

New Brunswick Credit Union Deposit Insurance Corporation



Annual
Report
2009



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\$250,000 Deposit Insurance Coverage

What is covered?

NBCUDIC insures eligible deposits under the following circumstances:

- accounts held in one name;
- accounts held in trust for someone else;
- deposits held jointly in two or more names;
- eligible deposits that are held in a Tax Free Savings Account (TFSA).

What is an eligible deposit?

NBCUDIC insures eligible deposits held in each member credit union up to a maximum of \$250,000 (principle and interest combined) per depositor, for each of the following deposits:

- a combination of savings, chequing accounts, term deposits and guaranteed investment certificates (GICs) with an original term to maturity of five years or less, money orders, and certified cheques;
- registered in RRSPs (Registered Retirement Savings Plans);
- registered in RRIFs (Registered Retirement Income Funds); and
- TFSA deposits.

Deposits must be payable in Canada, in Canadian currency.

What is not covered?

NBCUDIC does not insure all accounts and financial products. The following are not covered:

- deposits made or payable by a member which are not repayable in Canadian dollars (e.g. accounts in U.S. dollars);
- term deposits and guaranteed investment certificates (GICs) with an original term to maturity of more than five years;
- bonds and debentures issued by governments and corporations;
- membership shares and other types of shares issued by credit unions;
- treasury bills; and
- investments in mutual funds and stocks.

Letter to the Minister of Justice and Consumer Affairs

April 26, 2010

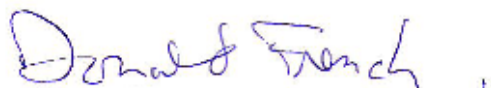
Honourable Kelly Lamrock, Q.C.
Minister of Justice and Consumer Affairs
P.O. Box 6000
Fredericton, New Brunswick
E3B 5H1

Dear Mr. Minister:

By virtue of its statutory requirement under section 235 of the *Credit Unions Act*, the board of directors wishes to present to you the sixteenth annual report of the New Brunswick Credit Union Deposit Insurance Corporation.

The Board and I would be pleased to answer any questions that you may have, and to provide you with any additional information that you may require.

Yours very truly,



Donald French, CA
Chair

DF/lb

Attachment

Message from the Chair, Mr. Donald French

I am pleased to present the 2009 Annual Report of the New Brunswick Credit Union Deposit Insurance Corporation. NBCUDIC was established in 1994 under provisions of the *Credit Unions Act*. Its mandate is to insure eligible deposits held by members of a *caisse populaire* or credit union in New Brunswick up to a maximum of \$250,000.

The newly restructured Board of NBCUDIC completed its first full year of operation in 2009. The Board was restructured as part of legislative amendments to the *Credit Unions Act* in 2008. The Board was expanded to seven members from its previous composition of five members. In order to improve the independence of the Board, a new restriction provides that the ministerial appointees (currently four) can no longer sit on a stabilization board. Furthermore, the deputy ministers of Finance and Justice and Consumer Affairs are new additions to the Board. Finally, the Superintendent, who was previously chair, remains a member of the Board but no longer chairs the Board. The Chair must be one of the four ministerial appointees.

The new Board held five meetings in 2009. As part of each NBCUDIC Board meeting, the two stabilization boards are called upon to present a comprehensive risk review report to the Board for review and discussion. This allows NBCUDIC to ascertain the relative financial health of the credit union and *caisse populaire* systems, the manner in which present and emerging risks are being managed, and the adequacy of the reserves currently available in each system. The Board has also implemented a new system of performance indicators that compare New Brunswick credit unions and *caisses populaires* with results achieved in other jurisdictions as compiled by Credit Union Central of Canada.

Among the other issues addressed by the Board in 2009 was the review of the reports and recommendations provided to the Board by the Superintendent of Credit Unions following the inspection of each stabilization board. The Board was kept apprised as to appropriate follow-up to be taken in view of the inspection findings that will result in further strengthening the financial and regulatory functions of these important organizations.

In December 2009, the Board approved the NBCUDIC operational plan and budget for 2010. Among some of the key issues that will be addressed in 2010 as part of this plan, NBCUDIC will review the Corporation's failure resolution powers and capabilities, and develop a new policy in this regard. This will allow the Corporation to be better prepared to deal in a timely and orderly manner with significant deposit insurance issues that may arise in the future while at the same time protecting the interests of members of credit unions.

A second key objective in NBCUDIC's operational plan is the review of capital adequacy at each of the three levels of protection, firstly at the credit union level, secondly at the stabilization board level and thirdly at the NBCUDIC level. This comprehensive review will be undertaken in 2010 by an expert in the area and will provide the Board with a better sense of the level of reserves that should be maintained at each level of protection. Furthermore, the results of this study will provide the Board with some methodology for the calculations of appropriate levels of reserves in the future, and provide an important indicator leading to the legislative requirement to review the adequacy of stabilization funds in 2012.

Other issues dealt with by the Board in 2009 included a review of its investment policy and the appointment of KPMG as new auditors for the Corporation as a result of the decision by the Auditor General to resign as auditors due to a change in their policy. Board orientation continued to be a priority of the Board. Numerous topical presentations were made during the year. Also, a Board meeting coupled with an orientation session were held in the offices of Credit Union Central of New Brunswick (CUCNB) in Riverview. A similar session will be held in Caraquet in June 2010.

For 2010, the NBCUDIC Board looks forward to working closely with all stakeholders in order to ensure that risks in the system are managed and dealt with in an expeditious manner, and that the stabilization and deposit insurance funds are adequately funded to provide for the security of members' deposits.

In closing, I would like to thank members of the NBCUDIC Board, management as well as members of both stabilization boards for their cooperation and their dedication to the objective of a strong and financially secure caisse populaire and credit union system in New Brunswick.



Donald French, C.A.
Chair

Statutory Objectives

The Corporation was established and obtains its mandate and authority under Part XIII of the *Credit Unions Act* (Chapter C-32.2) (Act) assented to December 11, 1992.

The mandate of the Corporation

to provide, for the benefit of persons having deposits with credit unions in New Brunswick, deposit insurance against loss of part or all of such deposits by making payment to the persons to the extent and in the manner authorized by the Act and the regulations,

in such circumstances as the Corporation considers appropriate, to assist stabilization boards in providing financial assistance to credit unions,
and

to do such other things as may be required or authorized by the legislation.

Board of Directors

The board of directors is administered by 7 persons, 4 appointed by the Minister of Justice and Consumer Affairs, the Deputy Minister of Finance or his or her designate, the Deputy Minister of Justice and Consumer Affairs or his or her designate, and the Superintendent of Credit Unions.

As of December 31, 2009, the board of directors of the Corporation consisted of:

Donald French, CA, Chair

Formerly holding the position of Superintendent of Credit Unions, serving as Chief Executive of the Brunswick Credit Union Federation Stabilization Board Limited and serving as a member and chair of the Office de stabilisation des caisses populaires acadiennes, Mr. French has extensive experience in the regulation of credit unions. Currently, Mr. French is a professor of accounting and an administrator at the University of Moncton, and a member of the New Brunswick Institute of Chartered Accountants.



Paul Levesque

Graduating with a law degree in 1978 from the University of New Brunswick's Ludlow Hall, Mr. Levesque became in-house counsel for a major Atlantic Canada construction company. Mr. Levesque has been in private practice in the Fredericton, NB area for over 25 years. He is a member of the Law Society of New Brunswick, the Canadian Bar Association and is an Associate Member of the American Bar Association. Mr. Levesque is a past director of the Atlantica Bio-Energy Task Force.



Paulette Robert

Ms. Robert, a business management consultant, recently retired as Executive Director of the Community Business Development Corporation-Péninsule Acadienne. Prior to that, she was the assistant manager of two branches of the National Bank of Canada where she was in charge of personal and business banking services. She also sat on the board of directors of several organizations, including the New Brunswick Securities Commission.



Kent Fox, AMP

After having a long and successful career as an owner/operator of a major franchise in Fredericton, NB, Mr. Fox received his licence as a Mortgage Consultant. Attaining his AMP accreditation from the Canadian Association of Accredited Mortgage Professionals, Mr. Fox continues to work as a Mortgage Consultant. Mr. Fox has sat on the boards of Child Find Canada, MacKenzie College and the NB Aero Space/Defense Industry Association.



John Mallory

As Deputy Minister of Finance for the Province of New Brunswick, Mr. Mallory is responsible for the Province's treasury and banking operations, tax policy and tax administration, budget preparation and implementation, fiscal policy and intergovernmental fiscal relations. Mr. Mallory is a member of a number of standing deputy minister committees, and a director on a number of Crown Corporations. Mr. Mallory is a certified corporate director and a member of the Institute of Corporate Directors (ICD.D), having graduated from its Director's Education Program.

**Yvon G. LeBlanc, Q.C.**

Deputy Minister of Justice and Consumer Affairs and Deputy Attorney General of New Brunswick.

Formerly a lawyer/partner with the law firm LeBlanc Bell in Bouctouche, New Brunswick, Mr. LeBlanc is a member of the Law Society of New Brunswick and the New Brunswick Branch of the Canadian Bar Association. His extensive legal experience includes services as a provincial Crown prosecutor, a Crown prosecutor as agent for the Attorney General of Canada, and a member of the boards of VIA Rail Canada and the Business Development Bank of Canada. Mr. LeBlanc has lectured in property law at the Law School of the University of Moncton, and is a founding member of the Economic Council of New Brunswick.

**Robert Penney, CA**

Mr. Penney holds a Bachelors Degree in Economics and Political Science from St. Thomas University, and subsequently qualified as a Chartered Accountant in 1993. Since that time, he has held progressively responsible positions in both the private and public sectors. Currently, Mr. Penney is Superintendent of Credit Unions for New Brunswick and a non-voting member of the stabilization board for each of the Fédération des caisses populaires acadiennes and Brunswick Credit Union Federation. He also teaches at UNB's College of Extended Learning in the Management Development and Public Service Management Programs and serves his community as a board member and treasurer of the New Brunswick Law Foundation and as a competitive volleyball coach.



Administrative Support

The Corporation contracts management services and administrative support by way of a Memorandum of Understanding with the Credit Unions, Co-operatives & Trust Companies Branch, with the Department of Justice and Consumer Affairs. This Memorandum of Understanding is renewable each year.

Committees of the Board of Directors

By-law Committee

Mr. Paul Levesque, Chair
Mr. Yvon LeBlanc
Mr. Kent Fox

Audit Committee

Mr. Robert Penney, Chair
Ms. Paulette Robert
Mr. John Mallory

2009 at a Glance

Web Portal

In 2009, the Corporation designed and developed a Web Portal. This Portal allows Board members access to policies, by-laws, and other information of interest. The Portal contains a message board where members can discuss issues, and a calendar to keep track of important dates.

Policy Review

Over the year, the board of directors reviewed and amended the Compensation Policy, and the by-laws. Also, the Corporation now insures Board members for director's liability.

NBCUDIC becomes an Agent of the Crown

In 2009, the Corporation became an agent of the Crown by virtue of an amendment to the *Credit Unions Act*. As a result, the Corporation is no longer a taxable entity. Also, the Province is now directly liable for all of the Corporation's obligations.

Amalgamation of the Atlantic Centrals

The Corporation has followed developments which are expected to lead to an amalgamation of the Atlantic Centrals. There will not be any impact on the Corporation's activities or obligations.

Financial Summary

New Brunswick's credit union system serves in excess of 279,000 members. As of December 31, 2009, there were 16 credit unions serving members in 24 communities throughout New Brunswick, while 25 caisses populaires served members in 84 communities. The credit union system also includes two federations and two stabilization boards. The stabilization boards each maintain a stabilization fund for the protection of their member caisses populaires and credit unions.

Consolidation continued during the year with eight (8) fewer caisses populaires and credit unions in 2009 as compared to 2008. This trend is continuing in 2010. Despite the deteriorating economic conditions in 2009, caisses populaires and credit unions experienced asset growth in excess of 5%. At December 31, 2009, the combined assets of credit unions and caisses populaires was in excess of \$3.5 billion, and combined deposits were in excess of \$3.1 billion.

The stabilization boards are required in most cases to inject funds into credit unions for the purposes of bringing the equity levels up to the legislated 5% level. As at December 31, 2009, the net assets of the Office de stabilisation de la Fédération des caisses populaires acadiennes (Office) stood at \$79.6 million, and the net assets of the Brunswick Credit Union Federation Stabilization Board Limited (RMA) stood at \$12.9 million; the combined stabilization funds increased by 7% during the year. In 2008, the *Credit Unions Act* and the regulation were amended to limit insurance protection available to members of New Brunswick credit unions to \$250,000 in eligible deposit accounts. The Corporation's deposit insurance fund stood at \$5.5 million at December 31, 2009.

Membership

The following credit unions and caisses populaires made up the membership of the Corporation as of December 31, 2009:

Caisse populaire Acadie Ltée	Deer Island Credit Union Ltd	Caisse populaire de Notre Dame de Grâces Ltée
Advance Savings Credit Union Ltd	Caisse populaire Dieppe Ltée	Omista Credit Union Ltd
Caisse populaire de Baie Ste. Anne Ltée	Caisse populaire des Fondateurs Ltée	Caisse populaire de la Péninsule Ltée
Bayview Credit Union Ltd	Caisse populaire des Iles Ltée	Public Service Employees Credit Union Ltd
Caisse populaire Beresford Ltée	Caisse populaire Kent Nord Ltée	Caisse populaire Restigouche Ltée
Beaubear Credit Union Ltd	Caisse populaire Kent-Centre Ltée	Caisse populaire de Saint-Quentin Ltée
Caisse populaire Beauséjour Ltée	Caisse populaire Kent-Sud Ltée	Caisse populaire de Sheila Ltée
Blackville Credit Union Ltd	Caisse populaire La Vallée Ltée/Valley Credit Union Ltd	Caisse populaire de Shippagan Ltée
Capital Credit Union Ltd	Caisse populaire le lien d'or Ltée	Caisse populaire Sud-Est Ltée
Carleton Pioneer Credit Union Ltd	McAdam Credit Union Ltd	Caisse populaire de Tracadie Ltée
Caisse populaire Chaleur Ltée/Chaleur Credit Union Ltd	Caisse populaire Madawaska Ltée	Caisse populaire Trois Rives Ltée
Charlotte County Credit Union Ltd	Caisse populaire de Memramcook Ltée	Caisse populaire York Credit Union Ltd/Ltée
Church River Credit Union Ltd	Caisse populaire de Néguaç Ltée	
Citizens Credit Union Ltd	New Brunswick Teachers' Association Credit Union Ltd	
Dalhousie Industrial Credit Union Ltd		

Financial Statements

**New Brunswick Credit Union
Deposit Insurance Corporation**

31 December 2009

**KPMG LLP****Chartered Accountants**

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AUDITORS' REPORT

To the Chair and Directors of the New Brunswick Credit Union Deposit Insurance Corporation

We have audited the balance sheet of the New Brunswick Credit Union Deposit Insurance Corporation as at December 31, 2009 and the income statement, statements of equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for December 31, 2008 were reported on by another firm of chartered accountants.

Chartered Accountants

Fredericton, Canada

March 5, 2010

Balance Sheet - 31 December 2009

	2009	2008
Assets		
Cash	\$ 178,217	\$ 43,755
Accounts and interest receivable	35,664	39,545
Investments (Note 3)	19,224,237	19,041,960
	<u>\$ 19,438,118</u>	<u>\$ 19,125,260</u>
Liabilities		
Accounts payable	\$ 5,617	\$ 9,437
Income taxes payable (Note 6)	-	77,579
Long-term debt (Notes 2 (c) and 4)	13,903,177	13,238,550
	<u>13,908,794</u>	<u>13,325,566</u>
Equity		
Deposit insurance fund (Note 7)	<u>5,529,324</u>	<u>5,799,694</u>
	<u>\$ 19,438,118</u>	<u>\$ 19,125,260</u>

Contingency (Note 5)

Approved by the Board: Chair

Donald French

Director

Robert Penney

Income Statement for the year ended 31 December 2009

	2009	2008
Revenue		
Contributions - administrative expenses	\$ -	\$ 53,500
Investment income – trust funds	-	63,717
Interest	604,213	481,656
	<u>604,213</u>	<u>598,873</u>
Expenses		
Professional services and other	25,397	19,546
Board of directors – meetings and honorariums	24,863	3,691
Interest expense (Notes 2 (c) and 4)	664,627	632,851
	<u>714,887</u>	<u>656,088</u>
Loss before income taxes	(110,674)	(57,215)
Provision for income taxes (Note 6)	(159,696)	(123,165)
Net Loss	<u>\$ (270,370)</u>	<u>\$ (180,380)</u>

Statement of Equity for the year ended 31 December 2009

	2009	2008
Equity - Beginning of Year	\$ 5,799,694	\$ 5,980,074
Net loss for the year	(270,370)	(180,380)
Equity - End of Year	<u>\$ 5,529,324</u>	<u>\$ 5,799,694</u>

Statement of cash flows for the year ended 31 December 2009

Cash flows from operating activities

	2009	2008
Net loss for the year	\$ (270,370)	\$ (180,380)
Items not affecting cash		
Interest expense	664,627	632,851
Investment income – trust funds	-	(63,717)
	<u>394,257</u>	<u>388,754</u>
Changes in non-cash items		
Accounts receivable	3,881	(37,659)
Accounts payable	(3,820)	9,375
Income taxes payable	(77,579)	31,993
Payable – stabilization boards	-	(14,814)
Advances – trust funds	-	(6,862)
	<u>316,739</u>	<u>370,787</u>

Cash flows from investing activities

Purchase of investments	(182,277)	(2,404,672)
Collapse of trust funds	-	1,952,451
	<u>(182,277)</u>	<u>(452,221)</u>

Cash flows from financing activities

Net gain on collapse of trust funds	-	63,717
	<u>-</u>	<u>63,717</u>

Increase (decrease) in cash during the year	134,462	(17,717)
Cash, beginning of year	43,755	61,472
Cash, end of year	<u>\$ 178,217</u>	<u>\$ 43,755</u>

1. Authority and objectives

The New Brunswick Credit Union Deposit Insurance Corporation (Corporation) was created under the provisions of the *Credit Unions Act* proclaimed on January 31, 1994. The mandate of the Corporation is to provide deposit insurance to members of credit unions in New Brunswick. Currently, coverage is provided for insured deposits of each credit union member to a maximum of \$250,000. The Corporation may also assist stabilization boards in providing financial assistance to credit unions.

The affairs of the Corporation are administered by a Board of Directors of seven persons, four of whom are appointed by the Minister of Justice and Consumer Affairs. The remaining three persons are the Superintendent of Credit Unions, the Deputy Minister of Finance and the Deputy Minister of Justice and Consumer Affairs.

2. Significant accounting policies

(a) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts and disclosure of contingent assets and liabilities and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

(b) Financial instruments

On January 1, 2008, the Corporation adopted CICA's new accounting requirements for financial instruments. Cash, accounts and interest receivable, the cash portion of investments, accounts payable and income taxes payable continue to be accounted for at their carrying value which approximates fair value. Investments in bonds and long-term debt are accounted for at amortized cost using the effective interest method as explained in notes (3) and (4).

3. Investments

All investments are classified as held-to-maturity as the Corporation intends and has the ability to hold these until they mature. As a result, they are recorded at amortized cost. Interest earned is calculated using the effective interest rate. Management is of the opinion that the Corporation's exposure to interest rate and credit risk is low.

Investments consist of the following:

	2009	2008
Cash	\$ 357,011	\$ 1,241,424
Government of Canada bonds	5,056,581	5,078,305
Provincial bonds	13,810,645	12,722,231
Total	<u>\$ 19,224,237</u>	<u>\$ 19,041,960</u>

The amount shown as Cash earns interest at the Special Purpose rate determined quarterly by the New Brunswick Department of Finance. Bonds mature at varying dates between 2010 and 2013.

The Corporation has contracted the New Brunswick Department of Finance to manage its investment portfolio.

4. Long-term debt

Long-term debt is classified as "Other financial liabilities" with the intention of being held to maturity and is therefore measured at amortized cost using the effective interest rate method. The effective interest rate for similar financial liabilities has been determined to be 4.96%. Management is of the opinion that the Corporation's exposure to interest rate risk is low.

Long-term debt consists of the following:	2009	2008
Loan payable to the Province of New Brunswick, non-interest bearing, unsecured, principle amount due in a single lump sum of \$16,500,000 on July 26, 2013.	<u>\$ 13,903,177</u>	<u>\$ 13,238,550</u>

5. Contingency

In 2007 and as part of a remediation package provided by government to Caisse populaire de Shippagan limitée (Caisse), the Corporation entered into a guarantee agreement with the Caisse whereby its potential obligation will not exceed \$18.5 million and expires in 2012. The guarantee also includes provisions whereby certain contingent recoveries accrue to the Corporation if they exceed the required payout. Based on the status of the elements of the guarantee and management's estimates as at December 31, 2009, no provision has been made in these financial statements for contingent losses. As well, management estimates that contingent gains will accrue to the Corporation but these cannot be reasonably estimated.

6. Income taxes

As a result of a change to the *Credit Unions Act*, the Corporation became an agent of the Crown thereby exempting it from tax. This resulted in a deemed year end for income tax purposes on June 19th, 2009. Previously, the Corporation was a deposit insurance corporation for income tax purposes and was therefore subject to income taxes on most of its income.

7. Deposit Insurance Fund

Section 223 of the *Credit Unions Act* requires that the Corporation establish and maintain a deposit insurance fund. In 2008, the *Act* was amended which resulted in the maintenance of a single fund. As a result, the trusts administered by the stabilization boards were dissolved with the net assets being transferred to the Fund.

In the event that the Corporation is obliged to make a payment under section 223 of the *Credit Unions Act* that should exceed the amount maintained in the deposit insurance fund, the Corporation may seek loans, advances, grants, loan guarantees or advance guarantees pursuant to section 228.

Under section 228 on the application of the Corporation, the Minister may with the approval of the Lieutenant – Governor in Council and subject to such terms and conditions as the Minister considers appropriate make loans, advances, or grants to the Corporation and guarantee any loans or advances made to the Corporation by others.

8. Related party transactions

The New Brunswick Department of Finance manages the Corporation's investment portfolio at no cost.

The Corporation operates as a separate entity within the Credit Unions, Co-operatives and Trust Companies Branch of the Department of Justice and Consumer Affairs. Pursuant to a Memorandum of Understanding, the Branch assumes the salary and some overhead costs which relate to the administration of the Corporation, most of which are recovered from credit unions and *caisses populaires* on a cost recovery basis.

9. Fair value of financial assets and liabilities

The fair value of the Corporation's cash, accounts receivable, interest receivable and accounts payable approximate their carrying values.

The fair value of investments at December 31, 2009 is \$19,737,443 (2008 - \$19,603,327) based on published listings of market values.

The fair value of the long-term debt at December 31, 2009 is \$15,063,217 (2008 - \$14,456,389) based on the values derived using current interest rates for instruments with similar terms and conditions.

10. Future accounting requirements

International Financial Reporting Standards

The Canadian Accounting Standards Board has confirmed that January 1, 2011 will be the date that International Financial Reporting Standards (IFRS) will replace current Canadian standards and become Canadian generally accepted accounting principles (GAAP) for publicly accountable entities. The Corporation is in the process of assessing the impact of adopting IFRS for their financial reporting for the year ending December 31, 2011.