ASSET PURCHASE AGREEMENT

THIS AGREEMENT is made as of the 16th day of December, 2024,

BETWEEN:

KAWARTHA CREDIT UNION LIMITED, a credit union under the *Credit Unions and Caisses Populaires Act, 2020*

(the "**Purchaser**")

AND:

SMITHS FALLS COMMUNITY CREDIT UNION LIMITED, a credit union under the *Credit Unions and Caisses Populaires Act, 2020*

(the "**Vendor**")

WHEREAS:

A. The Vendor has agreed to sell and the Purchaser has agreed to purchase all of the assets of the Vendor and assume all of the liabilities of the Vendor, upon and subject to the terms and conditions set forth in this Agreement;

B. This Agreement is subject to the approval of the Chief Executive Officer of the Authority (as hereinafter defined), in accordance with subsection 174(5) of the Act (as hereinafter defined);

C. This Agreement is subject to the approval of the members of the Vendor, pursuant to paragraph 1 of subsection 174(1) of the Act; and

D. The approval of the members and shareholders, if any, of the Purchaser is not required, pursuant to paragraph 2 of subsection 174(1) of the Act.

NOW THEREFORE, in consideration of the premises and the covenants and agreements contained herein,the Parties hereto agree as follows:

ARTICLE 1
INTERPRETATION

1.1 Definitions

Whenever used in this Agreement, unless there is something inconsistent in the subject matter or context, the following words and terms shall have the meanings set out below:

(a) "**Act**" means the *Credit Unions and Caisses Populaires Act, 2020*, S.O. 2020, c. 36, Sched. 7, as amended;

(b) “**Action**” means any claim, action, cause of action, demand, lawsuit, arbitration, inquiry, audit, notice of assessment, notice of reassessment, proceeding, litigation, summons, subpoena or investigation of any nature, civil, criminal, administrative, investigative, regulatory or otherwise, whether at law or in equity;

(c) “**Agreement**” means this Asset Purchase Agreement, including all schedules and all instruments supplementing or amending or confirming this Agreement;

(d) “**Assumed Liabilities**” means each and every indebtedness and liability of the Vendor, present and future, direct or indirect, absolute or contingent to any and all persons, including, without limiting the generality of the foregoing, the liability of the Vendor to members for monies on deposit with the Vendor;

(e) “**Assumption of Liabilities Agreement**” means the agreement to be entered into between the Vendor and the Purchaser providing for the assumption by the Purchaser of the Assumed Liabilities, substantially in the form attached hereto as Schedule “B”;

(f) “**Authority**” shall have the meaning given to that term in the Act;

(g) “**By-Law Amendment**” shall have the meaning given to that term in Paragraph 4.8(a);

(h) “**Chief Executive Officer of the Authority**” shall have the meaning given to the term “Chief Executive Officer” in the Act;

(i) “**Closing**” means the completion of the sale to, and purchase by, the Purchaser of the Purchased Assets under this Agreement;

(j) “**Closing Date**” means December 31, 2024, or such earlier or later date as may be agreed between the Parties in writing;

(k) “**Credited Amount”** has the meaning given to that term in Paragraph 6.11(c);

(l) “**Dissolution Date**” means the date the Chief Executive Officer of the Authority issues an order dissolving the Vendor pursuant to subsection 237(2) of the Act;

(m) “**Effective Time**” means 11:59 p.m. on the Closing Date, or such other time as may be agreed between the Parties in writing;

(n) “**Employees**” means all persons employed by the Vendor;

(o) “**Financial Statements**” means the audited financial statements of the Vendor for the fiscal year ending on December 31, 2023, as set out in Schedule “C”;

(p) “**General Conveyance**” has the meaning given to that term in Section 6.7;

(q) “**Governmental Order**” means any order, writ, judgment, injunction, decree, stipulation, determination, award, decision, sanction or ruling entered by or with any governmental authority;

(r) “**Lease**” means the lease made the 5th day of July, 2021, between Inverideau Ltd., as landlord, and the Vendor, as tenant, for the Leased Premises;

(s) “**Leased Premises**” means the premises municipally known as 1 Beckwith Street North, Smiths Falls, Ontario in which the Vendor operates a credit union;

(t) “**Loans**” means all personal and commercial loans outstanding as at the Effective Time;

(u) “**Mortgages**” means those residential and, if applicable, commercial mortgages shown in the loans ledger of the Vendor as at the Effective Time, including all further security held by the Vendor in respect thereof;

(v) “**Non-Disclosure Agreement**” means the Confidentiality and Non-Disclosure Agreement dated as of November 15, 2024, between the Vendor and the Purchaser;

(w) “**Parties**” means the Vendor and the Purchaser collectively, and “**Party**” means any one of them;

(x) “**Purchase Price**” has the meaning given to that term in Section 2.3;

(y) “**Purchased Assets**” means all of the rights, property and assets of the Vendor of whatever nature and kind, real or personal, and wherever situated, owned by the Vendor on the Closing Date immediately prior to the Effective Time, including, without limiting the generality of the foregoing, all indebtedness owed to the Vendor, all actions and causes of action, all choses in action, all agreements, records and evidences of indebtedness due to it, all securities held by it with respect to any indebtedness due to it, all cash on hand and in any bank or invested in shares of, on deposit with or held in trust by Central 1 Credit Union, all bonds, shares, stocks or other securities held by it, all lands and all furnishings, furniture and equipment owned by it, all trademarks, trade names, copyrights, goodwill and the right to represent itself as carrying on the business of the Vendor as it was carried on immediately prior to the Effective Time, and the right to use the name “Smiths Falls Community Credit Union” and any variations thereof;

(z) “**Qualifying Offer of Employment**” has the meaning given to that term in Section 5.6; and

(aa) “**Recognized Years of Service With the Vendor**” shall mean the period of time between the recognized start date in the employee records of the Vendor and the Closing Date for each of the Employees, and as stated on Schedule “D” hereto.

1.2 Headings

The division of this Agreement into Articles, Sections and Paragraphs, and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms “this Agreement”, “hereof”, “hereunder” and similar expressions refer to this Agreement and not to any particular Article, Section, Paragraph or other portion hereof and include any agreement supplemental hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles, Sections and Paragraphs are to Articles, Sections and Paragraphs of this Agreement.

1.3 Singular, etc.

The use of words in the singular or plural, or with a particular gender, shall not limit the scope or exclude the application of any provision of this Agreement to such person or persons or circumstances as the context otherwise permits.

1.4 Currency

Unless otherwise indicated herein, all references to currency herein are to lawful money of Canada.

1.5 Schedules

The following are the Schedules annexed hereto and incorporated by reference and deemed to be part hereof:

Schedule “A”	-	General Conveyance
Schedule “B”	-	Assumption of Liabilities Agreement
Schedule “C”	-	Financial Statements of the Vendor
Schedule “D”	-	List of Vendor's Employees receiving a Qualifying Offer of Employment and Recognized Years of Service

ARTICLE 2
SALE AND PURCHASE

2.1 Action by Vendor and Purchaser

At the Effective Time:

(a) **Purchase and Sale of Purchased Assets** - The Vendor shall sell to the Purchaser, and the Purchaser shall purchase from the Vendor, the Purchased Assets for the Purchase Price payable as provided in this Agreement;

(b) **Assumption of Assumed Liabilities** - The Purchaser shall assume the Assumed Liabilities; and

(c) **Payment of Purchase Price** - The Purchaser shall deliver to the Vendor the Purchase Price as provided in Section 2.4.

2.2 Place of Closing

Unless otherwise agreed to by the parties in writing, the Closing shall take place remotely by exchange of documents and signatures (or their electronic counterparts) at the Effective Time on the Closing Date. All documents may be delivered electronically and all documents deliverable at Closing in accordance with this Agreement shall be tabled and held in escrow until all deliveries are completed, and until all Parties have agreed to release the documents and terminate the escrow.

2.3 Purchase Price

The amount payable by the Purchaser for the Purchased Assets (the "**Purchase Price**") shall be a sum equal to the fair market value of the Assumed Liabilities plus $1.00.

2.4 Payment of Purchase Price

The Purchaser shall pay the Purchase Price at the Effective Time by:

(a) assuming the Assumed Liabilities in exchange for the Purchased Assets; and

(b) paying the amount of $1.00 to the Vendor in exchange for the goodwill of the Vendor's business.

2.5 Allocation of Purchase Price

The Purchase Price shall be reasonably allocated among the Purchased Assets by agreement of the Parties, having regard to tax implications. Any surplus shall be treated for accounting purposes as contributed surplus on the books of the Purchaser. The Vendor and the Purchaser agree to report the purchase and sale of the Purchased Assets in any returns to be filed under the *Income Tax Act* (Canada) and other taxation statutes in accordance with this Agreement. Notwithstanding the foregoing, $1.00 of the Purchase Price shall be allocated to the goodwill of the Vendor's business.

2.6 Section 22 *Income Tax Act* (Canada) Election

The Vendor and the Purchaser shall execute and deliver an election pursuant to section 22 of the *Income Tax Act* (Canada) as to the sale of the Loans and Mortgages hereunder, shall designate therein the applicable portion of the Purchase Price referred to in Section 2.5 hereof as the consideration paid by the Purchaser therefor, and shall file such election with the Canada Revenue Agency forthwith after the Closing Date.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

3.1 Vendor's Representations and Warranties

The Vendor represents and warrants to the Purchaser that the statements contained in this Section 3.1 are true and correct as of the date hereof.

(a) **Incorporation** - The Vendor is a corporation incorporated and validly existing as a credit union under the laws of the Province of Ontario.

(b) **Corporate Capacity, Due Authorization and Execution** - The Vendor has the corporate power and capacity to enter into this Agreement and the documents to be delivered hereunder, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance and the documents to be delivered hereunder and the consummation of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of the Vendor.

This Agreement and the documents to be delivered hereunder have been duly executed and delivered by the Vendor.

(c) **Absence of Conflicting Agreements** - There is no contract, option or any other rights of another binding upon or which may at any time in the future become binding upon the Vendor to sell, transfer, assign, pledge, charge, mortgage or in any other way dispose of or encumber any of the Purchased Assets, other than pursuant to the provisions of this Agreement.

(d) **No Conflicts** - The execution, delivery and performance by the Vendor of this Agreement and the documents to be delivered hereunder, and the consummation of the transactions contemplated hereby, do not and will not:

(i) violate or conflict with the articles of incorporation or by-laws of the Vendor;

(ii) violate or conflict with any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Vendor or the Purchased Assets;

(iii) conflict with, or result in (with or without notice or lapse of time or both) any violation of, or default under, or give rise to a right of termination, acceleration or modification of any obligation or loss of any benefit under any contract or other instrument to which the Vendor is a party or to which any of the Purchased Assets are subject; or

(iv) result in the creation or imposition of any encumbrance on the Purchased Assets.

(e) **No Consents Required** - Other than the approval of the Chief Executive Officer of the Authority and approval by special resolutions of the Vendor's members, no consent, approval, waiver or authorization is required to be obtained by the Vendor from any person or entity (including any governmental authority) in connection with the execution, delivery and performance by the Vendor of this Agreement and the consummation of the transactions contemplated hereby.

(f) **Tax Matters** - The Vendor is not a non-resident of Canada for the purposes of the *Income Tax Act* (Canada).

(g) **Title** - The Vendor will be on Closing the absolute beneficial owner of the Purchased Assets, with good and marketable title, free and clear of all encumbrances (except for those in favour of Central 1 Credit Union) and exclusively entitled to possess and dispose of the Purchased Assets.

(h) **Financial Statements** - The Financial Statements have been prepared in accordance with international financial reporting standards applied on a basis consistent with that of the preceding period and present fairly:

(i) all of the assets, liabilities and financial position of the Vendor as at December 31, 2023; and

(ii) the earnings, results of operation and changes in financial position of the Vendor for the 12 month period ended December 31, 2023.

(i) **Absence of Undisclosed Liabilities** - Since December 31, 2023, the Vendor has not incurred any liabilities or obligations (whether accrued, absolute, contingent or otherwise), which continue to be outstanding, except those incurred in the ordinary course of business.

(j) **Absence of Changes** - Since December 31, 2023, there has not been:

(i) any material change in the financial condition, operations or prospects of the Vendor or the Purchased Assets other than changes in the ordinary and usual course of business, none of which has been materially adverse;

(ii) entry into any contract that would be considered material to the financial condition, operations or prospects of the Vendor or the Purchased Assets;

(iii) any acceleration, termination, material modification to or cancellation or default on any contract being assigned to the Purchaser under this Agreement;

(iv) grant or acceleration of any bonuses, whether monetary or otherwise, or increase in any wages, salary, severance, pension or other compensation or benefits in respect of any current or former employees, officers, directors, independent contractors or consultants of the Vendor; or

(v) any damage, destruction, loss, labour trouble or other event, development or condition of any character (whether or not covered by insurance) materially and adversely affecting the business, assets, properties or future prospects of the Vendor.

(k) **Lease** - With respect to the Lease: (i) all rents and additional rents have been paid; (ii) no waiver, indulgence or postponement of the Vendor's obligations under the Lease has been granted by the landlord; (iii) there exists no event of default or event, occurrence, condition or act which, with the giving of notice, lapse of time or the happening of any other event or condition, would become a default under the Lease; and (iv) all covenants to be performed by another party under the Lease have been fully performed. There are no subleases under the Lease. The Leased Premises are adequate and suitable for the purposes for which they are presently being used and the Vendor has adequate rights of ingress and egress into the Leased Premises for operation of its business in the ordinary course.

(l) **Collective Agreement** - The Vendor is not a party to any collective agreements.

(m) **Shares** - The Vendor has no issued and outstanding equity shares other than membership shares.

(n) **Legal Proceedings -**

(i) There are no Actions pending or, to Vendor's knowledge (after due inquiry), threatened against or by Vendor: (i) relating to or affecting the Vendor, the Purchased Assets or the Assumed Liabilities; or (ii) that challenge or seek to prevent, enjoin or otherwise delay the transactions contemplated by this Agreement. No event has occurred or circumstances exist that may give rise to, or serve as a basis for, any such Action.

(ii) There are no outstanding Governmental Orders and no unsatisfied judgments, penalties or awards against, relating to or affecting the Vendor. No event has occurred or circumstances exist that may constitute or result in (with or without notice or lapse of time) a violation of any Governmental Order.

(o) **Full Disclosure** - The Vendor has made full, true and plain disclosure of all material facts and information reasonably necessary for the Purchaser to complete its due diligence investigations with respect to the transactions contemplated by this Agreement. No representation or warranty by the Vendor in this Agreement and no statement, certificate or other document furnished or to be furnished to the Purchaser during its due diligence investigations of the Vendor or otherwise made in connection with this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained therein, in light of the circumstances in which they are made, not misleading.

(p) **Employment Matters**

(i) The Vendor has provided to the Purchaser a complete, accurate and true listing of all Employees which indicates: (i) the titles of all Employees together with the location of their employment; the date each Employee was hired; (ii) which Employees, if any, are subject to a written employment agreement with the Vendor; (iii) the annual wage of each Employee at the date of such list, any bonuses paid to each Employee since the end of the Vendor's last completed financial year and before the date of such list and all other bonuses, incentive schemes, benefits, commissions and other compensation to which each transferring Employee is entitled; (iv) the vacation days to which each transferring Employee is entitled on the date of such list; and (v) the Employees that are not actively working on the date of this Agreement due to leave of absence, illness, injury, accident or other disabling condition.

(ii) Correct and complete copies of all Employee and employment related contracts have been made available to Purchaser.

(iii) Except as previously disclosed to the Purchaser, no notice in writing has been received by the Vendor of any complaint filed by any of its Employees or former employees against the Vendor or any current or former director or officer thereof or to the Vendor's knowledge, is threatened or pending, claiming or alleging that the Vendor has violated any laws or agreements applicable to the Employee or human rights or of any complaints or Actions of any kind involving the Vendor or any of the Employees before any governmental authority, including a labour relations board, tribunal or commission.

(q) **Compliance with Laws** - The Vendor is in compliance with all laws applicable to the conduct of its business including, but not limited to: the Act, the P*roceeds of Crime (Money Laundering) and Terrorist Financing Act* S.C. 2000 and the *Personal Information Protection and Electronic Documents Act* S.C. 2000, c. 5.

3.2 Purchaser's Representations and Warranties

The Purchaser represents and warrants to the Vendor that the statements contained in this Section 3.2 are true and correct as of the date hereof.

(a) **Incorporation** - The Purchaser is a corporation incorporated and validly existing as a credit union under the laws of the Province of Ontario.

(b) **Corporate Capacity, Due Authorization and Execution** - The Purchaser has the corporate power and capacity to enter into this Agreement and the documents to be delivered hereunder, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance and the documents to be delivered hereunder and the consummation of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of the Purchaser. This Agreement and the documents to be delivered hereunder have been duly executed and delivered by the Purchaser.

(c) **Bond of Association** -The members of the Vendor are eligible under the Purchaser's bond of association to apply for membership in the Purchaser on Closing.

ARTICLE 4
<u>PURCHASER'S CONDITIONS PRECEDENT</u>

The obligations of the Purchaser to complete the sale of the Purchased Assets under this Agreement shall be subject to the satisfaction of or compliance with, at or before the Effective Time, each of the conditions precedent set out in this ARTICLE 4 (each of which is acknowledged to be inserted for the exclusive benefit of the Purchaser). Save and except the requirement to obtain the consent of the Chief Executive Officer of the Authority as set out in Section 4.7 and the special resolutions of the Vendor's members as set out in Section 4.8, the Purchaser may waive any of the conditions contained in this ARTICLE 4 in whole or in part without prejudice to its rights of termination in the event of non-fulfillment of any other condition, in whole or in part, or to its rights to recover damages for the breach of any representation, warranty, covenant or condition contained in this Agreement.

4.1 Due Diligence

The Purchaser will be satisfied, in its sole and absolute discretion, with the investigation of the Vendor's financial affairs pursuant to Section 6.3 hereof.

4.2 Tenancy Matters

The Vendor shall obtain, prior to the Effective Time, at its expense, for the Purchaser the right to use the Leased Premises, on terms and conditions no less favourable than those currently enjoyed by the Vendor.

4.3 Termination of Employment

The Vendor shall, prior to the Effective Time, terminate its contractual arrangements with all of its Employees who have not accepted a Qualifying Offer of Employment from the Purchaser prior to the Effective Time, with effect from the Effective Time, and shall obtain and provide to the Purchaser, at or prior to the Effective Time, a copy of a full and final release of both the Vendor and the Purchaser from any liability which has arisen, arises, or may arise from their employment by the Vendor from such Employees, in form satisfactory to the Purchaser. For greater certainty, the Purchaser will not offer employment to the current Chief Executive Officer of the Vendor effective as of the Effective Time and the Vendor shall obtain from such Chief Executive Officer and provide to the Purchaser at or prior to the Effective Time, a copy of a full and final release of the Vendor and the Purchaser from any liability which has arisen, arises, or may arise from the Chief Executive Officer's employment by the Vendor, in form satisfactory to the Purchaser.

4.4 Truth and Accuracy of Representations of Vendor at the Closing Time

All of the representations and warranties of the Vendor made in or pursuant to this Agreement shall be true and correct as at the Effective Time and with the same effect as if made at and as of the Effective Time (except as such representations and warranties may be affected by the occurrence of events or transactions expressly contemplated and permitted by this Agreement), and the Purchaser shall have received a certificate from the Chief Executive Officer of the Vendor, confirming, to the best of the Chief Executive Officer's knowledge, information and belief (after due inquiry), the truth and correctness of the representations and warranties of the Vendor.

4.5 Performance of Obligations

The Vendor shall have performed or complied with, in all respects, all its pre-Closing obligations, covenants and agreements under this Agreement.

4.6 Receipt of Closing Documentation

All instruments of conveyance and other documentation relating to the sale and purchase of the Purchased Assets, including, without limitation, documentation relating to the due authorization and completion of such sale and purchase, and all actions and proceedings taken on or prior to the Closing in connection with the performance by the Vendor of its pre-Closing obligations under this Agreement, shall be satisfactory to the Purchaser, acting reasonably, and the Purchaser shall have received copies of all such documentation or other evidence as it may reasonably request in order to establish the consummation of the transactions contemplated by this Agreement and the taking of all corporate proceedings in connection with such transactions in compliance with these conditions, in form (as to certification and otherwise) and substance satisfactory to the Purchaser.

4.7 Consents, Authorizations and Registrations

All consents, approvals, orders and authorizations of any person or governmental authority (or registrations, declarations, filings or recordings with any such authorities), required in connection with the completion of any of the transactions contemplated by this Agreement, the execution of this Agreement, the Closing or the performance of any of the terms and conditions of this Agreement, including, but not limited to, the approval of the Chief Executive Officer of the Authority of this Agreement pursuant to subsection 174(5) of the Act, shall have been obtained at or before the Effective Time. There shall be no injunction or restraining order issued preventing, and no pending or threatened claim, action, litigation or proceeding, judicial or administrative, or investigation against any Party by any governmental authority, for the purpose of enjoining or preventing the consummation of the transactions contemplated in this Agreement, or otherwise claiming that this Agreement or the consummation thereof is improper or would give rise to proceedings under any statute or rule of law.

4.8 Corporate Approvals

Each Party shall call and hold such meetings of its board and its members as are required pursuant to the provisions of the by-laws of each such Party and the Act in order to authorize, approve and effect this Agreement and the transactions contemplated thereby, including without limitation:

(a) a resolution of the board of directors of the Vendor to adopt an amendment to the by-laws of the Vendor in order to allow for the redemption of membership shares of the Vendor and the payment of the redemption price for such shares by the issue of membership shares of the Purchaser or a combination of the issue of membership shares of the Purchaser and the payment of cash (the "**By-Law Amendment**");

(b) a special resolution of the Vendor's members to adopt the By-Law Amendment;

(c) a special resolution of the Vendor's members approving this Agreement pursuant to subsection 174(1) of the Act; and

(d) a special resolution of the Vendor's members approving the dissolution of the Vendor once all of the Purchased Assets and Assumed Liabilities have been transferred to the Purchaser.

4.9 Encumbrances

The Purchaser shall have received evidence satisfactory to it that the Purchased Assets are free and clear of all encumbrances, except for those in favour of Central 1 Credit Union.

4.10 No Adverse Laws

No laws shall have been enacted, introduced or announced which materially and adversely affect the Purchased Assets as a whole.

ARTICLE 5
VENDOR'S CONDITIONS PRECEDENT

The obligations of the Vendor to complete the sale of the Purchased Assets under this Agreement shall be subject to the satisfaction of or compliance with, at or before the Effective Time, each of the conditions precedent set out in this ARTICLE 5 (each of which is acknowledged to be inserted for the exclusive benefit of the Vendor). Save and except the requirement to obtain the consent of the Chief Executive Officer of the Authority as set out in Section 5.4 and the special resolutions of the Vendor's members as set out in Section 5.5, the Vendor may waive any of the conditions contained in this ARTICLE 5 in whole or in part without prejudice to its rights of termination in the event of non-fulfillment of any other condition, in whole or in part, or to its rights to recover damages for the breach of any representation, warranty, covenant or condition contained in this Agreement.

5.1 Truth and Accuracy of Representations of the Purchaser at Closing Time

All of the representations and warranties of the Purchaser made in or pursuant to this Agreement shall be true and correct as at the Effective Time and with the same effect as if made at and as of the Effective Time (except as such representations and warranties may be affected by the occurrence of events or transactions expressly contemplated and permitted by this Agreement) and the Vendor shall have received a certificate from the Chief Executive Officer of the Purchaser, confirming, to the best of the Chief Executive Officer's knowledge, information and belief (after due inquiry), the truth and correctness of the representations and warranties of the Purchaser.

5.2 Performance of Obligations

The Purchaser shall have performed or complied with, in all respects, all its obligations, covenants and agreements under this Agreement.

5.3 Receipt of Closing Documentation

The Vendor shall have received all instruments of conveyance and other documentation relating to the sale and purchase of the Purchased Assets, including, without limitation, documentation relating to the due authorization and completion of such sale and purchase, and all actions and proceedings taken on or prior to Closing in connection with the performance by the Purchaser of its obligations under this Agreement (which shall be satisfactory to the Vendor, acting reasonably). The Vendor shall also have received copies of all such documentation or other evidence as it may reasonably request in order to establish the consummation of the transactions contemplated by this Agreement and the taking of all corporate proceedings in connection with such transactions in compliance with these conditions, in form (as to certification and otherwise) and substance satisfactory to the Vendor.

5.4 Consents, Authorizations and Registrations

All consents, approvals, orders and authorizations of any person or governmental authority (or registrations, declarations, filings or recordings with any such authorities), required in connection with the completion of any of the transactions contemplated by this Agreement, the execution of this Agreement, the Closing or the performance of any of the terms and conditions of this Agreement, including, but not limited to, the approval of the Chief Executive Officer of the Authority of this Agreement pursuant to subsection 174(5) of the Act, shall have been obtained at or before the Effective Time. There shall be no injunction or restraining order issued preventing, and no pending or threatened claim, action, litigation or proceeding, judicial or administrative, or investigation against any Party by any governmental authority, for the purpose of enjoining or preventing the consummation of the transactions contemplated in this Agreement, or otherwise claiming that this Agreement or the consummation thereof is improper or would give rise to proceedings under any statute or rule of law.

5.5 Corporate Approvals

Each Party shall call and hold such meetings of its board and its members as is required pursuant to the provisions of the by-laws of each such Party and the Act in order to authorize, approve and effect this Agreement and the transactions contemplated thereby, including without limitation:

(a) a resolution of the board of directors of the Vendor to adopt the By-Law Amendment;

(b) a special resolution of the Vendor's members to adopt the By-Law Amendment;

(c) a special resolution of the Vendor's members approving this Agreement pursuant to subsection 174(1) of the Act; and

(d) a special resolution of the Vendor's members approving the dissolution of the Vendor once all of the Purchased Assets and Assumed Liabilities have been transferred to the Purchaser.

5.6 Employee Matters

Prior to the Effective Time, the Purchaser shall have delivered to each of the full-time and part-time Employees of the Vendor, listed on Schedule "D", as of the date such offers are made, prior to the Effective Time, an offer of employment with the Purchaser, effective as of the day after the Closing Date, that meets all of the following standards:

(a) the offered position must involve a level of responsibility reasonably similar to the position occupied by the employee with the Vendor as of the date such offer was made, provided that the Purchaser shall be entitled to reserve to itself the right to make changes in the employee's job description and roles and responsibilities;

(b) the offered total compensation shall be at least equivalent to that provided to the employee by the Vendor as of the date the offers are made; and

(c) the Purchaser shall acknowledge to each employee that all of such employee's Recognized Years of Service with the Vendor shall be recognized by the Purchaser as years of service with the Purchaser, for all purposes, including, but not limited to, determining an appropriate period of notice of termination in the event of termination of employment without cause.

Offers of employment that meet all of the above standards shall be referred to in this Section 5.6 as "**Qualifying Offers of Employment**".

If any one ormore of the foregoing conditions in this Article has not been fulfilled by Closing, the Vendor may terminate this Agreement by notice in writing to the Purchaser, in which event the Vendor is released from all obligations under this Agreement, and unless the Vendor can show that the condition relied upon could reasonably have been performed by the Purchaser, the Purchaser is also released from all obligations under this Agreement.

ARTICLE 6
COVENANTS OF THE PARTIES

6.1 Vendor's Obligations Prior to Closing

During the period from the date of this Agreement to the Effective Time, the Vendor shall do the following:

(a) **Conduct Business in the Ordinary Course** - Except as otherwise contemplated or permitted by this Agreement or with the prior written consent of the Purchaser, conduct its business in the ordinary and normal course, in accordance with and as required by the Act, at the Vendor's expense, until the Effective Time. The Vendor agrees to not, without the prior written consent of the Purchaser, enter into any transaction which, if effected before the date of this Agreement, would constitute a breach of the representations, warranties or agreements of the Vendor contained in this Agreement. The Vendor shall also not declare any dividends to its members without the prior written consent of the Purchaser;

(b) **Approvals** - Cooperate with the Purchaser and use all reasonable efforts and diligently pursue obtaining approval of this Agreement and the dissolution of the Vendor by the Authority or any other third party;

(c) **Conditions** - Use all reasonable efforts to pursue satisfying all the other conditions set out in ARTICLE 4 in a timely fashion;

(d) **Communication with Members** - Communicate with its members in a manner designed to facilitate the transfer of the Purchased Assets and the Assumed Liabilities, and as approved by the Purchaser; and

(e) **Approval of Members** - Diligently pursue, and use all reasonable efforts to obtain, the approval of the Vendor’s members of this Agreement and the dissolution of the Vendor as required by the terms of this Agreement and the Act.

6.2 Purchaser's Obligations Prior to Closing

During the period from the date of this Agreement to the Effective Time, and, as applicable, after the Effective Time, the Purchaser shall:

(a) **Approvals** - Cooperate with the Vendor and use all reasonable efforts and diligently pursue obtaining approval of this Agreement and the dissolution of the Vendor by the Chief Executive Officer of the Authority; and

(b) **Conditions** - Use all reasonable efforts to pursue satisfying all the other conditions set out in ARTICLE 5 in a timely fashion.

6.3 Access for Investigation

The Vendor, during the period from the date of this Agreement to the Effective Time, shall permit the Purchaser and its representatives, without interference to the ordinary conduct of the Vendor's business, to have free and unrestricted access during normal business hours to the premises of the Vendor and to all of its books and records, and to the properties and assets used in the Vendor's business, and shall furnish the Purchaser with such financial and operating data and other information with respect to the Vendor's business and the Purchased Assets, as the Purchaser shall from time to time reasonably request to enable confirmation of the matters warranted in this Agreement. Without limiting the generality of the foregoing, it is agreed that the representatives of the Purchaser shall be afforded ample opportunity to make a full investigation of all aspects of the financial affairs of the Vendor.

6.4 Banking System

The conversion of the Vendor’s member information to the Purchaser’s banking system will occur as soon as practicable after the Closing Date. The Purchaser shall be responsible, at its expense, for importing the Vendor’s data onto the Purchaser's banking system.

6.5 Digital Banking and Related Capabilities

Within a reasonable period of time after the Closing Date, the Purchaser shall offer to members of the Vendor digital banking options for their banking, including, but not limited to, online banking, mobile banking and member debit cards, including MasterCard debit cards.

6.6 Assumption of Liabilities Agreement

At the Effective Time, the Purchaser shall execute and deliver to the Vendor the Assumption of Liabilities Agreement. Notwithstanding anything contained herein, should the transactions contemplated by this Agreement not be completed, the Purchaser shall not be liable for the Assumed Liabilities.

6.7 General Conveyance

At the Effective Time, the Vendor shall execute and deliver to the Purchaser a general assignment and conveyance of all of its right, title and interest in, to and under, or in respect of the Purchased Assets (the “**General Conveyance**”), substantially in the form attached hereto as Schedule “A”.

6.8 Transfer of Member Files

Upon Closing, the Vendor agrees to deliver to the Purchaser all member files in its possession in respect of the Vendor’s members. The transferred member files shall include, without limitation, all computer files and all relevant promissory notes, security agreements, insurance documentation and registration documents.

6.9 No HST Election

Each Party acknowledges to the other that the Parties will not make a joint election under subsection 167(1) of Part IX of the *Excise Tax Act* (Canada), because the transaction, being a transaction between credit unions, is not subject to the Ontario harmonized sales tax.

6.10 Redemption of Membership Shares

As of the Effective Time, the Vendor further covenants and agrees to redeem each and every membership share of the Vendor, with the redemption price for such shares to be paid in accordance with and subject to the provisions of Section 6.11, after which there shall be no members of the Vendor.

6.11 Transfer of Vendor's Members

The Purchaser further covenants and agrees:

(a) to issue five membership shares worth $5.00 per membership share to each of the Vendor’s members as soon as possible on or after Closing;

(b) that the Vendor’s members, if otherwise eligible under the by-laws of the Purchaser, shall be deemed to have become members of the Purchaser as of the first moment of the first day following the Closing Date, with all of the rights and obligations of such membership, including the right to receive any dividends which may be declared by the Purchaser subsequent to the Closing Date, calculated at the same rate and on the same basis as other members of the Purchaser who are, or who became members of the Purchaser as of or after January 1, 2025;

(c) that each of the Vendor’s members shall, upon becoming members of the Purchaser pursuant to Paragraph 6.11(b), receive credit in such member’s membership share account with the Purchaser for such amount (the “**Credited Amount**”) as is standing to such member’s credit in the membership share capital account of the Vendor as at the Closing Date and the Purchaser shall pay to such member an amount equal to the Credited Amount less $25.00 by depositing such amount in a demand deposit account held with the Purchaser which is in the name of such member; and

(d) that, in the case of a member of the Vendor who is already a member of the Purchaser at the Effective Time, pay to such member, in cash, the Credited Amount (without a $25.00 deduction) by depositing such purchase price in a demand deposit account held with the Purchaser which is in the name of such Transferred Member.

6.12 Smiths Falls Branch

Subject to factors outside of its control, the Purchaser will continue operating the existing branch of the Vendor for a period of at least five years following the Closing Date; provided, however, that the Purchaser vary the current hours or business after the Closing Date to better suit the members and the community that the existing branch of the Vendor serves or for other reasons unrelated to the transactions contemplated by this Agreement. Following the Closing Date, the

Purchaser shall operate the existing branch of the Vendor under the branding and name of the Purchaser.

6.13 Vendor's Post-Closing Obligations

Following the Closing Date, the Vendor shall:

(a) **Dissolution** - Take such actions and steps as are required to complete the dissolution of Vendor forthwith following the Closing Date, including the preparation and filing of a terminal tax return and filing the dissolution of the Vendor pursuant to section 237 of the Act; and

(b) **Cease Operations** - Not accept any deposits, grant any loans, carry on any business or operations, or conduct any transactions other than those directly related to the completion its obligations in this Section 6.13. The Vendor shall deliver to the Purchaser, on Closing, an undertaking to this effect.

6.14 Assignment of Security Documentation

The Purchaser shall be responsible, at its expense, for the preparation and registration of any specific assignments of security documentation (including, without limitation, any registrations under the *Personal Property Security Act* (Ontario)), which assignments shall be satisfactory to the Purchaser, acting reasonably, as to form and content. The Vendor agrees to execute, on or before the Dissolution Date, such assignment documents as may be required by the Purchaser, and not to charge any fee for the execution of such documents. Notwithstanding the foregoing, the Vendor is not obligated to assign to the Purchaser any security for any of the Purchased Assets which is not assignable by the Vendor, but the Vendor shall hold any such non-assignable security in trust for the Purchaser until any necessary consent to its assignment is obtained, following which said security will be assigned forthwith to the Purchaser.

6.15 Notice of Assignment of Loans and Mortgages

Prior to the Closing Date, the Purchaser and the Vendor shall deliver a joint notice to the Vendor's members who have outstanding loans from the Vendor, notifying them that their Loans and Mortgages have been assigned to the Purchaser and that payments due and payable on or after the Closing Date should be directed to the Purchaser.

6.16 Endorsement of Cheques Received After Closing

The Vendor shall endorse, without recourse, and assign to the Purchaser any and all cheques either received by it after the Effective Time (on or before the Dissolution Date) or that are post-dated to a date which is the Closing Date or later, which are payable to it and relate to or represent payments on account of the Purchased Assets or the Assumed Liabilities.

6.17 Electronic and Other Clearing Items

After Closing the Vendor shall deliver (and continue to deliver as received on or before to the Dissolution Date) to the Purchaser all clearing items and all electronic debit and credit items relating to the Purchased Assets and the Assumed Liabilities.

ARTICLE 7
NON-WAIVER; SURVIVAL

7.1 Non-Waiver

No investigations made by or on behalf of the Purchaser at any time shall have the effect of waiving, diminishing the scope of or otherwise affecting any representation or warranty made by the Vendor in or pursuant to this Agreement. No waiver of any condition or other provision, in whole or in part, shall constitute a waiver of any other condition or provision (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

7.2 Nature and Survival

(a) Subject to Paragraph 7.2(b), all representations, warranties and covenants contained in this Agreement on the part of each of the Parties shall survive the Closing, the execution and delivery under this Agreement of any bills of sale, instruments of conveyance, assignments or other instruments of transfer of title to any of the Purchased Assets.

(b) All representations and warranties shall survive until the Dissolution Date. If no claim shall have been made under this Agreement against a Party for any incorrectness in or breach of any representation or warranty made in this Agreement prior to the expiry of that survival period, such Party shall have no further liability under this Agreement with respect to such representation or warranty.

ARTICLE 8
GENERAL

8.1 Further Assurances

Each of the Vendor and the Purchaser shall from time to time execute and deliver all such further documents and instruments and do all such acts and things as any other Party may, either before or after the Closing Date, reasonably require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

8.2 Time of the Essence

Time shall be of the essence of this Agreement.

8.3 Expenses

All legal and accounting fees and disbursements and other costs and expenses shall be paid by the Party authorizing them, unless both parties have authorized them, in writing and in advance, as expenses to be shared.

8.4 Benefit of the Agreement

This Agreement shall enure to the benefit of and be binding upon the respective successors and permitted assigns of each of the Parties. No Party may assign any rights under this Agreement without the written consent of the other Party.

8.5 Entire Agreement

The Agreement, together with the Non-Disclosure Agreement and the agreements and other documents to be delivered pursuant to this Agreement, constitute the entire agreement between the Parties pertaining to the subject matter of this Agreement and cancel and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties. There are no warranties, representations or other agreements between the Parties in connection with the subject matter of this Agreement except as specifically set forth or referred to herein.

8.6 Amendments and Waiver

No modification or amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by both the Parties hereto, and no waiver of any breach of any term of this Agreement shall be valid or binding unless made in writing and signed by the Party purporting to give the same and, unless otherwise provided, shall be limited to the specific breach waived.

8.7 Notices

All notices or other communications required or permitted to be given in connection with this Agreement shall be in writing and shall be given by personal delivery or by registered mail or by facsimile addressed to the recipient as follows:

(a) To the Purchaser at:

Kawartha Credit Union Limited
14 Hunter Street East
P.O. Box 11
Peterborough, ON K9J 6Y5

Attention: Chief Executive Officer

(b) To the Vendor at:

Smiths Falls Community Credit Union Limited
1 Beckwith Street North
Smiths Falls, ON K7A 2B2

Attention: Chief Executive Officer

or to such other address or person as may be designated from time to time by notice to the other Party. If there is an interruption in mail service due to a strike or lockout, the Parties shall send notices or other communications using the other means described in this Section 8.7.

8.8 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

8.9 Counterparts and Delivery

This Agreement may be executed in counterparts and such counterparts together shall constitute a single instrument. Delivery of an executed counterpart of this Agreement by electronic means, including by facsimile transmission or by electronic delivery in portable document format, whether containing signatures by hand of the signatory or computer or machine-generated signatures, shall be equally effective as delivery of a manually executed counterpart hereof, and will constitute delivery of an original document.

IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the date first written above.

KAWARTHA CREDIT UNION LIMITED

Per: ______________________________
Name: Norah McCarthy
Title: President & CEO

Per: ______________________________
Name: Allison Chenier
Title: Board Chair

SMITHS FALLS COMMUNITY CREDIT UNION LIMITED

Per: ______________________________
Name: Jim Allen
Title: CEO

Per: ______________________________
Name: Chris Lewis
Title: Board Chair

SCHEDULE "A"

GENERAL CONVEYANCE

THIS AGREEMENT is made as of this 31st day of December, 2024,

BETWEEN:

KAWARTHA CREDIT UNION LIMITED, a credit union under the *Credit Unions and Caisses Populaires Act, 2020*

(the "**Purchaser**")

AND:

SMITHS FALLS COMMUNITY CREDIT UNION LIMITED, a credit union under the *Credit Unions and Caisses Populaires Act, 2020*

(the "**Vendor**")

WHEREAS the Vendor and the Purchaser entered into an asset purchase agreement dated as of the 16th day of December, 2024 (the "**Asset Purchase Agreement**") providing for the sale of all of the assets and undertaking of the Vendor to the Purchaser.

NOW THEREFORE, in consideration of the premises, covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the Parties, the Parties agree as follows:

ARTICLE 1
<u>INTERPRETATION</u>

1.1 **Definitions** - Capitalized terms, not specifically defined herein, have the meaning attributed to them in the Asset Purchase Agreement.

1.2 **Headings** -The division of this Agreement into Articles and Sections, and the insertion of headings, is for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "hereunder" and similar expressions refer to this General Conveyance and not to any particular article, section or other portion hereof, and include any agreement supplemental hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to articles and sections in this Agreement.

1.3 **Number** -In this Agreement, words importing the singular number only shall include the plural and *vice versa*, words importing the masculine gender shall include the feminine and neuter genders and *vice versa*, and words importing persons shall include individuals, partnerships, associations, trusts, unincorporated organizations and corporations and *vice versa*.

ARTICLE 2
CONVEYANCE

2.1 Conveyance - The Vendor hereby grants, transfers, conveys, assigns and sets over to the Purchaser, its successors and assigns, without recourse, all of its right, title and interest, if any, in and to the Purchased Assets, together with the benefit of all notes, bills, liens, covenants, chattel mortgages, security interests and all security of any nature and kind with respect to the Purchased Assets, with effect as at and from the Effective Time.

2.2 Non-Assignable Assets - This Agreement shall not constitute an assignment or attempted assignment of any of the Purchased Assets which are not assignable without the consent or approval of any third party (a "**Third Party Consent**") where such Third Party Consent has not been obtained. In respect of such Purchased Assets, the Vendor shall:

(a) use all reasonable efforts (other than the payment of money), in cooperation with the Purchaser, to secure any Third Party Consent required in connection with the assignment of such Purchased Assets; and

(b) pending the effective transfer of such Purchased Assets, hold all rights, benefits and entitlements with respect thereto for and on behalf of and in trust for the exclusive benefit of the Purchaser, provided that the Purchaser shall pay, perform and discharge all obligations arising or accruing with respect thereto during such period, all to the same effect as if such Purchased Assets had been absolutely transferred to the Purchaser as at the Effective Time with such Third Party Consents having been obtained.

2.3 Reliance on Own Inquiries - The Purchaser itself has been, and will continue to be, solely responsible for making its own independent appraisal of and investigations into the credit worthiness, affairs, status and nature of each of the Purchased Assets, and has not relied and will not hereafter rely on the Vendor, its directors, officers, employees, agents, auditors or legal counsel in connection with the credit worthiness, affairs, status or nature of any of the Purchased Assets, other than as set out in the Asset Purchase Agreement or any agreement, certificate or document delivered in connection with the closing of the transaction contemplated by the Asset Purchase Agreement.

ARTICLE 3
SUBSTITUTION AND SUBROGATION

3.1 Substitution and Subrogation - The conveyance of the Purchased Assets to the Purchaser hereunder is with full rights of substitution and subrogation of the Purchaser to the extent possible, in and to all certification, covenants and warranties by others heretofore given or made in respect of the Purchased Assets or any part thereof.

ARTICLE 4
REMEDIES

4.1 Remedies - The rights and remedies conferred hereunder are not intended to be exclusive of any other rights or remedies available to any party hereto in connection with the breach or failure of any of the covenants, warranties, representations or other obligations of any other party hereunder, and nothing contained herein shall be construed in any manner as restricting or derogating from any other such rights or remedies.

ARTICLE 5
FURTHER ASSURANCES

5.1 **Further Assurances** - The Vendor will from time to time and at all times hereafter, upon every reasonable request of the Purchaser and at the expense of the Purchaser, do and perform, or cause to be done or performed, all such further acts and things, and execute or cause to be executed all such further deeds, documents, writings or other instruments, and give all such further assurances as may be required by the Purchaser effectively to carry out the intent and meaning hereof.

ARTICLE 6
GENERAL

6.1 **Enurement** - This Agreement shall enure to the benefit of and be binding upon the successors and assigns of the parties hereto.

6.2 **No Superseding or Merger** - The provisions contained in this Agreement shall not supersede or merge with any provision contained in the Asset Purchase Agreement, as such may be amended from time to time. The provisions contained in this Agreement shall not merge in any transfer, assignment, novation agreement or other document or instrument issued pursuant hereto or in connection herewith.

6.3 **Counterparts and Delivery** - This Agreement may be executed in counterparts and such counterparts together shall constitute a single instrument. Delivery of an executed counterpart of this Agreement by electronic means, including by facsimile transmission or by electronic delivery in portable document format, whether containing signatures by hand of the signatory or computer or machine-generated signatures, shall be equally effective as delivery of a manually executed counterpart hereof, and will constitute delivery of an original document.

IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the date first written above.

KAWARTHA CREDIT UNION LIMITED

Per: ____________________________________

Name: Norah McCarthy
Title: President & CEO

Per: ____________________________________

Name:
Title:

SMITHS FALLS COMMUNITY CREDIT UNION LIMITED

Per: ____________________________________
Name: Jim Allen
Title: CEO

Per: ____________________________________
Name:
Title:

SCHEDULE "B"

ASSUMPTION OF LIABILITIES AGREEMENT

THIS AGREEMENT is made as of this 31st day of December, 2024,

BETWEEN:

KAWARTHA CREDIT UNION LIMITED, a credit union under the *Credit Unions and Caisses Populaires Act, 2020*

(the "**Purchaser**")

AND:

SMITHS FALLS COMMUNITY CREDIT UNION LIMITED, a credit union under the *Credit Unions and Caisses Populaires Act, 2020*

(the "**Vendor**")

WHEREAS:

A. The Vendor and the Purchaser entered into an asset purchase agreement dated as of the 16th day of December, 2024 (the "**Asset Purchase Agreement**") providing for the sale of all of the assets and undertaking of the Vendor to the Purchaser.

B. Under the terms of the Asset Purchase Agreement, the Purchaser agreed to assume all of the liabilities of the Vendor.

NOW THEREFORE, in consideration of the premises, covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the Parties, the Parties agree as follows:

1. **Assumption of Liabilities** - With effect as at and from the Effective Time (as defined in the Asset Purchase Agreement), the Purchaser hereby assumes, and shall indemnify and save harmless the Vendor in respect of, the Assumed Liabilities (as defined in the Asset Purchase Agreement).

2. **Further Assurances** - The Purchaser will from time to time and at all times hereafter, upon every reasonable request of the Vendor and at the expense of the Vendor, do and perform, or cause to be done or performed, all such further acts and things, and execute or cause to be executed all such further deeds, documents, writings or other instruments, and give all such further assurances as may be reasonably required by the Vendor to carry out the intent and meaning hereof.

3. **Successors and Assigns** - This Agreement shall enure to the benefit of and be binding upon the successors and assigns of the Parties.

4. **No Merger** - The provisions of this Agreement shall not supersede or merge with any provision contained in the Asset Purchase Agreement. The provisions contained in this Agreement shall not merge in any transfer, assignment, novation agreement or other document or instrument issued pursuant hereto or in connection herewith.

5. **Governing Law** - This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

6. **Counterparts and Delivery** - This Agreement may be executed in counterparts and such counterparts together shall constitute a single instrument. Delivery of an executed counterpart of this Agreement by electronic means, including by facsimile transmission or by electronic delivery in portable document format, whether containing signatures by hand of the signatory or computer or machine-generated signatures, shall be equally effective as delivery of a manually executed counterpart hereof, and will constitute delivery of an original document.

IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the date first written above.

KAWARTHA CREDIT UNION LIMITED

Per: ___________________________________
Name: Norah McCarthy
Title: President & CEO

Per: ___________________________________
Name:
Title:

SMITHS FALLS COMMUNITY CREDIT UNION LIMITED

Per: ___________________________________
Name: Jim Allen
Title: CEO

Per: ___________________________________
Name:
Title:

SCHEDULE "C"

FINANCIAL STATEMENTS OF THE VENDOR

See attached.

SCHEDULE "D"

LIST OF VENDOR'S EMPLOYEES RECEIVING A QUALIFYING OFFER OF EMPLOYMENT AND RECOGNIZED YEARS OF SERVICE

Kelly Kerr, Employment start date of January 1, 2008
Debbie McMillan, Employment start date of February 3, 2014

TINKHAM LLP | CHARTERED PROFESSIONAL ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Members of
SMITHS FALLS COMMUNITY CREDIT UNION LIMITED

Opinion

We have audited the accompanying financial statements of Smiths Falls Community Credit Union Limited ("the Credit Union"), which comprise the statement of financial position as at December 31, 2023, and the statements of comprehensive income and members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2023, 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.

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 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.

LLP

TORONTO, Ontario
February 28, 2024

Licensed Public Accountants

SMITHS FALLS COMMUNITY CREDIT UNION LIMITED

Statement of Financial Position

As at December 31,	2023	2022
Assets		
Cash (note 6)	$ **1,820,858**	$ 1,260,744
Investments (note 7)	**2,855,667**	2,604,220
Deferred income tax asset (note 18)	**3,921**	5,079
Loans and advances to members (notes 8, 20)	**5,053,686**	5,040,841
Property and equipment (note 9)	**45,632**	59,614
Right-of-use asset (note 10)	**43,864**	64,611
	$ **9,823,628**	$ 9,035,109
Liabilities, Member Entitlements and Members' Equity		
Liabilities		
Accounts payable and accrued liabilities	$ **49,493**	$ 41,793
Income taxes payable	**16,508**	10,510
Lease obligation	**43,864**	64,611
	109,865	116,914
Member entitlements		
Members' accounts and deposits (note 11)	**8,409,451**	7,724,901
Members' share capital (note 13)	**28,070**	29,330
	8,437,521	7,754,231
Members' equity		
Retained earnings	**1,276,242**	1,163,964
	$ **9,823,628**	$ 9,035,109

Commitments (note 15)

See accompanying notes to the financial statements.

On behalf of the Board:

_________________ Director

_________________ Director

SMITHS FALLS COMMUNITY CREDIT UNION LIMITED

Statement of Comprehensive Income and Members' Equity

Year ended December 31	2023	2022
Interest income		
Interest on loans and advances to members (note 8)	$ 288,763	$ 253,269
Investment income	203,462	84,728
	492,225	337,997
Interest expense (note 11)	100,565	63,862
Financial margin	391,660	274,135
Other income (note 17)	88,869	114,160
	480,529	388,295
Non-interest expenses		
Salaries and benefits	176,642	164,985
Administrative	31,775	31,425
Occupancy costs	28,814	27,900
Professional fees	26,920	25,261
Member services	19,639	19,498
Insurance	17,067	14,762
Computer costs	16,364	17,520
Depreciation of property and equipment	13,981	9,601
	331,202	310,952
Members' dividend (note 12)	19,383	8,429
	350,585	319,381
Comprehensive income before provision for income taxes	129,944	68,914
Provision for income taxes (note 18)		
Current	16,508	10,512
Deferred (recovery)	1,158	(1,608)
	17,666	8,904
Net comprehensive income for the year	112,278	60,010
Retained earnings, beginning of year	1,163,964	1,103,954
Retained earnings, end of year	$ 1,276,242	$ 1,163,964

See accompanying notes to the financial statements.

SMITHS FALLS COMMUNITY CREDIT UNION LIMITED
Statement of Cash Flows

Year ended December 31	**2023**	2022
Cash provided (used) by operating activities (net)		
Interest received on loans and advances to members	$ **286,642**	$ 252,458
Interest received on investments	**162,858**	85,174
Interest and dividends paid on member deposits	**(88,196)**	(69,322)
Other income received	**88,869**	114,160
Payments to employees and suppliers	**(309,521)**	(300,123)
Income taxes (paid) received	**(10,510)**	(212)
Changes in member activities		
Net increase in members' loans and advances	**(10,724)**	(307,019)
Net increase in member deposits	**652,799**	442,235
Net cash provided by operating activities	**772,217**	217,351
Cash provided (used) by investing activities (net)		
Purchase of investments	**(210,843)**	52,675
Purchase of property and equipment		(5,644)
Net cash provided (used) by investing activities	**(210,843)**	47,031
Cash used by financing activities (net)		
Redemption of membership shares	**(1,260)**	(910)
Net increase in cash	**560,114**	263,472
Cash, beginning of year	**1,260,744**	997,272
Cash, end of year	$ **1,820,858**	$ 1,260,744

See accompanying notes to the financial statements.

1 Nature of business

Smiths Falls Community Credit Union Limited ("the Credit Union") is a financial institution incorporated on August 18, 1951 under the Credit Unions and Caisses Populaires Act of Ontario ("the Act"). The Credit Union is regulated by the Financial Services Regulatory Authority of Ontario ("FSRA") and a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union provides financial products and services to members throughout Ontario. Products and services offered to its members include residential mortgages, personal loans, savings accounts, term deposits, registered retirement savings plans ("RRSPs") and registered retirement income funds ("RRIFs"). The Credit Union head office is located at 1 Beckwith Street North, Smiths Falls, Ontario.

2 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("the IASB") and legislation for Ontario's Credit Unions and Caisses Populaires.

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

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. This information has been integrated into the basic financial statements and notes and it is management's opinion that the disclosures in the financial statements and notes comply, in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Details of the Credit Union's accounting policies are included in note 5.

These financial statements have been approved and authorized for issue by the Board of Directors on February 28, 2024.

3 Critical accounting estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes.

Classification of financial assets

The Credit Union assesses the business model within which the assets are held and whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding, as described in note 5.

Fair value of financial instruments

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

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 19.

3 Critical accounting estimates and judgments (continued)

Impairment of financial instruments

The Credit Union assesses whether credit risk on the financial asset has increased significantly since initial recognition and incorporates forward-looking information in the measurement of expected credit loss (ECL), as described in note 20.

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters. Any differences will be accounted for in the year of settlement.

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. Judgment 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.

4 Basis of measurement

These financial statements have been prepared on a historical cost basis, except for financial instruments recorded at fair value through profit and loss (FVTPL) and financial assets recorded at fair value through other comprehensive income (FVOCI).

5 Material accounting policies

The Credit Union has consistently applied the following accounting policies to all periods presented in these financial statements.

Revenue recognition

i. Interest

Effective interest rate

Interest income and expense are recognized using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

5 Material accounting policies (continued)

Revenue recognition (continued)

i. Interest (continued)

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Presentation

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

ii. Fees and commission

Fee and commission income - including account servicing fees, loan discharge and administration fees - is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis *over* the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

iii. Gains (losses) from other financial instruments at FVTPL

Gains (losses) from other financial instruments at FVTPL relates to fair value changes.

5 Material accounting policies (continued)

Financial assets and financial liabilities

i. Recognition and initial measurement

The Credit Union initially recognizes loans and advances to members and members' accounts and deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Credit Union becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or FVTPL.

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

- the asset is held within a business model whose objective is to hold assets to collect 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.

The Credit Union classifies its Central 1 deposit notes and loans and advances to members as amortized cost.

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

The Credit Union classifies its guaranteed investment certificates as FVOCI.

On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

The Credit Union classifies certain equity securities as FVOCI.

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

The Credit Union classifies its debt securities as FVTPL.

5 Material accounting policies (continued)

Financial assets and financial liabilities (continued)

ii. Classification (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. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Credit Union's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Credit Union's stated objective for managing the financial assets is achieved and how cash flows are realized.

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 (e.g. liquidity risk and administrative 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. In making the assessment, the Credit Union considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Credit Union's claim to cash flows from specified assets (e.g. non- recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to the Credit Union's business model during the current or prior year.

5 Material accounting policies (continued)

Financial assets and financial liabilities (continued)

ii. Classification (continued)

Financial Liabilities

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, at amortized cost.

iii. Derecognition

Financial assets

The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Credit Union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investments designated as FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Credit Union is recognized as a separate asset or liability.

In transactions in which the Credit Union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Credit Union continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

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

iv. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Credit Union evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Credit Union recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, the gain or loss is presented as interest income.

5 Material accounting policies (continued)

Financial assets and financial liabilities (continued)

iv. Modifications of financial assets and financial liabilities (continued)

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 the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in net income for the year.

v. Impairment

The Credit Union recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

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

- debt investments that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since initial recognition.

The Credit Union considers a debt security to have low credit risk when the credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

5 Material accounting policies (continued)

Financial assets and financial liabilities (continued)

v. Impairment (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Credit Union assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that are correlated to defaults in the group.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in debt securities is credit-impaired, the Credit Union considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The issuer's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

5 Material accounting policies (continued)

Financial assets and financial liabilities (continued)

v. Impairment (continued)

Presentation of allowance for EGL on the balance sheet

Loss allowances for ECL are presented on the balance sheet as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Credit Union cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans and advances to members 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.

Cash

Cash includes cash on hand, deposits with banks, other short-term highly liquid investments with maturities of three months or less.

Cash is classified as FVTPL and is carried at fair value.

Loans and advances to members

Loans and advances to members are initially measured at fair value, net of loan origination fees and inclusion of transaction costs incurred. Loans and advances to members are subsequently measured at amortized cost, using the effective interest rate method.

Investments

Investments include:

- equity securities and guaranteed investment certificates at FVOCI and measured at fair value; and
- debt securities designated as at FVTPL.

The Credit Union elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

The Credit Union has elected to designate certain equity securities as FVTPL. Refer to note 7 for details.

5 Material accounting policies (continued)

Property and equipment

The Credit Union records property and equipment at cost. The cost of property and equipment comprises its purchase price and any directly attributable cost of preparing the asset for its intended use.

Property and equipment is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized in the statement of comprehensive income when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the property and equipment exceeds its fair value. An impairment loss is not reversed if the fair valu of the property and equipment subsequently increases. As at December 31, 2023, no such impairment exists.

Property and equipment comprises the banking platform which is depreciated on a straight-line basis over a period of 1O years and a photocopier which is depreciated on a straight-line basis over a period of 5 years.

Small value computers are expensed on acquisition.

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

The useful lives for both the banking platform and the photocopier were adjusted from 10 years and 5 years, respectively, during the year.

Leases

Definition of a lease

The Credit Union determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessee accounting

For all leases (except as noted below), the Credit Union:

- Recognizes right-of-use assets and lease liabilities on the balance sheet, initially measured at the present value of lease payments;
- Recognizes depreciation of right-of-use assets and interest on lease liabilities in the statement of comprehensive income; and
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Credit Union has opted to recognize a lease expense on a straight-line basis. This expense is presented within other (non-interest) expenses in the statement of comprehensive income.

Lessor accounting

The Credit Union is not a lessor in any lease transactions.

Deposits and members' share capital

The Credit Union classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments, as described in note 11. The Credit Union's membership shares are classified as liabilities.

Deposits and members' share capital that are classified as liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and subsequently measured at amortized cost using the effective interest method.

5 Material accounting policies (continued)

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Credit Union to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Income taxes

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

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

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

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is not longer probable that the related tax benefit will be realized.

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

Members' dividends

Dividends to members are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Standards, amendments and interpretations not yet effective

There are no IFRSA or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Credit Union's future financial statements.

6 Cash

Cash includes amounts on deposit with Central 1 totaling $1,787,939 (2022 - $1,217,559) and yielding 5.15% (2022 - 4.40%).

7 Investments

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

As at December 31,	2023	2022
Investments measured at FVOCI - equity securities and deposit instruments	$ **2,290,839**	$ 2,164,575
Investments measured at FVTPL - debt securities	**355,560**	339,516
Investments measured at amortized cost - de osit instruments	**209,268**	100,129
	$ **2,855,667**	$ 2,604,220

The following table summarizes the composition of investments by classification category:

As at December 31,	2023	2022
Investments measured at amortized cost - deposit instruments		
Central 1 deposit note, maturing within one year	$	$ 100,000
Central 1 deposit note, maturing later one year	**200,000**	
Accrued interest	**9,268**	129
	$ **209,268**	$ 100,129

As at December 31,	2023	2022
Investments measured at FVOCI - equity securities and deposit instruments		
Central 1 Credit Union shares - Class A	$ **2,753**	$ 2,767
Central 1 Credit Union shares - Class E	**21,300**	21,300
Guaranteed investment certificates, maturing within one year	**1,607,470**	2,135,321
Guaranteed investment certificates, maturing later than one year	**659,316**	
Other		5,187
	$ **2,290,839**	$ 2,164,575

As at December 31,	2023	2022
Investments measured at FVTPL - debt securities		
Bonds, maturing within one year	$ **66,644**	$ 213,416
Bonds, maturing later than one year	**241,117**	125,632
Treasury bills, maturing within one year	**43,963**	
Cash	**3,836**	468
	$ **355,560**	$ 339,516

Included in bonds maturing within than one year is $nil (2022 - $81,208) in floating rate bonds. Included in bonds maturing later than one year is $59,493 (2022 - $22,301) in floating rate bonds.

7 Investments (continued)

Significant terms and average annual yields on deposit instruments are as follows:

As at December 31,	**2023**	2022
Investments measured at amortized cost - deposit instruments		
Central 1 term deposits, maturing within one year:		
Yield	**NA**	4.71%
Interest	**NA**	4.71%
Maturity date	**NA**	Mar 22, 2023
Central 1 term deposits, maturing later than one year:		
Yield	**5.00%**	NA
Interest	**5.00%**	NA
Maturity dates from	**Jan 27, 2025**	NA
to	**NA**	NA
Investments measured at FVOCI - deposit instruments		
Deposit instruments, maturing within one year		
Yield	**4.67%**	4.02%
Interest	**4.25% to 5.65%**	3.85% to 4.35%
Maturity dates from	**Jan 29, 2024**	Jul 25, 2023
to	**Dec 6, 2024**	Dec 4, 2023
Deposit instruments, maturing later than one year		
Yield	**4.94%**	NA
Interest	**4.75% to 5.15%**	NA
Maturity dates from	**Jan 10, 2025**	NA
to	**Mar 17, 2025**	NA
Investments measured at FVTPL - debt securities		
Bonds, maturing within one year		
Yield	**4.22%**	3.38%
Interest	**1.80% to 3.75%**	2.35% to 4.74%
Maturity dates from	**Jun 2, 2024**	Jun 2, 2023
to	**Dec 15, 2024**	Sep 15, 2023
Bonds, maturing later than one year		
Yield	**3.38%**	1.58%
Interest	**0.95% to 8.50%**	0.95% to 8.50%
Maturity dates from	**Mar 15, 2025**	Sep 1, 2024
to	**Sep 15, 2026**	Mar 15, 2026
Treasury bills, maturing within one year		
Yield	**4.98%**	NA
Interest	**NA**	NA
Maturity dates from	**Jan 4, 2024**	NA
to	**NA**	NA

7 Investments (continued)

The portfolio of HQLA's is held in the following types of securities:

As at December 31,	2023	2022
Federal government issued debt securities	$ **269,635**	$ 200,918
Provincial government issued debt securities	**82,089**	138,130
Cash	**3,836**	468
	$ **355,560**	$ 339,516

Central 1 Credit Union shares

The Credit Union designated its investment in Central 1 equity securities as at FVTPL. There is no active market for these shares as they are issued only by virtue of membership in Central 1. The shares are redeemable upon withdrawal of membership or at the discretion of the Board of directors. In addition, the member credit unions are subject to additional capital calls as determined by the Central 1 Board of Directors.

Dividends are at the discretion of Central 1. Dividends received on these shares in 2023 amount to $nil (2022 - $nil).

The Central 1 Class A shares are subject to periodic rebalancing and the redemption value is equal to par value. Accordingly, the fair value is considered to be equivalent to par value or redemption value. The Central 1 Class E shares are not subject to annual rebalancing and the redemption value is not equal to par value.

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

8 Loans and advances to members

As at December 31, 2023	**Gross carrying amount**	**ECL allowance**	**Carrying amount**
Residential mortgage loans	$ **3,437,844**	$	$ **3,437,844**
Personal loans	**1,693,721**	**(85,000)**	**1,608,721**
	5,131,565	**(85,000)**	**5,046,565**
Add: accrued interest receivable	**7,121**		**7,121**
	$ **5,138,686**	$ **(85,000)**	$ **5,053,686**

As at December 31, 2022	Gross carrying amount	ECL allowance	Carrying amount
Residential mortgage loans	$ 3,264,225	$	$ 3,264,225
Personal loans	1,856,616	(85,000)	1,771,616
	5,120,841	(85,000)	5,035,841
Add: accrued interest receivable	5,000		5,000
	$ 5,125,841	$ (85,000)	$ 5,040,841

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8 Loans and advances to members (continued)

Interest income on member loans receivable are summarized as follows:

For the :t::ear ended December 31		2023		2022
Residential mortgage loan interest	$	**135,464**	$	116,323
Personal loan interest		**153,299**		136,946
	$	**288,763**	$	253,269

Terms and conditions

Personal loans bear interest at fixed and variable annual rates and are repayable in monthly blended principal and interest installments over a maximum period of seven years. Residential and commercial mortgage loans bear interest at fixed and variable annual rates and are repayable in monthly blended principal and interest installments over a maximum period of five years based on a maximum amortization of thirty years. Line of credit loans bear interest at variable rates and are repayable in minimum interest only, not in advance, subject to annual review.

Commercial and personal loans, including line of credit loans, are repayable to the Credit Union in monthly blended principal and interest installments over a maximum of five years, except for line of credit loans which are repayable on a revolving credit basis and require minimum monthly payments.

All loans are open and, at the option of the borrower, may be repaid at any time without notice or penalty, with the exception of commercial and residential loans with a term exceeding one year.

Average yields to maturity

Member loans bear interest at both variable and fixed rates with the following average yields as at December 31:

2023		**Principal**	**Yield**
Variable rate	$	**1,693,721**	**9.23%**
Fixed rate due less than one year		**448,276**	**5.53%**
Fixed rate due between one and five years		**2,989,568**	**4.14%**
	$	**5,131,565**	

2022			
Variable rate	$	1,856,616	8.53%
Fixed rate due less than one year		829,006	3.57%
Fixed rate due between one and five years		2,435,219	3.52%
	$	5,120,841	

Credit quality of loans

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

As at December 31		2023		2022
Loans secured by mortgages	$	**3,437,844**	$	3,264,225
Loans secured by other		**1,281,405**		1,279,565
Unsecured loans		**412,316**		577,051
	$	**5,131,565**	$	5,120,841

8 Loans and advances to members (continued)

Fair value

The fair value of member loans at December 31, 2023 was $4,988,102 (2022 - $4,942,536).

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

9 Property and equipment

Property and equipment comprise the banking system platform with a cost amount of $84,750 (2022 - $84,750) and accumulated depreciation of $39,118 (2022 - $29,652) and a photocopier with a cost amount of $5,644 (2022 - $nil) and accumulated depreciation of $5,644 (2022 - $1,128).

10 Right-of-use assets

The Credit Union leases office space for its general operations. The lease commenced June 29, 2016 and extended for a 5-year period plus a 5-year option to renew. The Credit Union exercised its right to renew the lease.

As at January 1, 2019, the Credit Union recognized a right-of-use asset equal to the present value of the future lease payments for the remainder of the lease plus the present value of the future lease payments required under the 5-year option to renew. The Credit Union is amortizing the right-of-use asset on a straight-line basis over the remaining term of the lease plus the option to renew into occupancy expenses.

December 31	2023	2022
Right-of-use asset, beginning of the year	$ **64,611**	$ 85,358
Less: recognized in occupancy expense	**(20,747)**	(20,747)
Right-of-use asset, end of the year	$ **43,864**	$ 64,611

11 Members' accounts and deposits

As at December 31	2023	2022
Demand deposits	$ **4,021,264**	$ 2,978,768
Term deposits	**2,519,799**	2,894,212
RRSPs/RRIFs	**1,792,465**	1,807,749
	8,333,528	7,680,729
Add: accrued interest and dividends	**75,923**	44,172
	$ **8,409,451**	$ 7,724,901

Interest expense on members' accounts and deposits are as follows:

Year ended December 31	2023	2022
Interest on demand deposits	$ **48**	$ 112
Interest on term deposits	**57,761**	43,847
Interest on RRSPs/RRIFs	**42,756**	19,903
	$ **100,565**	$ 63,862

11 Members' accounts and deposits (continued)

Terms and conditions

Demand deposits are due on demand and bear interest at rates ranging from 0.02% to 0.50% (2022 - 0.02% to 0.15%). Demand deposits are also subject to a discretionary dividend as described in note 12.

Term deposits bear fixed rates of interest for terms up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The average yield on term deposits for the year ended December 31, 2023 was 2.09% (2022 - 1.66%).

The carrying value of all variable rate deposits approximate their fair values due to current pricing.

Average yields to maturity

Members' accounts and deposits bear interest at rates with the following average yields as at December 31:

2023	**Principal**	**Yield**
Variable rate	$ **4,118,799**	**0.48%**
Fixed rate due less than one year	**2,208,012**	**2.20%**
Fixed rate due between one and five years	**2,006,717**	**2.64%**
	$ **8,333,528**	

2022		
Variable rate	$ 3,227,709	0.28%
Fixed rate due less than one year	1,663,008	1.77%
Fixed rate due between one and five years	2,790,012	1.72%
	$ 7,680,729	

Fair value

The fair value of members' deposits, excluding accrued interest payable at December 31, 2023 is $8,449,450 (2022 - $7,734,853).

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

12 Accrued members' dividend

The Credit Union has accrued a dividend payable in the total amount of $19,383 (2022 - $8,429) representing a 0.89% (2022 - 0.45%) dividend calculated on the minimum quarterly balance of members regular savings accounts.

13 Members' share capital

As a condition of membership each member is required to maintain a minimum of seven shares at $10 per share. The membership shares are redeemable at stated value upon termination of membership. Dividends payable on these shares are at the discretion of the Board of Directors.

Funds invested by members in share capital are not insured by FSRA.

Share issuances and redemptions during the year are summarized as follows:

Year ended December 31	**2023**	2022
Shares outstanding, beginning of the year	**2,940**	3,031
Shares issued	**63**	98
Shares redeemed	**(189)**	(189)
Shares outstanding, end of the year	**2,814**	2,940

The by-laws of the Credit Union and the Act permit the redemption of membership shares of the Credit Union if the Credit Union is in compliance with capital adequacy and liquidity standards after the redemption.

14 Capital and liquidity management

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

The processes for managing capital include setting policies for capital management, monitoring and reporting, setting policies for related areas such as asset liability management, reporting to the Board of Directors regarding financial results and capital adequacy, and setting budgets and reporting variances to those budgets.

The Credit Union may not pay dividends on members' shares if there are reasonable grounds for believing that the Credit Union is, or would by that payment become, insolvent, or that regulatory liquidity or capital levels would not be met after payment.

The Credit Union considers its capital to include membership shares and retained earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

Risk weighted assets are calculated by applying risk weighted percentages, as prescribed by the Act, to each asset class, operational and interest rate risk criteria. The prescribed risk weightings are dependant on the degree of inherent risk in the asset.

As at December 31, 2023, the Credit Union met the capital requirements of the Act.

Regulatory capital is comprised of Tier 1 and Tier 2 capital as follows:

As at December 31	**2023**	2022
Tier 1 Capital		
Members' share capital	$ **28,070**	$ 29,330
Retained earnings	**1,276,242**	1,163,964
	1,304,312	1,193,294
Tier 2 Capital		
Ex12ected credit loss allowance - stage 1 and stage 2	**51,989**	49,639
Total regulatory capital	$ **1,356,301**	$ 1,242,933

14 Capital and liquidity management (continued)

Capital adequacy ratios are summarized as follows:

As at December 31	2023	2022
Tier 1 capital ratio	**31.36** %	30.05 %
Retained earnings to risk weighted asset ratio	**30.69** %	29.31 %
Capital conservation buffer ratio	**24.61** %	23.30 %
Risk weighted capital ratio	**32.61** %	31.30 %
Total supervisory capital ratio	**32.61** %	31.30 %
Leverage ratio	**13.81** %	13.76 %

The Act also requires that the Credit Union maintain product levels and forms of liquidity that are sufficient to meet its cash flow needs.

Assets qualifying for liquidity comprise:

As at December 31	2023	2022
Level 1 - Cash on hand and HQLA cash deposit	$ **36,754**	$ 43,653
Level 1 - Government issued securities	**351,724**	339,048
Level 2A - Central 1 deposits and other qualifying securities	**2,852,939**	3,330,559
	$ **3,241,417**	$ 3,713,260

15 Commitments

(a) Credit facilities

The Credit Union maintains clearing facilities with Central 1 totaling $300,000 CON (2022 - $300,000) which bears interest based on a percentage of the Credit Union's assets.

If the balance outstanding on the line of credit and overdraft facility is less than 0.50% of the Credit Union's total assets, interest is calculated at the Bank of Canada's overnight bank rate plus 95 basis points. The overnight bank rate as at December 31, 2023 was 5.00% (2022 - 4.25%). For outstanding balances greater than 0.50% of the Credit Union's total assets, interest is calculated at the Bank of Canada prime rate of 7.20% (2022 - 6.45%).

(b) Member loans

The Credit Union has a commitment to its members as at December 31, 2023 on account of unused lines of credit in the amount of $39,404 (2022 - $95,393).

When the loans are advanced, they are subject to the same terms and conditions as described in note 8.

(c) Banking software

The Credit Union has entered into a licensing agreement for a banking solution system for a period of ten years expiring in 2029. The license calls for a minimum monthly access fee of $9,600 annually. The monthly license fee will fluctuate based on the number of members of the Credit Union.

16 Restricted party transactions

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

(a) Compensation

Year ended December 31		2023		2022
Director remuneration	$	**3,250**	$	3,067

In accordance with the requirements of the Act and accompanying Regulations, no specified officers or employees received total remuneration in excess of $175,000.

(b) Loans and deposits

The Credit Union's policy for lending to key management personnel is that the loans are approved on the same terms and conditions which apply to members for each class of loan. All loans conform to the Credit Union's policies with respect to term, interest rates and limits and have been approved by the Board of Directors. None of the loans to restricted parties were impaired as at December 31, 2023 and accordingly, there is no expected credit loss required.

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel, directors or close family members.

		2023		2022
Loans to restricted parties:				
Aggregate value of loans advanced	$	**436,910**	$	506,073
Interest received on loans advanced		**16,759**		25,494
Deposits from restricted parties:				
Aggregate value of term and savings deposits	$	**109,420**	$	95,736
Interest paid on term and savings deposits		**65**		703

17 Other income

Year ended December 31		2023		2022
Fees and service charges	$	**38,183**	$	40,118
CLI / COi commission		**25,986**		31,557
Membership dues		**12,449**		13,050
Miscellaneous		**12,251**		29,435
	$	**88,869**	$	114,160

18 Income taxes

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2022 - 26.50%) are as follows:

Year ended December 31		2023		2022
Income before provision for income taxes	$	**129,944**	$	68,914
Statutory income tax rate		**26.50%**		26.50%
Expected income tax provision		**34,435**		18,262
Increase (decrease) in taxes resulting from:				
Small business deduction		**(18,582)**		(9,855)
Other		**1,813**		497
Provision for income taxes	$	**17,666**	$	8,904
Comprised of:				
Current provision	$	**16,508**	$	10,512
Deferred provision (recovery)		**1,158**		(1,608)
	$	**17,666**	$	8,904

The movement in 2023 deferred tax assets are as follows:

		Opening Balance as at January 1, 2023		**Recognize in net income**		**Closing Balance as at December 31 2023**
Deferred tax assets:						
Expected credit losses	$	**10,354**	$	**(13)**	$	**10,341**
Unrealized gain on investments		**1,810**		**(2,755)**		**(945)**
Deferred tax liabilities:						
Property and equipment		(7,085)		1,610		(5,475)
2023 net deferred tax asset	$	**5,079**	$	**(1,158)**	$	**3,921**

18 Income taxes (continued)

The movement in 2022 deferred tax assets are as follows:

	Opening Balance as at January 1, 2022	Recognize in net income	Closing Balance as at December 31, 2022
Deferred tax assets:			
Expected credit losses	$ 10,333	$ 21	$ 10,354
Unrealized loss on investments	497	1,313	1,810
Deferred tax liabilities:			
Property and equipment	(7,359)	274	(7,085)
2022 net deferred tax asset	$ 3,471	$ 1,608	$ 5,079

19 Financial assets and financial liabilities

Classification of financial assets and financial liabilities

The following table provides a reconciliation between the line items on the statement of financial position and categories of the carrying amount by classification.

	Designated as at FVTPL	FVOCI - equity securities	FVOCI - deposit instruments	Amortized cost	Total carrying amount
December 31, 2023					
Cash	$ 1,820,858	$ -	$ -	$	$ 1,820,858
Investments	355,560	24,053	2,266,786	209,268	2,855,667
Loans and advances to members		-		5,053,686	5,053,686
Total financial assets	$ 2,176,418	$ 24,053	$ 2,266,786	$ 5,262,954	$ 9,730,211
Accounts payable and accrued liabilities	$	$	$	$ 49,493	$ 49,493
Members' accounts and deposits				8,409,451	8,409,451
Members' share ca ital		-	-	28,070	28,070
Total financial liabilities	$	$	$ -	$ 8,487,014	$ 8,487,014

	Designated as at FVTPL	FVOCI - equity securities	FVOCI - deposit instruments	Amortized cost	Total carrying amount
December 31, 2022					
Cash	$ 1,260,744	$ -	$	$ -	$ 1,260,744
Investments	339,516	29,254	2,135,321	100,129	2,604,220
Loans and advances to members	-			5,040,841	5,040,841
Total financial assets	$ 1,600,260	$ 29,254	$ 2,135,321	$ 5,140,970	$ 8,905,805
Accounts payable and accrued liabilities	$	$ -	$	$ 41,793	$ 41,793
Members' accounts and deposits				7,724,901	7,724,901
Members' share ca ital				29,330	29,330
Total financial liabilities	$	$	$	$ 7,796,024	$ 7,796,024

19 Financial assets and financial liabilities (continued)

Fair value hierarchy

The following table represents the fair values of the Credit Union's financial assets and financial liabilities for each classification of financial instruments. The fair values for short-term financial assets and liabilities approximate carrying value. These include Central 1 investments, accrued interest receivable, accounts payable and accrued liabilities, accrued interest on members' deposits and accrued members' dividend. The fair values disclosed do not include the value of assets that are not considered financial instruments.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	Level 1	Level2	Level3
December 31, 2023			
Cash	$ **1,820,858**	$	$
Investments measured at FVOCI - equity securities and deposit instruments	**2,266,786**	**24,053**	
Investments measured at FVTPL - debt securities	**355,560**		
	$ **4,443,204**	$ **24,053**	$
Financial assets for which fair value is disclosed			
Loans and advances to members	$	$	$ **4,988,102**
Financial liabilities for which fair value is disclosed			
Members' accounts and deposits	$	$	$ **8,449,450**
December 31, 2022			
Cash	$ 1,260,744	$	$
Investments measured at FVOCI - equity securities and deposit instruments	2,135,321	29,254	
Investments measured at FVTPL - debt securities	339,516		
	$ 3,735,581	$ 29,254	$
Financial assets for which fair value is disclosed			
Loans and advances to members	$	$	$ 4,942,536
Financial liabilities for which fair value is disclosed			
Members' accounts and deposits	$	$	$ 7,734,853

There were no transfers between Level 1 and level 2 for the years ended December 31, 2023 and 2022.

20 Financial risk review

This note presents information about the Credit Union's exposure to financial risks and the Credit Union's management of capital.

For information on the Credit Union's financial risk management framework, see note 21.

Credit risk

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in note 5.

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	2023 Total	2022 Total
Loans and advances to members at amortized cost					
Low - fair risk	$ **5,131,333**	$	$	$ **5,131,333**	$ 5,120,715
Loss			**232**	**232**	126
	5,131,333		**232**	**5,131,565**	5,120,841
Expected credit loss	**(84,768)**		**(232)**	**(85,000)**	(85,000)
Carrying amount	$ **5,046,565**	$	$	$ **5,046,565**	$ 5,035,841

ii. Collateral held and other credit enhancements

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on most recent collateral appraisals.

As at December 31,	**2023**	2022
LTV ratio:		
Less than 40%	$ **618,638**	$ 382,782
41 - 60%	**1,096,648**	1,500,850
61 - 70%	**1,246,343**	587,986
71 - 80%	**476,215**	792,607
Total	$ **3,437,844**	$ 3,264,225

20 Financial risk review (continued)

Credit risk (continued)

iii. Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in note 5.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Credit Union's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Generating the term structure of PD

The Credit Union collects performance and default information about its credit risk exposures analyzed by region and by type of product and borrower.

The Credit Union employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The Credit Union considers the following factors when determining if there is an increase in credit risk:

- non-sufficient funds activity, loss of employment, gambling activity, late payments, unsustainable lifestyle, potential victimization, escalating unsecured debt, minimal estate value, uninsurable, marital breakdown, illness, declining credit score, title issues and covenant breaches

Using its expert credit judgment and, where possible, relevant historical experience, the Credit Union may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise by fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Credit Union considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

20 Financial risk review (continued)

Credit risk (continued)

iii. Amounts arising from ECL (continued)

Determining whether credit risk has increased significantly (continued)

The Credit Union monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in note 5. When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's its credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Definition of default

The Credit Union considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Credit Union in full, without recourse by the Credit Union to actions such as realizing security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Credit Union. Overdrafts are considered as being past due once the customer has breached an advanced limit or been advised of a limit smaller than the current amount outstanding;
- the Credit Union has filed for the borrower's bankruptcy in connection with the credit obligation; or
- the borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

In assessing whether a borrower is in default, the Credit Union considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Credit Union; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and the significance of the inputs may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Credit Union for regulatory capital purposes.

20 Financial risk review (continued)

Credit risk (continued)

iii. Amounts arising from ECL (continued)

Incorporation of forward-looking information

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Credit Union formulates a view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios based on a variety of external actual and forecast information. External information includes economic data and forecasts published by governmental bodies and Bank of Canada, forecasts by large Canadian banks and financial institutions and other selected private-sector and academic forecasters.

The view represents a most-likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. Periodically, the Credit Union carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Credit Union has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2023 included the probability of default on loans and the relationship with credit bureau scores factoring in the time value of money.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Credit Union estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Credit Union derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

20 Financial risk review (continued)

Credit risk (continued)

iii. Amounts arising from ECL (continued)

Measurement of EGL (continued)

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Credit Union measures ECL considering the risk of default over the maximum collateral period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Credit Union considers a longer period. The maximum contractual period extends to the date at which the Credit Union has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts that include both a loan and an undrawn commitment component, the Credit Union measures ECL over a period longer than the maximum contractual period when the Credit Union's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Credit Union's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Credit Union can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Credit Union becomes aware of an increase in credit risk management actions that the Credit Union expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Expected credit loss

The following table reconciles the opening to the closing balance of the allowance for impairment for loans and advances to members. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in note 5.

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at January 1, 2022	$ **84,700**	$	$ **300**	$ **85,000**
Transfer to 12-month ECL	174		(174)	
Balance as at December 31, 2022	$ **84,874**	$	$ **126**	$ **85,000**
Transfer to lifetime ECL credit-impaired	**(106)**		**106**	
Balance as at December 31, 2023	$ **84,768**	$	$ **232**	$ **85,000**

21 Financial instrument risk management

General objectives, policies and processes

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

Credit risk

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

Risk measurement

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

Objectives, policies and procedures

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

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

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears;
- Processes for measuring ECL, including initial approval, regular validation and back-testing of the models used and incorporation of forward-looking information; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

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

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

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

21 Financial instrument risk management (continued)

Liquidity risk

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

Risk measurement

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

Objectives, policies and procedures

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

Provisions of the Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals.

The Credit Union manages liquidity risk by:

- Continuously monitoring 30-day net cash inflows and net cash outflows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity coverage ratio monthly.

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

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

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

Interest rate risk

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

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

Risk Measurement

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

21 Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk (continued)

Objectives, policies and procedures

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the FSRA in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the FSRA as required by Credit Union Regulations. For the year-ended December 31, 2023, the Credit Union was in compliance with this policy.

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

	Assets	Yield(%)	Liabilities	Cost(%)	Asset / Liability Gap
Interest sensitive					
0 - 3 months	$ 3,778,377	6.93	$ 4,322,799	0.55	$ (544,422)
4 - 12 months	1,880,644	4.81	2,004,000	2.21	(123,356)
1 - 2 years	1,996,131	4.10	547,000	2.13	1,449,131
2 - 5 years	2,064,986	4.37	1,459,000	2.84	605,986
Interest sensitive	$ 9,720,138		$ 8,332,799		$ 1,387,339
Non-interest sensitive					
O - 3 months	$ 95,072		$ 126,144		$ (31,072)
4 - 12 months					
1 - 2 years					
2 - 5 ears					
Non-interest sensitive	$ 95,072		$ 126,144		$ (31,072)

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

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net income of $2,065 (2022 - $1,854) while a maximum decrease in interest rates of 1% to floor of 0% could result in a decrease to net income of $2,065 (2022 - $1,854).

21 Financial instrument risk management (continued)

Market risk (continued)

Currency risk

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

Risk measurement

The Credit Union does not have assets or liabilities expressed in foreign currencies. As a result, the Credit Union is not subject to foreign exchange risk.

Equity risk

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

The Credit Union's portfolio does not include significant equity holdings. As a result, the Credit Union is not subject to significant equity risk.

Changes in risk

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