

FRONTLINE FINANCIAL CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2009

MANAGEMENT REPORT

The financial statements contained in this annual report have been prepared by management in accordance with Canadian generally accepted accounting principles. Management is responsible for the presentation, integrity and fairness of the data contained therein.

Management develops and maintains the necessary system of internal controls in order to operate the Credit Union and produce the proper books and records from which the financial statements are prepared. These internal controls are designed to provide assurance that transactions are authorized, assets are safeguarded and the use of the Credit Union's resources are optimized.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for internal control and financial reporting. The Board of Directors is accountable to the general membership of the Credit Union for directing the affairs of the Credit Union through the establishing of objectives and policies.

The independent auditors, McCay, Duff & Company LLP, examine the financial statements in accordance with Canadian generally accepted auditing standards and express their opinion on the fairness of the financial statements. The auditors have full and unrestricted access to the Audit Committee and Board of Directors to discuss their audit and related findings as to the integrity of the Credit Union's financial reporting and the adequacy of the system of internal control.



General Manager
Frontline Financial Credit Union Limited

February 23, 2010.

**McCAY, DUFF
& COMPANY LLP**

CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Members,
Frontline Financial Credit Union Limited.

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

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

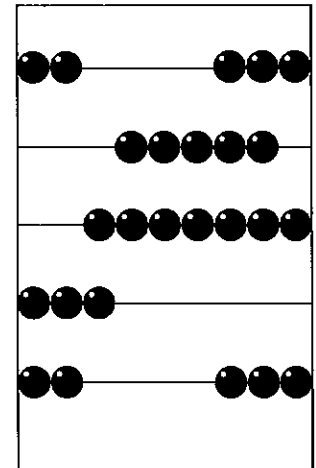
In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

McCay, Duff + Co LLP

McCay, Duff & Company LLP,
Licensed Public Accountants.

Ottawa, Ontario,
February 23, 2010.

THOMAS W HOWARTH C.A.
PROFESSIONAL CORPORATION
BLAIR EDWARD DAVIDSON C.A.
PROFESSIONAL CORPORATION
G W TRICKEY C.A.
PROFESSIONAL CORPORATION
ROBERT D SHANTZ C.A.
PROFESSIONAL CORPORATION
MARGARET N. EGAN C.A.
PROFESSIONAL CORPORATION
JASON T. HOWARTH C.A.
PROFESSIONAL CORPORATION
KAREN M. FREAKE, B. COMM., C.A.



FRONTLINE FINANCIAL CREDIT UNION LIMITED


BALANCE SHEET

AS AT DECEMBER 31, 2009

ASSETS		
	<u>2009</u>	<u>2008</u>
Cash	\$ 887,819	\$ 1,182,539
Accounts receivable	1,800	8,323
Prepaid index link premiums	114,538	69,738
Income taxes recoverable	-	53,007
Loans to members (note 4)		
- personal	9,055,454	9,912,758
- residential mortgage	55,930,317	49,939,623
- commercial	111,011	127,244
Investments (note 6)	6,570,061	5,958,403
ABCP 2008 Limited Partnership Units (note 7)	250,368	318,346
Capital (note 8)	<u>586,912</u>	<u>605,315</u>
	<u>\$ 73,508,280</u>	<u>\$ 68,175,296</u>
LIABILITIES		
Short-term loan (note 9)	\$ 2,000,000	\$ -
Accounts payable	466,558	743,912
Income taxes payable	<u>16,353</u>	<u>-</u>
	2,482,911	743,912
MEMBERS' SAVINGS		
Deposit accounts (note 10)		
Bonus savings	2,813,291	2,806,843
Personal chequing	4,367,754	3,906,403
Savings chequing	4,843,848	4,053,040
Daily interest savings	1,314,443	1,413,790
Platinum savings	22,908,478	22,377,147
Term	12,206,474	11,725,591
RRSP	12,938,184	12,562,623
RRIF	3,458,018	3,862,423
TFSA	<u>1,211,482</u>	<u>-</u>
	66,061,972	62,707,860
MEMBERS' EQUITY		
Liability		
Membership shares (note 11)	295,050	295,975
Patronage reward shares (note 11)	<u>37,340</u>	<u>-</u>
	332,390	295,975
Equity		
Statutory reserve	2,761,429	2,761,429
General reserve	1,869,578	1,666,120
Undivided earnings	<u>-</u>	<u>-</u>
	<u>4,631,007</u>	<u>4,427,549</u>
	<u>4,963,397</u>	<u>4,723,524</u>
	<u>\$ 73,508,280</u>	<u>\$ 68,175,296</u>

Commitments (note 14)

Approved on behalf of the Board:



 Director



 Director

FRONTLINE FINANCIAL CREDIT UNION LIMITED

STATEMENT OF MEMBERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>2009</u>	<u>2008</u>
STATUTORY RESERVE		
Balance - beginning of year	\$ 2,761,429	\$ 2,761,429
Allocation from undivided earnings	<u>-</u>	<u>-</u>
Balance - end of year	2,761,429	2,761,429
GENERAL RESERVE		
Balance - beginning of year	1,666,120	1,485,375
Allocation from undivided earnings	<u>203,458</u>	<u>180,745</u>
Balance - end of year	1,869,578	1,666,120
UNDIVIDED EARNINGS		
Balance - beginning of year	-	-
Net income for the year	203,458	180,745
Less: Allocation to general reserve	<u>(203,458)</u>	<u>(180,745)</u>
Balance - end of year	<u>-</u>	<u>-</u>
TOTAL EQUITY	<u>\$ 4,631,007</u>	<u>\$ 4,427,549</u>

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>2009</u>	<u>2008</u>
NET INCOME FOR THE YEAR	\$ 203,458	\$ 180,745
Other comprehensive income	<u>-</u>	<u>-</u>
COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 203,458</u>	<u>\$ 180,745</u>

FRONTLINE FINANCIAL CREDIT UNION LIMITED

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>2009</u>	<u>2008</u>
INTEREST INCOME		
Loans		
Personal	\$ 821,262	\$ 856,206
Residential mortgage	2,261,774	2,422,395
Commercial	12,724	1,251
Investments	<u>37,381</u>	<u>145,164</u>
	3,133,141	3,425,016
INTEREST EXPENSE		
Deposit Accounts		
Bonus savings	7,421	11,641
Chequing and savings	13,809	12,858
Term	493,183	447,952
Platinum savings	371,599	688,153
RRSP	378,467	380,456
RRIF	133,898	158,673
TFSA	20,442	-
Patronage reward	<u>40,000</u>	<u>40,000</u>
	<u>1,458,819</u>	<u>1,739,733</u>
FINANCIAL MARGIN	1,674,322	1,685,283
Other income	613,644	551,388
Rental income	<u>7,200</u>	<u>7,800</u>
	<u>620,844</u>	<u>559,188</u>
INCOME BEFORE EXPENSES - Carry Forward	\$ 2,295,166	\$ 2,244,471

FRONTLINE FINANCIAL CREDIT UNION LIMITED

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>2009</u>	<u>2008</u>
INCOME BEFORE EXPENSES - Carried Forward	\$ 2,295,166	\$ 2,244,471
EXPENSES		
Member Services		
Card skimming costs	13,480	17,297
Marketing and advertising	34,693	46,599
League dues	14,320	23,863
Share and loan insurance	1,032	2,064
DICO insurance	53,356	47,092
Electronic service fees	<u>20,066</u>	<u>13,674</u>
	136,947	150,589
Staff		
Employee benefits	209,188	177,516
Staff training	8,679	15,732
Salaries	<u>893,879</u>	<u>822,809</u>
	1,111,746	1,016,057
Financial		
Interest on borrowed funds	16,769	14,646
P.C.A. and other charges	82,042	77,327
Registered administration fees	<u>10,522</u>	<u>5,907</u>
	109,333	97,880
Administrative		
Board and corporate governance	58,245	82,933
Data processing	116,754	124,671
Insurance	57,138	56,911
Office	107,977	107,037
Professional fees	75,471	80,747
Provision for impaired loans	<u>50,000</u>	<u>-</u>
	465,585	452,299
Premises		
Amortization	100,492	84,554
Heat, light and water	16,657	18,939
Maintenance and repairs	34,627	32,114
Property taxes	35,494	32,544
Rent	<u>27,889</u>	<u>26,711</u>
	215,159	194,862
TOTAL EXPENSES	<u>2,038,770</u>	<u>1,911,687</u>
OPERATING INCOME	256,396	332,784
Loss on shares - CUCO	-	27,895
Loss on ABCP 2008 Limited Partnership	<u>-</u>	<u>91,143</u>
	<u>-</u>	<u>119,038</u>
INCOME BEFORE INCOME TAXES	256,396	213,746
Provision for income taxes	<u>52,938</u>	<u>33,001</u>
NET INCOME FOR THE YEAR	<u>\$ 203,458</u>	<u>\$ 180,745</u>

FRONTLINE FINANCIAL CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>2009</u>	<u>2008</u>
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net income for the year	\$ 203,458	\$ 180,745
Items not involving cash		
- change in allowance for impaired loans	(272)	(24,082)
- amortization	100,492	84,554
- loss on investments	-	119,038
	<u>100,220</u>	<u>179,510</u>
	303,678	360,255
Change in non-cash working capital		
- accounts receivable	6,523	(8,323)
- prepaid index link premiums	(44,800)	(28,207)
- income taxes payable/recoverable	69,360	8,347
- accounts payable	(277,354)	165,761
	<u>(246,271)</u>	<u>137,578</u>
	57,407	497,833
INVESTING ACTIVITIES		
Change in investments	(612,203)	(1,610,244)
Increase in loans receivable	(5,116,885)	(5,074,981)
Change in ABCP 2008 Limited Partnership Units	67,978	(318,346)
Purchase of capital assets	(82,089)	(59,055)
	<u>(5,743,199)</u>	<u>(7,062,626)</u>
FINANCING ACTIVITIES		
Change in short-term loans	2,000,000	-
Change in members' savings	3,354,112	6,541,637
Change in membership shares	(925)	(1,050)
Change in patronage reward shares	37,340	-
	<u>5,390,527</u>	<u>6,540,587</u>
DECREASE IN CASH AND CASH EQUIVALENTS - DURING THE YEAR	<u>(295,265)</u>	<u>(24,206)</u>
Cash and cash equivalents - beginning of year	<u>2,183,095</u>	<u>2,207,301</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,887,830</u>	<u>\$ 2,183,095</u>
CASH AND CASH EQUIVALENTS		
Cash	\$ 887,819	\$ 1,182,539
Deposits - maturing or callable within 100 days	<u>1,000,011</u>	<u>1,000,556</u>
	<u>\$ 1,887,830</u>	<u>\$ 2,183,095</u>
SUPPLEMENTARY INFORMATION		
Income taxes paid (recovered)	\$(16,433)	\$ 24,655
Interest paid	<u>\$ 16,769</u>	<u>\$ 14,646</u>

FRONTLINE FINANCIAL CREDIT UNION LIMITED**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2009****1. NATURE OF BUSINESS**

The Credit Union was incorporated under the Credit Unions and Caisses Populaires Act of Ontario on December 16, 1948 and is a member of the Deposit Insurance Corporation of Ontario (DICO) and of Central 1 Credit Union Limited (Central 1).

2. SIGNIFICANT ACCOUNTING POLICIES**(a) The Credit Unions and Caisses Populaires Act, 1994 (the "Act")**

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 these 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.

(b) Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments.

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designed as held-for-trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income. The liquidity reserve deposit is classified as held-for-trading.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables or held-for-trading. Available-for-sale assets are written down to fair value through income whenever it is necessary to reflect an other-than-temporary impairment. Equities that do not have quoted market values in an active market are carried at cost. Realized gains and losses on sale as well as income from those securities are included in investment income. Available-for-sale assets are callable deposits, shares and ABCP 2008 Limited Partnership Units.

Loans and receivables are accounted for at amortized cost using the effective interest method. Assets classified as loans and receivables are accounts receivable and loans to members.

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments. Liabilities classified as other liabilities are accounts payable, deposit accounts and liabilities qualifying as regulatory capital.

(c) Cash

Cash includes cash on hand, cash on deposit with other financial institutions, cheques and other items in transit. Interest income on deposits with other financial institutions is included in investment income.

FRONTLINE FINANCIAL CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(d) Loans to Members

Personal loans, residential mortgage loans and commercial loans are recorded at principal amounts less an allowance for impaired loans.

Loans are classified as impaired when a specific allowance has been established or a write-off taken or when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of principal or interest. Generally, loans are also classified as impaired when interest or principal is contractually 90 days past due, unless the loan is fully secured and in the process of collection. Fully secured loans are classified as impaired after a delinquency period of 180 days.

Loans are generally removed from the specific allowance when all delinquent principal and interest payments are brought current and the timely collection of both principal and interest is reasonably assured.

(e) Allowance for Impaired Loans

The allowance for impaired loans is maintained in an amount considered adequate to absorb estimated credit-related losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgements about economic conditions. If the circumstances under which these estimates and judgements were made change, there could be a significant change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of specific and general allowances, each of which is reviewed on a regular basis.

The allowance is increased by provision for impaired loans which are charged to earnings and reduced by write-offs net of recoveries.

Specific allowances are determined on an item-by-item basis and reflect the associated credit loss. The specific allowance is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount, which is generally the fair value of any security underlying the loan, net of expected costs of realization.

The non-specific allowance is established to absorb any potential credit losses and is determined through analysis of economic developments and current portfolio trends for credit losses and cannot be determined on a loan by loan basis. When losses can be attributable to individual loan facilities, specific allowances are recorded.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

(f) Capital Assets and Amortization

Capital assets are stated at cost, net of accumulated amortization. Amortization is provided on the straight line basis as follows:

Buildings	-	3%
Furniture and equipment	-	10% - 20%
Computer equipment	-	33 1/3%
Capital improvements	-	10%
Leasehold improvements	-	10%

FRONTLINE FINANCIAL CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(g) Statutory Reserve

Current legislation requires that the Credit Union shall establish and maintain a sufficient level of regulatory capital in accordance with Section 17 of Regulation 237/09 of the Act. As at December 31, 2009 the Credit Union has allocated sufficient amounts to this reserve to meet these requirements.

(h) General Reserve

In addition to the statutory reserve requirements noted above, the Board of Directors has established a general reserve to provide for additional financial security to compensate for other operating risks. If undivided earnings are insufficient to provide for required allocations to the statutory reserve in future years, the general reserve will be utilized to complement the statutory requirements.

(i) Revenue Recognition

Interest on loans is recognized on the accrual basis.

Revenue from investment income is recognized in the period it is earned.

Commissions, fees, and related revenues are recognized when the specific transactions are completed.

Service charges and sundry revenues are recognized when the service to the member has been rendered.

(j) Comprehensive Income

Other comprehensive income includes, in particular, unrealized gains and losses on available-for-sale financial assets.

(k) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

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

(l) Foreign Currency

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the rate of exchange prevailing at year end; income and expenses are translated at the rate in effect at the transaction date. Foreign currency exchange gains and losses are recognized in other income during the year.

FRONTLINE FINANCIAL CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

3. FUTURE ACCOUNTING STANDARDS

International Accounting Standards

The Canadian Accounting Standards Board (AcSB) will require all publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011, including the restatement of comparative period financial statements on the same basis. The transition from Canadian GAAP to IFRS will be applicable for the Credit Union for the year ending December 31, 2011.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover date the AcSB is expected to continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Credit Union's financial statements will only be measured once all the IFRS applicable at the conversion date are known.

Set out below are the key areas where changes in accounting policies as a result of adopting IFRS are expected to impact the Credit Union's financial statements. This should not be regarded as a complete list of changes that will ultimately result from transition to IFRS. At this stage, we are not able to reliably quantify the impacts expected on our financial statements arising from these changes.

IFRS 1 - First-time Adoption of International Financial Reporting Standards

Our adoption of IFRS will require the application of IFRS 1 First-time Adoption of International Financial Reporting Standards.

IFRS 1, which provides guidance for an entity's initial adoption of IFRS, generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. We will be required to prepare an opening IFRS statement of financial position as of January 1, 2010 which will be disclosed in our first annual financial statements under IFRS. In addition, IFRS 1 will require reconciliations between Canadian GAAP and IFRS with detailed explanations of the adjustments required for the comparative year.

We have completed our analysis of the elective exemptions and have tentatively concluded that we will apply the following exemption from retrospective application and have tentatively concluded that we will apply the following exemption in preparing our opening IFRS balance sheet.

Capital Assets:

We expect to continue to apply the cost model for capital assets and will not restate capital assets to fair value under IFRS. We will use the historical bases under Canadian GAAP as deemed cost under IFRS at transition. (See IAS 16)

IAS 39 – Financial Instruments: Securitization

Derecognition of securitized assets will generally be more difficult to achieve under IFRS than under current Canadian GAAP as IFRS introduces a more complex series of requirements which focus on risk and rewards, control and the nature of the asset transferred. The Credit Union currently maintains securitized assets off balance sheet. These assets may be required to come back on balance sheet resulting in an increase in loans to members - mortgages and secured borrowing balances on the balance sheet. The regulatory capital implications of this change in accounting treatment are not yet known.

FRONTLINE FINANCIAL CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

3. FUTURE ACCOUNTING STANDARDS (Cont'd.)

IAS 39 – Financial Instruments: Loan Loss Provisioning

Similar to Canadian GAAP, IFRS adopts an “incurred loss” model for loan loss provisioning, however, IAS 39 provides more explicit guidance with respect to the methodology to be followed in assessing and measuring loan impairment. Provisions can only be recorded where there is objective evidence that a loss event has occurred and that loss event is expected to change the timing and or amount of the expected cash flows on the underlying loan(s) based on past experience. Loan losses can be assessed on an individual loan or collective basis. Unallocated general provisions are not permitted under IFRS. It is anticipated the changes may result in a reduction in the level of provisioning that the Credit Union holds against its credit exposures. Any reduction in the loan allowance, upon adoption, will be allocated to undivided earnings and will not be reflected in the Statement of Income.

Estimated losses are required to be determined on a discounted cashflow basis using the original effective interest rate inherent in the loan. As the discount unwinds, interest income continues to be recorded on impaired loans.

IAS 16 – Capital Assets

IFRS 1 allows an entity to initially measure an item of capital assets upon transition to IFRS at fair value as opposed to recreating depreciated cost under IFRS.

In certain circumstances IFRS requires capital assets to be segregated between own-use property and investment property for presentation and disclosure purposes. Where property is dual use, IFRS requires the property to be split into an own-use portion and an investment property portion for financial statement purposes if certain conditions are met. The Credit Union is currently assessing the appropriate classification of its capital assets.

Under IAS 16, own-use capital assets can be measured at amortized cost using the Cost Model or at fair value using the Revaluation Model with changes in fair value recorded in other comprehensive income. We have made a tentative decision to continue applying the cost model to capital assets.

4. LOANS TO MEMBERS

Residential mortgage loans are repayable in monthly blended principal and interest instalments and are amortized to a maximum period of 35 years.

Commercial loans and personal loans, including line of credit loans, are repayable to the Credit Union in monthly principal and interest instalments over a maximum term of five years, except for line of credit loans which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at anytime without notice.

Mortgages Held by Concentra Financial

The Credit Union administers mortgages totalling \$18,940,149 (2008 - \$21,293,703) that are held by Concentra Financial.

FRONTLINE FINANCIAL CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

5. ALLOWANCE FOR IMPAIRED LOANS

<u>Loan Category</u>	<u>Total</u>	<u>Impaired Loans</u>	<u>Allowance for Impaired Loans</u>
Personal	\$ 9,510,693	\$ 259,748	\$ 455,239
Residential Mortgage	55,930,317	497,101	-
Commercial Mortgage	<u>111,011</u>	<u>-</u>	<u>-</u>
	<u>\$ 65,552,021</u>	<u>\$ 756,849</u>	<u>\$ 455,239</u>

The allowance consists of a specific allowance of \$157,498 and a non-specific allowance of \$297,741. The difference of \$599,351 between the impaired loans and the specific allowance represents security held in respect of these loans.

(b) Continuity of Allowance for Impaired Loans

Personal loans receivable have been reduced by the allowance for impaired loans as follows:

	<u>2009</u>	<u>2008</u>
BALANCE - BEGINNING OF YEAR	\$ 455,511	\$ 479,593
Recovery of loans written off	933	17,969
Provision for impaired loans	<u>50,000</u>	<u>-</u>
	506,444	497,562
Loans written off	<u>(51,205)</u>	<u>(42,051)</u>
BALANCE - END OF YEAR	<u>\$ 455,239</u>	<u>\$ 455,511</u>

(c) Loans Past Due but not Impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of the loans that are past due but not classified as impaired because they are either (i) less than 90 days past due, or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

	<u>2009</u>			<u>2008</u>	
	<u>1-29 Days</u>	<u>30-89 Days</u>	<u>90 days and Greater</u>	<u>Total</u>	<u>Total</u>
Personal loans	\$ 45,172	\$ 5,141	\$ -	\$ 50,313	\$ 92,340
Residential mortgage loans	310,508	-	-	310,508	316,288
Commercial loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 355,680</u>	<u>\$ 5,141</u>	<u>\$ -</u>	<u>\$ 360,821</u>	<u>\$ 408,628</u>

FRONTLINE FINANCIAL CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

5. ALLOWANCE FOR IMPAIRED LOANS (Cont'd.)

(c) Loans Past Due but not Impaired (Cont'd.)

As of December 31, 2009, 98% of the loans were neither past due nor impaired (2008 - 97%). During the year, \$nil of mortgages or loans that would otherwise be past due or impaired were restructured.

The credit enhancements the Credit Union holds as security for loans include (i) residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable; (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities.

6. INVESTMENTS

	<u>2009</u>	<u>2008</u>
Deposits - maturing or callable within 100 days	\$ 1,000,011	\$ 1,000,556
Liquidity reserve deposit	5,077,178	4,433,562
Shares - C.U.C.O.	84,254	357,152
- Central 1 Credit Union Class A	169,353	163,368
- Central 1 Credit Union Class E	235,500	-
- Other	<u>3,765</u>	<u>3,765</u>
	<u>\$ 6,570,061</u>	<u>\$ 5,958,403</u>

As a result of the merger of Credit Union Central of Ontario Limited (CUCO) with Credit Union Central of British Columbia (see note 7), the Credit Union's membership shares in CUCO were exchanged in part for membership shares in Central 1 Credit Union (Central 1). The shares are redeemable at cost only if there is a reduction in the Credit Union's total assets at December 31 each year or upon withdrawal of membership. Accordingly, there is no separately quoted market value. The fair value of the shares in Central 1 is not readily determinable because of the lack of a resale market and accordingly, they are carried at cost.

Liquidity Reserve Deposit

All Credit Unions who are members of Central 1 shall invest 7% of its assets (as adjusted quarterly) in a Liquidity Reserve Deposit with Central 1. Such deposits bear interest at a floating rate, must be callable and must mature within one year of being issued. In the ordinary course of business the Credit Union is not entitled to withdraw funds from the pool.

7. ASSET-BACKED COMMERCIAL PAPER LIMITED PARTNERSHIP AND CENTRAL 1 CREDIT UNION MERGER

At a special general meeting held May 31, 2008, members of Credit Union Central of Ontario Limited (CUCO) approved a resolution to facilitate the merger of CUCO and Credit Union Central of British Columbia (CUCBC) to form a new national financial services entity named Central 1 Credit Union (Central 1).

FRONTLINE FINANCIAL CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

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**7. ASSET-BACKED COMMERCIAL PAPER LIMITED PARTNERSHIP
AND CENTRAL 1 CREDIT UNION MERGER (Cont'd.)**

As a pre-condition of this merger, CUCO was required to divest itself of investments in certain third-party asset-backed commercial paper (ABCP). The resolution approved the creation of ABCP 2008 Limited Partnership (ABCP 2008 LP) to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. As a result, on July 1, 2008, immediately prior to the merger of CUCO and CUCBC, the excluded ABCP with a total par value of \$186,916,000 was acquired by the ABCP 2008 LP at its estimated fair value of \$133,564,000 including accrued interest, net of expenses, and other assets. The Credit Union's share of the ABCP 2008 LP was \$444,066. As there was no liquid market for these ABCP investments, the fair values used to determine the acquisition price were provided by Edenbrook Hill Capital Ltd., a firm engaged by CUCO to provide an independent valuation of the assets underlying the ABCP investments. The valuation for each credit union's share of the ABCP was provided to them before closing.

The December 31, 2009 valuation provided by the Limited Partnership indicates that there has been no material deterioration in the fair market value of the ABCP securities. Distributions received during the year amounted to \$67,978 and have been recorded as a return on capital.

The ABCP 2008 LP is governed by a Board of Directors that was elected by Ontario member credit unions and each limited partner will record its proportionate share of net income or loss in the ABCP 2008 LP as determined by Canadian generally accepted accounting principles and subject to an annual external audit.

8. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated Amortization	Net	Net
Land	\$ 37,726	\$ -	\$ 37,726	\$ 37,726
Buildings	669,933	313,792	356,141	376,239
Furniture and equipment	163,785	70,644	93,141	38,257
Computer equipment	115,856	95,420	20,436	51,984
Capital improvements	178,025	137,132	40,893	56,105
Leasehold improvements	64,292	25,717	38,575	45,004
	\$ 1,229,617	\$ 642,705	\$ 586,912	\$ 605,315

9. CREDIT FACILITY

The Credit Union has available for use a credit facility, secured by a general security agreement, in the amount of \$7,800,000 which consists of: current account line of credit \$1,150,000; US current account line of credit \$45,000; \$3,000,000 in term loans; and \$3,605,000 contingency term loan.

As at December 31, 2009, \$2,000,000 term loan (bearing interest at 0.80%, repayable on demand) had been utilized.

FRONTLINE FINANCIAL CREDIT UNION LIMITED

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10. DEPOSIT ACCOUNTS

(a) Term Deposits

Term deposits may be withdrawn prior to maturity date subject to a reduction of interest. Withdrawal privileges on all deposit accounts are subject to the overriding right of the Board of Directors to impose a thirty day waiting period.

(b) Mutual Funds held by Credential Asset Management

Credential Asset Management administers mutual funds totalling \$6,260,576 (2008-\$4,414,679) for Credit Union members.

11. SHARES

Membership

As a condition of membership each voting member is required to maintain a minimum of fifteen shares at \$5 per share. As at December 31, 2009 the Credit Union has 3,934 voting members and 339 trust accounts (members under 18 years of age) for a total of 4,273 members. These shares are redeemable at stated value.

Patronage reward shares

The Board of Directors approved to issue patronage reward shares in the amount of \$10 to each qualified member of the Credit Union. These shares are non-voting and are redeemable at stated value when a member closes their account.

Funds invested by members in shares are not insured by DICO. The withdrawal of member shares and the payment of any dividends on these shares is subject to certain restrictions as provided by the Credit Union's by-laws and by the requirement of the Credit Union to maintain adequate regulatory capital (see note 13). These shares are redeemable at par.

12. RESTRICTED AND RELATED PARTY TRANSACTIONS

Restricted parties include all directors, officers as well as their spouses and immediate dependent family members.

(a) Loans

During the year the Credit Union granted loans of \$801,225 to restricted parties. Total loans outstanding to restricted parties as at December 31, 2009 is \$474,495. The terms of these loans are consistent with those offered to other members of the Credit Union. As at December 31, 2009, none of these loans are in arrears.

(b) Director and committee members' remuneration

Director remuneration amounted to \$15,900 for the year (2008 - \$18,692) and is included in board and corporate governance.

FRONTLINE FINANCIAL CREDIT UNION LIMITED

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13. REGULATORY CAPITAL (ONTARIO)

The Credit Union has a capital management policy in place that addresses the quantity, quality, and composition of capital needed that reflects the inherent risks of the organization, to support the current and planned operations, and to meet regulatory requirements.

The Credit Unions and Caisses Populaires Act, 1994 requires the Credit Union to maintain regulatory capital at 4% of total assets and 8% of total risk weighted assets for years ending in 2009.

The Credit Union is in compliance with the Act and regulations regarding regulatory capital. As at December 31, 2009 regulatory capital amounted to \$5,261,138.

	<u>2009</u>	<u>2008</u>
Tier 1 Capital		
Members' shares	\$ 295,050	\$ 295,975
Patronage reward shares	37,340	-
Reserves and undivided earnings	<u>4,631,007</u>	<u>4,427,549</u>
	4,963,397	4,723,524
Tier 2 Capital		
Non-specific allowance	<u>297,741</u>	<u>265,420</u>
Total Regulatory Capital	<u>\$ 5,261,138</u>	<u>\$ 4,988,944</u>
% of total assets	7.16	7.32
% of total risk weighted assets	20.31	19.50

14. COMMITMENTS

At December 31, 2009, the Credit Union has the following commitments to its members on account of loans and unused lines of credit.

Meritline/line of credit, personal loans and mortgages	\$ 18,158,425
Letters of Credit	\$ 10,000

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value

The amounts set out below represent the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as prepaids, capital assets and income taxes receivable.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

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15. FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont'd.)

	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value Over/(Under) Book Value</u>
Assets			
Cash	\$ 887,819	\$ 887,819	\$ -
Accounts receivable	1,800	1,800	-
Investments	6,570,061	6,570,061	-
ABCP Limited Partnership Units	294,546	250,368	44,178
Loans to members	65,009,288	65,552,021	(542,733)
Liabilities			
Short-term loan	2,000,701	2,000,000	-
Members' savings	66,737,781	66,061,972	675,809
Accounts payable	466,558	466,558	-
Membership and patronage reward shares	332,390	332,390	-

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

- (i) The fair values of cash and cash equivalents, accounts receivable, accrued interest on members' loans, short-term loan and other liabilities are assumed to approximate their carrying values, due to their short-term nature.
- (ii) The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to book value as the interest rates on these loans and deposits reprice to market on a periodic basis.
- (iii) The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposits and capital accounts at current market rates for products with similar terms and credit risks.
- (iv) The fair value of the ABCP Limited Partnership Units has been determined by independent valuation of the assets underlying the ABCP investments. This fair value is based on observable market data.

16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

Credit risk

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet its financial obligations.

The Board of Directors of the Credit Union oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

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16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Cont'd.)

The Credit Union mitigates this credit risk by: limiting the principal amount of credit to a borrower at a given time (limit); performing a thorough credit analysis prior to the approval of the loan; obtaining collateral when appropriate; and employing risk based pricing. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. The Credit Union's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union are, but are not limited to, the following: members' personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies.

Liquidity risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk that the Credit Union may be unable to meet financial commitments in a timely and cost effective manner.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board, the Credit Union's compliance with the policy and Regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

The Credit Union policy is to maintain at all times an aggregate of at least 8% of all deposits and borrowings in some form of liquid assets. The Credit Union complies with requirements regarding adequate liquidity at December 31, 2009, the liquidity requirement is \$5,409,428 while liquid assets total \$6,964,955.

Market risk

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates. The Credit Union is exposed to this market risk in its investing and asset/liability management activities.

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16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Cont'd.)

(i) Interest Rate Risk

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the Board of Directors and by the Act.

The table below summarizes amounts by maturity dates and effective interest rates for the following on-balance sheet financial instruments.

	<u>Variable Rate</u>	<u>Less Than One Year</u>	<u>One to Five Years</u>	<u>Non-Rate Sensitive</u>	<u>Total</u>	<u>Effective Interest Rate</u>
Cash	\$ 417,439	\$ -	\$ -	\$ 470,380	\$ 887,819	1.10
Investments	-	6,077,189	-	492,872	6,570,061	0.40
ABCP 2008 LP Units	-	-	-	250,368	250,368	-
Loans to members	34,882,061	5,529,260	25,140,700	-	65,552,021	10.65
Short-term loan	2,000,000	-	-	-	2,000,000	0.80
Members' savings	39,654,593	4,230,400	22,176,979	-	66,061,972	7.22
Membership shares	-	-	-	295,050	295,050	-
Patronage reward shares	-	-	-	37,340	37,340	-

Based on Frontline Financial Credit Union Limited's interest rate positions as of December 31, 2009, an immediate and sustained .25 basis point increase in interest rates across all maturities would increase net interest income by approximately \$6,400. An immediate and sustained .25 basis point decrease in interest rates would decrease net interest income by approximately \$9,600.

(ii) Foreign Currency Exchange Risk

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings when balances of its foreign currency liabilities are not matched with the balances of its foreign currency assets. It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets.

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17. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union does not hold or issue derivative financial instruments for speculative purposes and controls are in place to prevent and detect these activities.

The Credit Union has outstanding \$879,886 (2008 - \$885,964) in Index-Linked Term Deposits to its members. These are either 3 or 5 year deposits that pay the members interest based on the performance of the TSX 60 index. The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the Credit Union pays a fixed rate of interest annually for the term of each Index-Linked Term Deposit on the face value of the deposits sold. At the end of the term, Central 1 pays the Credit Union an amount equal to the amount that will be paid to the members, based on the performance of the indices.

The hedging derivatives are recorded at fair value, but changes in fair value only impact the operations to the extent that they do not perfectly offset changes in the fair value of the item being hedged (i.e. "hedge ineffectiveness"). Any hedge ineffectiveness would be recorded in the results of operations. The Credit Union's hedge agreements with Central 1 are such that hedges should very closely match the items that are hedged and, as a result, there is no hedge ineffectiveness.