

S C FINANCIAL LTD.  
FINANCIAL STATEMENTS  
DECEMBER 31, 2002

Auditor's Report

Balance Sheet

Statement of Income

Notes to the Financial Statements



## AUDITOR'S REPORT

To the Shareholder of  
S C Financial Ltd.

I have audited the balance sheet of S C Financial Ltd. as at December 31, 2002 and the statement of income for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, CA  
Auditor General

Edmonton, Alberta  
January 31, 2003

**S C FINANCIAL LTD.**  
**BALANCE SHEET**  
**DECEMBER 31, 2002**  
(thousands of dollars)

	2002	2001
<b>ASSETS</b>		
Cash	\$ 1	\$ 1
Stabilization Preferred Shares (Note 3)	-	-
	<u>\$ 1</u>	<u>\$ 1</u>
<b>SHAREHOLDER'S EQUITY</b>		
Share Capital		
Authorized - Unlimited number of Class A shares		
Issued - 10 Class A shares	\$ 1	\$ 1
	<u>\$ 1</u>	<u>\$ 1</u>

The accompanying notes are part of these financial statements.

Approved on behalf of the Board:

J. Laitner, Director

R.A. Splane, Director

**S C FINANCIAL LTD.**

**S C FINANCIAL LTD.**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**  
(thousands of dollars)

	2002		2001
	Budget	Actual	Actual
<b>Revenue:</b>			
Recovery (repayment) on indemnity from the Province of Alberta (Note 3)	\$ (1,673)	\$ 4,863	\$ 9,779
Special contribution from Credit Union Deposit Guarantee Corporation (Note 1 and 4)	8,159	-	7,637
	<u>6,486</u>	<u>4,863</u>	<u>17,416</u>
<b>Expense:</b>			
Interest on debentures (Note 3)	6,486	4,863	17,416
Total Expenses	<u>6,486</u>	<u>4,863</u>	<u>17,416</u>
Net income for the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### DECEMBER 31, 2002

#### **NOTE 1 AUTHORITY AND PURPOSE**

S C Financial Ltd. (the Company) was incorporated on May 29, 1986 under the Alberta Business Corporations Act, as a wholly-owned entity of the Credit Union Deposit Guarantee Corporation (CUDGC), a Provincial corporation. The Company is a deposit insurance corporation by virtue of it being a wholly-owned entity of a deposit insurance corporation. Accordingly, it is treated as such for income tax purposes. The Company ceased operations on October 31, 2002 (Note 6).

Pursuant to the Credit Union Deficit Financing Agreement, the Company provided deficit financing assistance to supervised credit unions. In 1986, Stabilization Preferred Shares Series B were issued by credit unions to the Company in exchange for debentures totalling \$335,000,000. CUDGC provided funds to the Company to purchase investments which were to accumulate to \$335,000,000 at October 31, 2010 in order to repay debentures outstanding and the balance to the Province of Alberta (Province) at that date. Pursuant to an agreement, the Company transferred the investments to N.A. Properties (1994) Ltd. (wholly-owned by the Province). In exchange, N.A. Properties (1994) Ltd. assumed the Company's obligation totalling \$335,000,000. In 1989, CUDGC contributed \$12,524,000 to the Company to provide cash deficit financing assistance to credit unions in exchange for Stabilization Preferred Shares Series B.

Under the Credit Union Deficit Financing Termination Agreement dated October 11, 2001, the Company agreed to cancel the obligation for credit unions to redeem issued and outstanding Stabilization Preferred Shares Series B over and above a total amount of \$15,000,000. Under this Agreement, N. A. Properties (1994) Ltd. agreed to repay the remaining outstanding debentures totalling \$297,239,000 to the credit unions by October 31, 2002 (Note 3).

The Credit Union Restructuring Agreement requires CUDGC to make an annual special contribution equal to 0.11% of credit union deposits and borrowings (loans payable) to the Company as directed by the Province. The Credit Union Restructuring Amendment Agreement requires CUDGC to make the special contribution payments directly to the Province, for 2002 and each year through to 2010.

#### **NOTE 2 FINANCIAL STATEMENT PRESENTATION**

A cash flow statement is not provided as disclosure in these financial statements is considered to be adequate. Operating or administrative costs of the Company are not significant and are paid by CUDGC.

#### **NOTE 3 STABILIZATION PREFERRED SHARES AND DEBENTURES**

During the year, \$4,629,000 (2001 - \$10,371,000) of Stabilization Preferred Shares Series B were redeemed by credit unions. Pursuant to the Credit Union Deficit Financing Termination Agreement dated October 11, 2001, the funds received in respect of redemption of the outstanding Shares were paid to Credit Union Central Alberta Limited.

Also, a debenture repayment of \$141,106,000 (2001 - \$156,133,000) was made during the year by N. A. Properties (1994) Ltd. to the credit unions, which fully repaid the outstanding debentures.

On a quarterly basis, the Company paid interest on the outstanding debentures at the lesser of 14% or prime. CUDGC, with an indemnity from the Province, guaranteed payment of the interest.

**NOTE 4 DUE TO RELATED PARTIES**

Transactions with related parties are undertaken to meet funding commitments under the Credit Union Deficit Financing Agreement, Credit Union Restructuring Agreement, and the Credit Union Deficit Financing Termination Agreement. Balances have been disclosed on a net basis in these financial statements to reflect the flow-through nature of the transactions. The Credit Union Restructuring Amendment Agreement requires CUDGC to make special contribution payments directly to the Province.

	2002	2001
	(thousands of dollars)	
Interest on debentures:		
Due to credit unions	\$ -	\$ (1,061)
Due to Province to fund interest	-	(6,576)
Due from Credit Union Deposit Guarantee Corporation - special contribution	-	7,637
	-	-
	<u>\$ -</u>	<u>\$ -</u>

**NOTE 5 2002 BUDGET**

The 2002 budget was approved by the Board of Directors on October 10, 2001.

**NOTE 6 DISSOLUTION OF COMPANY**

The Company ceased operations on October 31, 2002. The Board passed a resolution of intent to dissolve the Company. On dissolution the outstanding shares will be redeemed and cancelled.