subtotal	34,306	90,138	85,103	29,740	239,287
2020 Net gap	**$ 7,352**	**$ (16,780)**	**$ 34,441**	**$ (25,013)**	**$ ---**
Percentage of assets	**3.07**	**-7.01**	**14.39**	**-10.45**	**% ---**
2019 Net gap	$ 3,555	$ 8,430	$ 14,003	$ (25,988)	$ ---
Percentage of assets	1.45	3.43	1.43	(10.57)	% ---

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16. **Risk management** (Continued)

d) Interest rate risk (Continued)

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of the Credit Union is to be an intermediate between the expectations of borrowers and depositors.

e) Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes. Refer to Note 18 for further information about the Credit Union's regulatory requirement.

The Credit Union uses various risk management processes to manage liquidity risk. Management of liquidity risk is established in policies and procedures established by the Board of Directors. In addition, the Corporation establishes standards to which the Credit Union must comply.

The primary liquidity risk and procedures include the following:

Liquidity risk management framework to measure and control liquidity risk exposure:

1. Maintain sufficient liquid assets to meet normal operating requirements;
2. Maintain Corporation regulated liquidity investments;
3. Maintain a line of credit and borrowing facility with Central;
4. Daily management of liquidity, which factors in known and projected inflows/outflows;
5. Maintain sufficient liquid assets that can be readily converted to cash with minimal or no cost;
6. Maintain liquid assets in excess of normal operating requirements;
7. Diversification in investing to ensure various sources of funding liquidity can be maintained; and
8. Liquidity management contingency planning.

The Credit Union enters into transactions to borrow funds from financial institutions or other creditors and leases office equipment from various creditors, for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Credit Union's future net cash flows for the possibility of a negative net cash flow.

The Credit Union manages the liquidity risk resulting from its accounts payable and loans payable by investing in liquid assets.

On a periodic basis, management ensures that it has adhered to the regulatory requirement of the *Credit Union Act* of Alberta's minimum liquidity ratio of 6% of total assets. The Credit Union's liquidity ratio was 8.74% at October 31, 2020 (2019 - 8.68%).

Management reviews its compliance with these policies and reports its statutory liquidity position to the Board of Directors on a monthly basis. The Audit Finance Committee ensures that a periodic review is performed to verify compliance with policy and procedures.

16. **Risk management** (Continued)

f) Foreign exchange risk

Foreign exchange risk is the risk that arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. Foreign exchange risk is not considered significant as at the date of the Statement of Financial Position, as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financed investments for an extended period.

g) Price risk

Price risk arises from changes in market risks other than interest rate, credit, liquidity or foreign exchange risk, such as changes in commodity prices where these changes cause fluctuations in the fair value or future cash flows of a financial instrument.

17. **Capital management**

Capital requirements are established by the *Credit Union Act* (the “Act”) and Principal Regulations regulated by the Credit Union Deposit Guarantee Corporation (the “Corporation”).

Under legislation, the Credit Union is required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets ("RWA") including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of capital to RWA is calculated and compared to the requirement set out in the legislation and by the Corporation. Legislative requirements stipulate that the Credit Union maintain a minimum capital of the greater of 8% of RWA and 4% of total assets. The Credit Union is also required to maintain a Supervisory Capital Buffer equal to 2.5% of its RWA.

The Credit Union also maintains an internal capital buffer, in addition to the legislative and supervisory buffers, of 2% of its risk weighted assets.

Tier 1 capital is defined as the Credit Union's primary capital and comprises share capital and retained earnings while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge.

Tier 2 capital of the Credit Union consists of deferred income taxes payable and the collective allowance for member loans.

The primary capital policies and procedures include the following:

a) Adhere to legislative capital requirements as minimum benchmarks (i.e. growth, operations, enterprise risk);
b) Co-ordinate strategic risk management and capital management;
c) Develop financial performance targets/budgets/goals;
d) Administer a patronage program that is consistent with capital requirements;
e) Administer an employee incentive program that is consistent with capital requirements;
f) Develop a planned growth strategy that is coordinated with capital growth; and
g) Update plans that consider the strengths, weaknesses, opportunities and threats to the Credit Union.

DocuSign Envelope ID: 0E7007FB-4A4C-4980-B1F0-608810BC8234

17. **Capital management** (Continued)

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares the Act's regulatory requirements to the Credit Union's board policy for the year:

	Regulatory Requirements	Board Minimum Limits
Total eligible capital to risk-weighted assets	8%	8%
Capital conservation buffer	2.5%	4.5% (i)
Total eligible capital to total assets	4%	5%

(i) Equal to Supervisory buffer of 2.5% plus a minimum Credit Union buffer of 2%.

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

Capital summary

	2020	2019
Total Assets ("TA")	**$ 239,287,426**	$ 245,903,708
Risk Weighted Assets ("RWA")	**$ 80,515,391**	$ 87,504,107
Eligible Capital		
Total tier 1 capital	**$ 13,687,782**	$ 14,574,795
Total tier 2 capital	287,884	405,532
Deductions – intangible assets and deferred tax asset	(659,638)	(310,980)
Total eligible capital	**$ 13,316,028**	$ 14,669,347
Risk-Weighted Assets		
Total eligible capital to risk-weighted assets (8.0% of RWA)	16.54**%**	16.76%
Total Assets		
Total eligible capital to total assets (4.0% of TA)	5.56**%**	5.97%

Calculation of capital targets for the Credit Union

	2020	2019
Legislated minimum (greater of 4.0% of TA and 8.0% of RWA)	**$ 9,571,497**	$ 9,836,148
Supervisory buffer (2.5% of RWA)	2,013,084	2,187,603
Minimum supervisory capital requirement	11,584,581	12,023,751
Minimum Credit Union internal buffer (2.0% of RWA)	1,610,467	1,750,082
Minimum target capital requirement	**$ 13,195,048**	$ 13,773,833
Total eligible capital	**$ 13,316,028**	$ 14,669,347
Minimum target capital requirement	(13,195,048)	(13,773,833)
Excess	**$ 120,980**	$ 895,514

18. Contingent liabilities and commitments

Contingent liabilities

During the normal course of business, the Credit Union enters into legal proceedings primarily relating to the recovery of delinquent loans. As a result, counterclaims or proceedings have been or may be instituted against the Credit Union.

Commitments

<u>Retail banking services</u>

The Credit Union entered into an *eroWORKS* Retail Banking Services Agreement with Celero Solutions Inc. for a seven-year term commencing January 2016 with an automatic three-year renewal unless terminated by either party. Annual operating fees vary annually based on the projected operating costs for *eroWORKS* Retail Banking for the upcoming year. For the year ended October 31, 2020, the annual operating fee is $139,747 (2019 - $146,283).

19. Related party transactions

<u>Key management personnel and directors</u>

a) ***<u>Compensation and dividends</u>***

Key management personnel ("KMP") of the Credit Union are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly. KMP have been taken to comprise member of management responsible for the day-to-day financial and operational management of the Credit Union. The Credit Union's KMP is comprised of five positions (2019 – five positions). Summary of compensation for KMP for the year ended October 31, 2020 is $775,497 (2019 - $589,248). Common shares held by KMP total $7,352 at October 31, 2020 (2019 - $15,830) with related common share dividends paid of $nil for 2020 (2019 - $407).

b) ***<u>Loans</u>***

Directors and KMP of the Credit Union have loans totalling $1,425,782 (2019 - $1,964,295) which is 0.79% (2019 - 0.97%) of total loans. The Credit Union, in accordance with its policy, grants loans to its management and staff at rates established by the Board. For mortgage loans, the rates staff pay for one single family dwelling or registered condominium unit which is owned and occupied full-time is the Canada Revenue Agency prescribed rate. There are no loans that are impaired in relation to loan balances with KMP or directors. Interest and other revenue earned on the above loans are $36,627 (2019 - $42,286).

c) ***<u>Deposits</u>***

Directors and KMP of the Credit Union have deposits totaling $1,214,590 (2019 - $2,441,877) which is 0.54% (2019 - 1.07%) of total deposits. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in member deposits. Interest on the above deposits is $19,000 (2019 - $49,006).

d) ***<u>Directors' fees</u>***

There was no remuneration paid to directors in the current or prior fiscal year. Travel, training and meal costs are $6,786 (2019 - $9,132).

19. **Related party transactions** (Continued)

Credit Union Central of Alberta Ltd. (Central)

The Credit Union is a member of Central, which acts as a depository for surplus funds received from and loans made to credit unions. Central also provides other services for a fee to the Credit Union and acts in an advisory capacity.

The Credit Union Deposit Guarantee Corporation

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

20. **Investment**

Investment income consists of the following:

	2020	2019
Patronage distribution from Central	**$ 117,680**	$ 105,647
Interest	660,363	740,611
	$ 778,043	$ 846,258

21. **Fair value of financial instruments**

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in the current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates.

Methods and assumptions

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

i) Financial assets:

The fair value of financial assets is determined by using quoted market values when available. For financial assets where market quotes are not available, the Credit Union uses estimation techniques to determine fair value. These estimation techniques include discounted cash flows, internal models that utilize observable market data or comparisons with other financial assets that are substantially the same. Where there is no observable market data, management uses estimates that it believes to be reasonable.

ii) Member loans:

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.

iii) Member deposits:

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

21. **Fair value of financial instruments** (Continued)

iv) Derivative instruments

Fair value of derivative financial instruments is established by referring to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

The table below sets out the fair value of financial instruments, including derivatives, using the valuation methods and assumptions referred to above. The table does not include assets and liabilities that do not meet the definitions of financial instruments:

(In thousands)

	2020			2019		
	Fair Value	**Carrying Amount**	**Difference**	Fair Value	Carrying Amount	Difference
Financial Assets						
Cash and cash equivalents	**$ 7,212**	**$ 7,212**	**$ ---**	$ 316	$ 316	$ ---
Investments	48,953	48,953	---	42,978	43,119	(141)
Member loans	178,468	181,407	(2,939)	198,802	201,402	(2,600)
Derivative financial assets	34	34	---	---	---	---
Other assets	239	239	---	200	200	---
	234,906	237,845	(2,939)	242,296	245,037	(2,741)
Financial Liabilities						
Member deposits	229,325	224,985	4,340	231,860	230,958	902
Derivative financial liabilities	34	34	---	---	---	---
Other liabilities	181	181	---	371	371	---
	229,540	225,200	4,340	232,231	231,329	902
	$ 5,366	**$ 12,645**	**$ (7,279)**	$ 10,065	$ 13,708	$ (3,643)

Fair Value Hierarchy

Assets and liabilities recorded at fair value in the Statement of Financial Position are measured and classified in a hierarchy consisting of three levels for disclosure purposes. Observable inputs represent instances where market data is obtained from independent sources. Unobservable inputs are based on the Credit Union’s own internal assumption.

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within level 1, are observable for the asset or liability either directly or indirectly; and

Level 3 – inputs that are not based on observable market data

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21. **Fair value of financial instruments** (Continued)

The following table presents the classification of financial instruments within the fair value hierarchy:

October 31, 2020

	Fair Value	Level 1	Level 2	Level 3
Financial assets:				
Shares in Central	$ 2,942,012	$ ---	$ 2,942,012	$ ---
Derivative financial assets	---	---	---	---
Total financial assets	$ 2,942,012	$ ---	$ 2,942,012	$ ---
Financial liabilities:				
Derivative financial liabilities	$ ---	$ ---	$ ---	$ ---
Total financial liabilities	$ ---	$ ---	$ ---	$ ---

Fair Value Hierarchy (Continued)

October 31, 2019 (IFRS 9)

	Fair Value	Level 1	Level 2	Level 3
Financial assets:				
Shares in Central	$ 2,942,012	$ ---	$ 2,942,012	$ ---
Derivative financial assets	---	---	---	---
Total financial assets	$ 2,942,012	$ ---	$ 2,942,012	$ ---
Financial liabilities:				
Derivative financial liabilities	$ ---	$ ---	$ ---	$ ---
Total financial liabilities	$ ---	$ ---	$ ---	$ ---

During the year, the Credit Union has not transferred any financial instruments from levels 1 and 2 to level 3 of the fair value hierarchy.

22. Right-of-use (ROU) assets and liabilities

Cost:	
Balance, October 31, 2019	$ ---
Buildings – transition adjustment for building leases (Note 2)	546,598
Disposals	---
Balance, October 31, 2020	$ 546,598
Accumulated Depreciation:	
Balance, October 31, 2019	$ ---
Buildings – depreciation	152,539
Disposals	---
Balance, October 31, 2020	$ 152,539
Net Book Value:	
Balance, October 31, 2019	$ ---
Balance, October 31, 2020	**$ 394,059**

Lease liabilities	**2020**
Maturity analysis - contractual undiscounted cash flows	
Less than one year	163,133
One to five years	258,294
Total undiscounted lease liabilities at October 31, 2020	**421,427**
Lease liabilities included in the statement of financial position at October 31, 2020	**399,590**

Amounts recognized in profit or loss	**2020**
Interest on lease liabilities	(16,125)
Variable lease payments not included in the measurement of lease liabilities	(53,675)
Expenses relating to short term leases	(15,750)
Expenses relating to leases of low-value assets	(4,615)

23. Government assistance

In response to the negative economic impact of COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy program in April 2020 (“CEWS”). CEWS provides a wage subsidy on eligible remuneration to eligible employers based on certain criteria.

The Credit Union assessed its eligibility related to CEWS and determined it qualified for this subsidy. It has accordingly applied for and received $315,392. Government assistance related to the CEWS program has been recognized as a reduction of personnel expense, for which the subsidy was intended to compensate. The Credit Union intends to apply for the CEWS in subsequent application periods, subject to continuing to meet the applicable qualification criteria.

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24. **Subsequent events**

On December 15, 2020, the Credit Union entered into a Memorandum of Understanding to merge with Connect First Credit Union Ltd. Subject to the approval of regulatory bodies and a positive membership vote at the Credit Union's annual general meeting, the intent is to close the merger transaction no later than October 31, 2021.

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SPARK THE ENERGY CREDIT UNION LIMITED
Schedule 1: Operating Expenses
For the Year Ended October 31, 2020

	2020	2019
Personnel (Note 23)	**$ 2,556,447**	$ 2,849,097
Security		
Bonding	23,153	21,430
Deposit guarantee	114,241	208,782
	137,394	230,212
Organizational		
Central dues	68,120	58,980
Directors' expenses	30,240	25,141
Directors' meetings and training	20,378	20,506
	118,738	104,627
Occupancy		
Leasehold depreciation (Note 10)	97,772	95,942
Right-of-use lease depreciation (Note 22)	152,539	---
Rent	93,456	241,085
	343,767	337,027
General business		
Advertising and marketing	87,587	228,216
Amortization of intangible assets (Note 11)	55,440	43,561
Depreciation (Note 10)	33,783	28,021
Information Technology	420,730	402,486
Cash, service charges and other fees	87,010	89,040
Courier and postage	26,769	26,059
Office	90,869	100,810
Other	17,306	28,277
Memberships and subscriptions	22,459	29,050
Equipment, repairs and maintenance	33,219	45,698
Insurance	20,038	18,622
Staff travel	9,235	7,719
Professional fees	93,330	124,634
	997,775	1,172,193
	$ 4,154,121	$ 4,693,156

See accompanying notes to the financial statements