

**NORTHERN LIGHTS**  
**CREDIT UNION**

*This offering statement must be delivered to every purchaser of the securities described herein prior to the purchaser becoming obligated to complete the purchase and, upon request, to any prospective purchaser and member.*

*No official of the Government of the Province of Ontario has considered the merits of the matters addressed in this offering statement.*

*The securities being offered are not guaranteed by the Deposit Insurance Corporation of Ontario or any similar public agency.*

*The prospective purchaser of these securities should carefully review the offering statement and any other documents it refers to, examine in particular the section on risk factors beginning on page 15 and, further, may wish to consult a financial or tax advisor about this investment.*

## **NORTHERN LIGHTS CREDIT UNION LIMITED**

### **OFFERING STATEMENT**

*dated March 31, 1998*

**MINIMUM \$1,000,000, MAXIMUM \$2,000,000**

**SERIES 1, CLASS B SPECIAL SHARES**

**(NON-CUMULATIVE, NON-VOTING,**

**NON-PARTICIPATING SPECIAL SHARES)**

**("Class B Investment Shares")**

*The subscription price for each Class B Investment Share will be \$1.00 per share with a minimum of 1,000 shares per member which may be subscribed for \$1,000.00, to a maximum of 100,000 shares per member which may be subscribed for \$100,000.00. No one member, however, may purchase more than 5% of the Class B Investment Shares sold hereunder (the "Maximum Permissible Holding").*

*There is no market through which these securities may be sold.*

*The purchaser of these securities may reverse his/her decision to purchase the securities if he/she provides notice in writing or by telegraph to the person from whom the purchaser purchases the security within two days, excluding weekends and holidays, of having been provided with a copy of the latest offering statement.*

*The Class B Investment Shares are subject to the transfer and redemption restrictions under the Credit Unions and Caisses Populaires Act, 1994 and the restrictions under this Offering Statement as set out on pages 9 to 12.*

**THE SECURITIES OFFERED ARE NOT DEPOSITS. THE SECURITIES OFFERED ARE NOT INSURED. THE DIVIDENDS ON THE SECURITIES ARE NOT GUARANTEED.**

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## GLOSSARY OF TERMS

- "Administration" - a legal status ordered by the Deposit Insurance Corporation of Ontario ("DICO") in any of the following circumstances: (1) DICO, on reasonable grounds, believes that the credit union is conducting its affairs in a way that might be expected to harm the interests of members, depositors or shareholders or that tends to increase the risk of claims against the deposit insurer, but that Supervision by DICO as stabilization authority would, in this case, not be appropriate; (2) The credit union has contravened an order of DICO acting as a stabilization authority; (3) DICO is of the opinion that the assets of the credit union are not sufficient to give adequate protection to its depositors; (4) The credit union has failed to pay any liability that is due or, in the opinion of DICO, will not be able to pay its liabilities as they become due; (5) DICO, as the credit union's stabilization authority, makes a written request that the credit union be placed under Administration; or (6) DICO has received a report from the Director of Credit Unions that the Director has ordered the Credit Union to cease operations; under which DICO has the power to: (a) Carry on, manage and conduct the operations of a credit union; (b) Preserve, maintain, realize, dispose of and add to the property of a credit union; (c) Receive the income and revenues of the credit union; (d) Exercise the powers of the credit union and of the directors, officers, loan officers and credit committees; (e) Exclude the directors of the credit union and its officers, committee members, employees and agents from the property and business of the credit union; and (f) Require the credit union, with or without obtaining member and shareholder consent, to, (i) amalgamate with another credit union, (ii) dispose of its assets and liabilities, or (iii) be wound up.
- "Agricultural Loan" - a loan to finance the production of cultivated or uncultivated field-grown crops; the production of horticultural crops, the raising of livestock, fish, poultry and fur-bearing animals; or the production of eggs, milk, honey, maple syrup, tobacco, wood from woodlots, and fibre and fodder crops.
- "Canadian Payments Association" - an association of Canadian financial institutions, for the purpose of assisting its members in the clearing of their clients' cheques and electronic debit items.
- "Commercial Loan" - a loan, other than the following, made to any person for any purpose: an agricultural loan; a bridge loan; an institutional loan; a personal loan; a residential mortgage loan; a loan to an unincorporated association; a deposit made by a credit union with a financial institution; a loan fully secured by a deposit with a financial institution (including the credit union making the loan); a loan fully secured by debt obligations guaranteed by a financial institution other than the credit union making the loan; an investment in a debt obligation that is fully guaranteed by a stabilization authority or by a financial institution other than the credit union making the loan, fully secured by deposits with a financial institution (including the credit union making the loan), or fully secured by debt obligations that are fully guaranteed by a financial institution other than the credit union making the loan; an investment in a debt obligation issued by the federal government, a provincial or territorial government, a municipality, or any agency of such a government or municipality; an investment in a debt obligation guaranteed by, or fully secured by securities issued by the federal government, a provincial or territorial government, a municipality, or by an agency of such a government or municipality; an investment in a debt obligation issued by a league; an investment in a debt obligation that is widely-distributed; an investment in shares or ownership interests that are widely-distributed; an investment in a participating share; or an investment in shares of a league.
- "Credit Union Central of Canada" (CUCC) - a financial service co-operative operating at the national level, owned primarily by provincial credit union centrals, providing access to a national liquidity pool and links to the Canadian Payments Association, the Interac and PLUS networks.
- "Credit Union Central of Ontario" (CUCO) - a financial service co-operative operating at the provincial level, primarily owned by about 330 member credit unions, including Northern Lights, and providing clearing, investment, credit and other services.
- "Escrow" - a form of trust agreement in which funds are temporarily placed under the control of a third party (trustee) until specific conditions, set out in advance, are met.
- "Interac" - a national network of automated banking machines and point-of-sale terminals, enabling clients of

- a financial institution to use automated banking machines and terminals not owned and operated by that financial institution.
- "Leverage Ratio" - total Regulatory Capital divided by total assets.
- "Membership Shares" - shares required, according to the Credit Union's by-laws, to maintain a membership in a credit union.
- "Mortgage Loan" - loan made for the purpose of purchasing, renovating or improving residential property, and secured by a mortgage on a single-family residential property occupied by the borrower; or exceeding \$25,000 and given to an individual for personal, family or household use, and secured by a mortgage on a residential property consisting of four units or less, one of which units is occupied by the borrower.
- "Net Interest Margin" - the difference between the interest the credit union earns on loans to members and on investments and the interest that the credit union pays on deposits held by members and on borrowings from external sources (such as CUCO).
- "Non-cumulative" - dividends not declared or paid for one fiscal year are not carried forward or added to the dividend of a following year but are forever extinguished.
- "Non-participating" - in case of dissolution, shareholders receive only the Redemption Amount (see below) and do not participate in receiving any of the residual value of the credit union's assets; the shareholder has no right to participate in the profits of the credit union except through dividends declared by the Board.
- "Non-voting" - holders vote only at Special Meetings, as permitted and required by the Act, and have no right as shareholders to vote at membership meetings, although holders retain the rights they have as members of the credit union.
- "Personal Loan" - loan given to an individual for personal, family or household use; or to an individual or entity for any other use if the loan, and all other loans outstanding to that individual or entity, does not exceed \$25,000.00.
- "PLUS" - an international network of automated banking machines, functioning much like Interac.
- "Redemption Amount" - the amount a shareholder receives on redemption or at which shares are transferred from one member to another; this amount is equal to the issue price of the shares (\$1 per share) plus any dividends which have been declared but not yet paid.
- "Regulatory Capital" - members' equity (Membership Shares, Class A Shares, Class B Shares, and reserves and undivided earnings).
- "Risk-weighted Assets" - the absolute value of assets in specified categories is multiplied by a percentage, varying between 0% and 100% depending on the risk attributed to each category. The sum of all the categories is the credit union's total risk-weighted assets.
- "Risk-weighted Assets Ratio" - total Regulatory Capital divided by Risk-Weighted Assets.
- "Special Meeting" - a meeting of the members or shareholders of the credit union, other than its annual membership meeting.
- "Special Resolution" - a resolution that is not effective until it is passed by the board of directors and confirmed by a resolution passed by a majority of not less than two-thirds of the votes of the members or shareholders, as the case may be, present at the meeting in person or, as permitted by the credit union's by-laws and Articles of Incorporation, by proxy.
- "Substantial Portion" - assets having an aggregate value equal to or greater than 15 per cent of a credit union's assets at the end of its previous fiscal year.
- "Supervision" - a legal status ordered by the Director of Credit Unions when: (1) The credit union asks, in writing, that it be subject to Supervision; (2) The credit union is not in compliance with prescribed capital or liquidity requirements; (3) The Director has reasonable grounds for believing that the credit union is conducting its affairs in a way that, reasonably, might be expected to harm the interests of members or depositors or that tends to increase the risk of claims against the deposit insurer; (4) The credit union or an officer or director of it does not file, submit or deliver a report or document required to be filed, submitted or delivered under this Act within the time permitted under this Act; (5) The credit union did not comply with a Director's enforcement order regarding an infringement of the Act;

(6) The credit union is not complying with its own investment and lending policy; or (7) DICO, acting as stabilization authority, requests it; under which DICO, acting as stabilization authority, can: (a) order the credit union to correct any practices that the authority feels are contributing to the problem or situation that caused the credit union to be ordered subject to Supervision; (b) order the credit union and its directors, committee members, officers and employees not to exercise any powers of the credit union or of its directors, committee members, officers and employees; (c) establish guidelines for the operation of the credit union; (d) order the credit union not to declare or pay a dividend or to restrict the amount of a dividend to be paid to a rate or amount set by the authority; (e) attend meetings of the credit union's board and its credit and audit committees; and (f) propose by-laws for the credit union and amendments to its articles of incorporation.

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## OFFERING STATEMENT SUMMARY

*The following is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this offering statement. Certain terms with initial capital letters are used throughout this Offering Statement and are defined in the "Glossary of Terms" on pages i, ii and iii.*

### **The Credit Union**

Northern Lights Credit Union Limited ("Northern Lights" or the "Credit Union") was incorporated on February 20, 1947 as Dryden Credit Union Limited, to serve the needs of those resident or employed in Dryden, Ontario. The Credit Union's name was changed on August 10, 1973 to Dryden District Credit Union Limited, and was changed again to the current name on January 18, 1993, to reflect expansions in the bond of association of the Credit Union as a result of acquisitions of other credit unions. Most recently, effective October 1, 1997, the Credit Union acquired the assets and assumed the liabilities of Rainy River Community Credit Union Limited; see page 28 for details. Northern Lights's assets as of December 31, 1997 were \$58,696,378, having increased from \$58,189,217 as of December 31, 1996, and \$56,595,404 as of December 31, 1995.

Northern Lights provides a broad range of financial services and products to approximately 10,500 members through six offices, located in Dryden, Ignace, Fort Frances, Vermilion Bay, Sioux Lookout, and Rainy River, Ontario. See also "Business of Northern Lights Credit Union Limited", on pages 4 to 6.

### **The Offering**

Northern Lights Credit Union Limited offers for sale to members, at \$1.00 per share, a minimum of 1,000,000 and a maximum of 2,000,000 Class B Non-Cumulative, Non-Voting, Non-Participating Special Shares, Series 1 ("Class B Investment Shares") in the capital of the Credit Union. If only the minimum amount of the offering is sold, however, no more than 500,000 Class B Investment Shares may be purchased through the conversion of Class A Patronage Shares. Class B Investment Shares are special, non-Membership Shares and constitute part of the authorized capital of the Credit Union. Subscriptions will be accepted from members of Northern Lights for a minimum of 1,000 Class B Investment Shares and a maximum of 100,000 Class B Investment Shares. However, no member may purchase more than 5% of the Class B Investment Shares sold hereunder (the "Maximum Permissible Holding"). If a member subscribes for more than the Maximum Permissible Holding, the Credit Union will honour the subscription for the Maximum Permissible Holding and return all excess funds, with applicable interest, to the member. Subscription, purchase and redemption of these shares are exclusively through Northern Lights's offices. Class B Investment Shares are redeemable at the option of the holder, but all redemptions are subject to a limit on the maximum number of shares which can be redeemed in any fiscal year. Transfer of such shares will only be effected through the Credit Union, and transfers are restricted to other members of the Credit Union and certain persons as specified in the *Credit Unions and Caisses Populaires Act, 1994* (the "Act"). The Credit Union, at its option, may acquire the Class B Investment Shares, at the Redemption Amount, for cancellation after a period of five years following the issuance of the shares. See "Description of Securities Being Offered" on pages 9 to 12.

Subscriptions for the Class B Investment Shares shall be accepted as of the date hereof, and for a period of six months thereafter, or until the date on which subscriptions have been received for the maximum 2,000,000 Class B Investment Shares, or until the date on which the Board, having received subscriptions for at least the minimum 1,000,000 Class B Investment Shares but not for the maximum 2,000,000 Class B Investment Shares, having received subscriptions for at least 500,000 Class B Investment Shares to be purchased in cash rather than through the conversion of Class A Patronage Shares, and noting that six months has not yet passed since the date of this offering statement, resolves to close the offering, whichever shall occur first (the "Closing Date"). The shares so subscribed shall be issued within 60 days of the Closing Date.

**The securities to be issued under this Offering Statement are not secured by any assets of the Credit Union, and are not covered by deposit insurance or any other form of guarantee as to repayment of principal amount or dividends. The Class B Investment Shares will qualify as Regulatory Capital, to the extent permitted and as defined in the Act.**

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### Use of Proceeds

If fully subscribed, the gross proceeds to be derived by the Credit Union from the sale of the Class B Investment Shares shall be \$2,000,000. The costs of issuing these securities are not expected to exceed \$35,000, and these costs will be recognized as a deferred financing charge on the Credit Union balance sheet and amortized over five years. Please see page 13 for a discussion of the treatment of these shares for financial statement purposes. The estimated maximum proceeds of this offering of securities are \$2,000,000. The principal use of the proceeds, and purpose of this offering, is to enable the Credit Union to comply both with Regulatory Capital requirements, and also with sound business practices. The Credit Union does not currently comply with Regulatory Capital requirements. The Credit Union's capitalization, if this offering is fully subscribed, could support additional growth of approximately \$33,273,782; Northern Lights's Leverage Ratio would be 7.83%, which exceeds current Regulatory Capital requirements. On the same conditions, except that this offering is minimally subscribed, the Credit Union's capitalization could support growth of approximately \$13,273,782; Northern Lights's Leverage Ratio would be 6.13%, which exceeds current Regulatory Capital requirements of 5.00%. If all of the Class A Patronage Shares of the Credit Union issued and outstanding as of December 31, 1997 were converted into Class B Investment Shares, this offering was fully subscribed, and the Credit Union's Membership Shares and Reserve for Financial Stability is as stated in the Credit Union's audited financial statements as of December 31, 1997, the Credit Union's Leverage Ratio would be 5.56%, and the Credit Union could grow by approximately \$6,582,542. If the offering is only minimally subscribed and 500,000 of the Class A Patronage Shares are converted into Class B Investment Shares, the Credit Union's Leverage Ratio would be 5.23%, and the Credit Union could support additional growth of \$3,274,182. The cash generated from the issuance of the securities, to the extent it represents new cash to the Credit Union rather than being a transfer from existing accounts, will be used for general business purposes, being primarily the lending of money to members and the investment of surplus funds in high quality investments. See pages 22 and 23 for further details.

### Risk Factors

Investments in the Class B Investment Shares are subject to a number of risk factors, including regulatory redemption restrictions, the continuous need to maintain minimum regulatory capital levels, the uncertainty of payment of dividends, credit risk, risk of loss on investments, liquidity risk, interest rate risk, potential regulatory actions, reliance on key management, geographic/industry risk, and competitive risk. Purchasers of Class B Investment Shares who are intending to include such shares in an RRSP contract should carefully review "Transfer and Redemption Restrictions" on page 15. The Credit Union incurred a small loss in its fiscal year ended December 31, 1997, as a result of decreased financial margin and increased operating costs; if the Credit Union were not to be profitable, there is an increased risk that the Credit Union would be unable to pay dividends on Class B Investment Shares. See "Risk Factors" on pages 15 to 21.

### Dividend Policy

The dividend policy of the Northern Lights Board of Directors for Class B Investment Shares shall be to pay a dividend or dividends in every year in which there are sufficient profits to do so while still fulfilling all other Regulatory Capital and operational requirements. The dividend rate shall be established by the Board of Directors, in its sole and absolute discretion, based on financial and other considerations prevailing at the time of the declarations. The Board shall consider whether or not a dividend shall be declared, and at what rate and in which manner, at least annually following each fiscal year end and before each annual general meeting of members. There can be no guarantee that a dividend will be paid in each year; however, it is the policy of the Board that an appropriate dividend will be declared and paid in each year, provided that the Credit Union is in compliance with Section 84 of the Act. The Board has defined an appropriate rate to be a rate which exceeds by 1% the simple average of the Government of Canada benchmark three-year and five-year bond yields as set on the Wednesday immediately preceding, or being, December 31 of the fiscal year regarding which the dividend is to be paid. At December 31, 1997, the three-year yield was 5.32%, while the five-year yield was 5.34%; had Class B Investment Shares been outstanding throughout 1997, the dividend rate would have been 6.33%, although this should in no way be regarded as indicative of future dividend potential. The Credit Union will pro-rate the dividend in the year the shares are issued. The Credit Union's dividend policy is subject to change at any time, at the Board's discretion. Dividends paid may therefore not be in accordance with this policy.

## Selected Financial Information

The following summary of selected financial information should be read in conjunction with the financial statements of the Credit Union and the notes thereto, beginning at page 33, and "Operating Results and Variations", beginning at page 28.

(In thousands)	<u>As at December 31,</u> <u>1997</u>	<u>As at December 31,</u> <u>1996</u>	<u>As at December 31,</u> <u>1995</u>
<b>ASSETS</b>			
Cash resources	\$5,675	\$2,899	\$4,206
Net loans to members	45,894	38,437	35,971
Investments	3,583	13,718	13,228
Fixed assets	3,213	2,824	2,810
Other assets	<u>331</u>	<u>311</u>	<u>380</u>
Total assets	<u>\$58,696</u>	<u>\$58,189</u>	<u>\$56,595</u>
<b>LIABILITIES AND REGULATORY CAPITAL</b>			
Members' deposits	\$55,276	\$54,658	\$53,648
Accrued interest payable	721	735	959
Other liabilities	<u>99</u>	<u>108</u>	<u>85</u>
Total liabilities	<u>\$56,096</u>	<u>\$55,501</u>	<u>\$54,692</u>
Membership shares	\$268	\$333	\$314
Class A Patronage Shares	1,334	1,335	567
Reserve for financial stability	<u>998</u>	<u>1,020</u>	<u>1,022</u>
Total Regulatory Capital	<u>\$2,600</u>	<u>\$2,688</u>	<u>\$1,903</u>
Total liabilities and members' equity	<u>\$58,696</u>	<u>\$58,189</u>	<u>\$56,595</u>

<b>INCOME</b>	<u>Year Ended</u> <u>December 31, 1997</u>	<u>Year Ended</u> <u>December 31, 1996</u>	<u>Year Ended</u> <u>December 31, 1995</u>
<b>(In thousands)</b>			
Interest income	\$3,198	\$3,264	\$3,662
Investment income	<u>328</u>	<u>1,495</u>	<u>1,063</u>
Interest income	\$3,526	\$4,759	\$4,725
Interest expenses	<u>1,277</u>	<u>1,781</u>	<u>1,916</u>
<b>Total financial margin</b>	\$2,249	\$2,978	\$2,809
Other income	<u>\$1,197</u>	<u>\$936</u>	<u>\$876</u>
Net financial income	\$3,446	\$3,914	\$3,685
Operating expenses	<u>3,488</u>	<u>3,146</u>	<u>3,118</u>
Income (loss) before income taxes	<u>(\$42)</u>	<u>\$768</u>	<u>\$567</u>

## Northern Lights Credit Union Limited

### The Credit Union

Northern Lights Credit Union Limited ("Northern Lights" or the "Credit Union") was incorporated on February 20, 1947, to serve the needs of those residing or employed in Dryden, Ontario. The Credit Union changed its name on August 10, 1973 to Dryden District Credit Union Limited, and on January 18, 1993 to its current name, to reflect expansions in the Credit Union's bond of association as a result of the acquisition of other credit unions. Most recently, effective October 1, 1997, the Credit Union acquired the assets and assumed the liabilities of Rainy River Community Credit Union Limited. As of December 31, 1997, total assets were \$58,696,378, increasing from \$58,189,217 as of December 31, 1996, and \$56,595,404 as of December 31, 1995. Northern Lights's head office is located at 97 Duke Street, Dryden, Ontario P8N 2Z5, phone 807-223-5358, facsimile 807-223-5576.

Northern Lights serves approximately 10,500 members through six offices, located in Dryden, Ignace, Fort Frances, Vermilion Bay, Sioux Lookout, and Rainy River, Ontario. The Credit Union owns the properties in which its offices are located. The Credit Union provides a broad range of consumer and commercial credit and non-credit financial services and products. See "Business of Northern Lights Credit Union Limited" on pages 4 to 6.

### Bond of Association and Membership

The legislation which governs credit unions and caisses populaires in Ontario specifies a bond of association which must exist among members. Typically, such bonds of association may be community-based, employer-based, or otherwise based on a group of members with a form of common association. Northern Lights's bond of association now includes all persons employed or residing within the District of Kenora and the District of Rainy River, in the Province of Ontario, as fully described in paragraph 2.01 of its By-laws.

Membership in Northern Lights is granted to applicants who are within the bond of association by enabling them to purchase and hold the required number of Membership Shares as specified in paragraphs 2.03 of the By-laws of the Credit Union. These By-laws were revised effective January 28, 1998 to conform with the requirements of the *Credit Unions and Caisses Populaires Act, 1994* and to take advantage of certain new powers provided for in the Act. Specifically, the By-laws now provide for the admission of up to 3% of the membership from outside the bond of association, the admission of the Credit Union's employees to membership, the continuing membership of certain individuals who no longer qualify as members, an audit committee of four members appointed by the Board from among Board members, a credit committee of seven members elected by the membership of the Credit Union at the annual general meeting on a staggered basis for three-year terms to provide for continuity of committee members, and procedures for issuing shares and holding shareholder meetings.

The membership By-law requires each member 18 years of age and older, within 12 months of the later of his or her acceptance into membership or attaining the age of 18 years, to hold five Membership Shares of the Credit Union, at an aggregate cost of \$25. Persons under the age of 18 years are required to hold one Membership Share, at an aggregate cost of \$5.

### Corporate Governance

The business of the Credit Union is directed and governed by its Board of Directors (the "Board"), a group of nine individuals who are elected by the members of the Credit Union, over 18 years of age, at the annual general meeting, with each director being elected for a three-year term on a staggered basis to provide for continuity of board members; no class or series of shares of the Credit Union, other than Membership Shares, carries the

right to vote for the Credit Union's board of directors. The duties, powers and standards of care and performance for boards of directors of credit unions are specified in the Act and accompanying Regulations.

The Board has established committees to assist in its effective functioning and to comply with the requirements of the Act. In particular, an Audit Committee has been formed and is composed of four members, appointed annually by the Board from among Board members. Its mandate and duties are set out in the Regulations to the Act. The Audit Committee is responsible for, among other things, reviewing any financial statements which are presented to the members, either at an annual general meeting or within an offering statement, and making recommendations to the Board as to the approval of such financial statements. The membership of the Credit Union also elects, at the annual general meeting, an advisory credit committee of seven members to assist the Credit Union's lending staff in the oversight of all lending activities, the consideration of all loan applications, and the collection of delinquent loans. Other Board committees formed from time to time are *ad hoc*, informal and advisory in nature.

The Board has overall responsibility for and authority within the Credit Union, and directs the activities of senior management, to whom it has delegated certain responsibilities according to Board policies. Northern Lights' size and geographic concentration enable it to operate with a senior management team consisting of the Treasurer-Manager, the Chief Financial Officer, the Operations Manager, the Commercial Loan Manager, and the Loan Manager, who supervise 38 full-time and eight part-time employees, the part-time employees equating to approximately three full-time positions. The Treasurer-Manager performs the functions of the Chief Executive Officer of the Credit Union. For the names, municipality of residence, offices with the Credit Union and the present principal occupations of the directors and senior management of Northern Lights as of the date of this Offering Statement, see "Directors and Senior Management" beginning on page 25.

### **The Regulatory Framework**

*The Credit Unions and Caisses Populaires Act, 1994* (See also "Capital Adequacy", beginning on page 15) Credit unions and caisses populaires in Ontario are governed by the *Credit Unions and Caisses Populaires Act, 1994*, with its accompanying Regulations and Guidelines (collectively referred to as the "Act"). The Director of Credit Unions (the "Director") is charged with the responsibility of exercising certain powers and performing certain duties which are conferred or imposed by the Act. Among these duties is monitoring compliance with section 84 of the Act, which requires that adequate and appropriate forms of capital and liquidity be maintained by credit unions and caisses populaires. Credit unions and caisses populaires which do not meet the minimum capital levels required may be granted a variation of the capital requirements by the Director, subject to such terms and conditions as he may impose.

The Credit Union was, as of December 31, 1996, in compliance with these minimum regulatory capital requirements, having attained a Leverage Ratio of 4.63% when a Leverage Ratio of 4.25% was required (increasing to 4.60% January 1, 1997), and a Risk-Weighted Ratio of 10.21% when a Risk-Weighted Ratio of 7.00% was required (increasing to 7.50% January 1, 1997). The Credit Union was, as of December 31, 1997, not in compliance with these minimum regulatory capital requirements, having attained a Leverage Ratio of 4.43% when a Leverage Ratio of 4.60% was required (increasing to 5.00% January 1, 1998), although it attained a Risk-Weighted Ratio of 8.23% when a Risk-Weighted Ratio of 7.50% was required (increasing to 8.00% January 1, 1998). Since the Credit Union did not comply with the required Leverage Ratio as at December 31, 1997, the Credit Union was accordingly obliged to apply, to the Director of Credit Unions for a variation from capital adequacy requirements, to have effect until this offering is completed. By correspondence dated March 17, 1998, the Director of Credit Unions issued a variation to the Credit Union, which expires six months following the date of this offering statement. This variation requires that the Credit Union:

1. Refrain from paying any dividends without the prior consent of the Director of Credit Unions, and

2. Obtain the approval of the Director of Credit Unions for all capital expenditures and commitments therefore (including leases) in respect of property, and all other capital expenditures and commitments therefor (including leases) exceeding \$25,000.

The principal purpose of this Offering Statement is to raise sufficient Regulatory Capital to enable the Credit Union to meet the legal requirement to achieve and maintain compliance with the required Leverage Ratio and Risk-Weighted Ratio and therefore to operate without the restrictions contained in any variation from capital adequacy requirements, and also to conform to sound business practices.

Deposit Insurance Corporation of Ontario (See also "Regulatory Action", on page 20)

DICO is a provincial Crown corporation responsible for insuring deposits made by members in credit unions and caisses populaires, in accordance with the requirements of the Act and the Policy of Deposit Insurance.

DICO is also able to impose certain requirements as a condition of continuing its deposit insurance coverage and, in the event that a credit union or caisse populaire fails to comply and is believed to represent a threat to the deposit insurance fund, has broader power to take corrective action, which may include taking control of the credit union or caisse populaire and replacing the existing directors, should circumstances so warrant.

By letter dated June 9, 1997, DICO renewed the deposit insurance for the Credit Union for the period May 1, 1997 through April 30, 1998, on the condition that the Credit Union:

1. Ensure that its auditors confirm to DICO within 60 days that the auditors had considered in the course of their annual audit the requirements of the Act regarding the reporting of items which come to the auditors' attention which could affect the well-being of the Credit Union. The auditor did so by letter dated March 17, 1998; and
2. Report to DICO immediately any actual or anticipated event which is likely to have a material impact on the Credit Union's financial condition and increase DICO's insurance risk. In that event, DICO reserves the right to impose other terms, conditions, or requirements as DICO deems appropriate.

The Credit Union has complied with these conditions, and its deposit insurance is in good standing.

### **Credit Union Central of Ontario**

Each province in Canada has one or more central credit unions which serve their member credit unions in the province. In Ontario, one of these bodies is CUCO, an incorporated association owned by its approximately 330 member credit unions. Northern Lights is one of those member-owners. CUCO is not a retail banking institution; its key financial roles are management of the provincial liquidity reserves of its member credit unions, and provision of central and investment banking services to its member credit unions.

As the central banker for its member credit unions, CUCO provides centralized cheque clearing and lending services to member credit unions. Lending services include overdraft facilities, demand loans, and term loans at fixed and variable rates. CUCO also undertakes government relations, economic forecasting, and market research and planning. As a member of Credit Union Central of Canada ("CUCC"), the national central credit union owned by the provincial central credit unions, CUCO and its member credit unions enjoy access to national government relations efforts, national marketing and research, and a voice in the World Council of Credit Unions.

To retain membership in CUCO, the Credit Union must purchase shares in CUCO valued at 1.25% of its Membership Shares and members' deposits, maintain a liquidity deposit at CUCO equal to 5% of its Membership Shares and members' deposits, and pay membership dues equal to \$3.50 per adult member annually. Northern Lights is in compliance with these requirements, and its membership in CUCO is in good standing.

# BUSINESS OF NORTHERN LIGHTS CREDIT UNION LIMITED

## General Description of the Business

### Personal Financial Services

The five senior managerial staff, together with the 38 full-time and eight part-time employees of the Credit Union, provide a broad range of personal financial services and products to members. Retail financial products for individuals include most types of deposit accounts, personal chequing services, registered retirement savings accounts, and registered retirement income funds. The registered accounts are administered and held by the Credit Union, and the trustee is Co-operative Trust Company of Canada. Other products available to all members include travellers' cheques, Canada Savings Bonds, Ontario Savings Bonds, and mutual funds offered by Ethical Funds Inc. The Credit Union expects that, during 1998, it will begin to offer other mutual funds to its members through a representative of Credential Asset Management Inc., a mutual fund sales company offering third-party mutual funds to members of various credit unions through a number of representatives.

In addition to the personal service offered by the Credit Union's branches, members can also access their accounts at the automated banking machines ("ABMs") owned and operated by the Credit Union and located at each of the Credit Union's branches. Members can also access their accounts at any ABM connected to the Interac on PLUS networks of ABMs, or at any point-of-sale terminal connected to the Interac network of such terminals. The Credit Union also expects, after its May 1998 conversion to its new data processing system, to offer "telephone banking" (the ability to perform routine transactions, such as bill payment, balance and transaction inquiries, and transfers between accounts, utilizing a touch-tone telephone) to its members.

The Credit Union, pursuant to a lending licence granted September 3, 1997, is licensed by the Ministry of Finance (Ontario) to offer personal, residential mortgage, commercial, and agricultural loans up to certain specified limits. The Board has approved, and management follows, lending policies in all areas to minimize the risk of loan losses.

### Personal Loans

Personal loans to members comprise instalment loans (loans of fixed amounts for fixed terms requiring regular blended payments of principal and interest), demand loans, and lines of credit. Northern Lights also offers its members MasterCard, through a joint venture of the Alberta and Saskatchewan credit union systems; the Credit Union does not fund its members' credit card advances, but receives a fee, which is not material to its financial performance and which is calculated based on its members' outstanding balances and use of their MasterCards, as compensation for its efforts in marketing the MasterCard to its members. The Board has approved, and management follows, detailed lending policies which limit the risk to which the Credit Union is exposed.

At December 31, 1996, Northern Lights had a personal loan and line of credit portfolio of \$13,667,696, representing 35.55% of total loans outstanding. At December 31, 1997, the Credit Union had a personal loan and line of credit portfolio of \$15,646,972, representing 34.09% of total loans outstanding.

### Residential Mortgages

Northern Lights offers residential first and second mortgages, and MeritLine (a home equity line of credit) to its members. It grants mortgages to individuals according to conventional mortgage lending standards for residential property. Northern Lights offers closed, fixed-rate; closed, variable-rate; open, fixed-rate; and open, variable-rate mortgages, generally written with terms of six months to five years. Approximately 64% of the Credit Union's mortgage portfolio consists of conventional mortgages; the remainder are high-ratio mortgages insured by the Canada Mortgage and Housing Corporation.

At December 31, 1996, residential mortgage and MeritLine loans represented 50.02% of total loans outstanding,

and totalled \$19,227,851. At December 31, 1997, the Credit Union had a residential mortgage portfolio of \$21,113,093, representing 46.00% of total loans outstanding.

### **Commercial Lending**

Commercial lending by Northern Lights consists of commercial mortgages, term loans, and operating lines of credit, granted to small- and medium-sized businesses in its bond of association. These loans function similarly to their counterparts in "Personal Financial Services" above, but expose the Credit Union to a greater risk of loss because of the risks inherent in lending to small and growing businesses, and the skill required to administer such loans; in particular, these loans are more risky than personal loans because of the larger amounts on loan, the more sophisticated documentation required both to establish capacity to borrow and also to secure the loan, the need for more careful and continuous review to protect the Credit Union's position, and the limited liability afforded by Canadian law to corporations. Northern Lights has developed and follows commercial lending policies, which are approved by its Board of Directors, to minimize its risk of loan delinquencies and losses, and has an experienced commercial lender, who had commercial lending authority for eight years while working at a major Canadian chartered bank before joining the Credit Union.

At December 31, 1996, commercial loans amounted to 5.53% of the Credit Union's total loans outstanding, or \$2,124,444, while commercial mortgages amounted to 8.89% of the Credit Union's total loans outstanding, or \$3,417,003. As of December 31, 1997, commercial loans amounted to 6.73% of the Credit Union's total loans outstanding, or \$3,087,179, and commercial mortgages amounted to 13.18% of the Credit Union's total loans outstanding, or \$6,047,031.

### **Agricultural Lending**

The Board and management are of the opinion that the economy of the geographic area served by the Credit Union from all of its branches, particularly its branches in Fort Frances and Rainy River, has well-developed horticultural, silvicultural, and agricultural sectors which the Credit Union wishes to serve by financing the production of crops, livestock, horticultural plants, and trees, and "agri-manufacturing" businesses such as food processing, storage, butchering, etc. Farming is inherently cyclical, and is subject to losses as a result of inclement weather, pests, or disease. As a result, agricultural lending requires astute credit-granting decisions by an individual familiar with the recognition of farm management skills, careful ongoing review, and a co-operative approach to ensure repayment. The Credit Union has some agricultural loans in its portfolio at the present time, has in its employ and on its credit committee individuals with the appropriate skills, and has developed appropriate lending policies to minimize its risk of loss; however, its agricultural loans are currently classified as commercial loans. As at December 31, 1997, these loans amounted to \$831,891; none of those loans had been recognized as impaired, and no allowance for doubtful loans was required.

### **Administration**

#### **Affiliation**

By virtue of its membership in CUCO, the Credit Union has access to the services and products which are developed, either nationally or regionally, and made available to all affiliated credit unions in Canada. In addition, the Credit Union is a participant in a liquidity pool operated by CUCO, and is accordingly permitted to maintain a reduced level of liquid assets in comparison with credit unions which are not participants of a designated liquidity pool and which do not have specified lines of credit. To participate in the liquidity pool, the Credit Union is required to maintain a liquidity deposit at CUCO equal to 5% of its Membership Shares and members' deposits; the Credit Union has met this requirement, and its participation in the liquidity pool is in good standing.

#### **Information Technology**

The Credit Union has contracted with CDSL Canada Limited for on-line processing of transactions on its members accounts. CDSL will provide the Credit Union with this service in conjunction with other credit



unions from a central location. See pages 27 and 28 for further details.

### **Business Strategy**

The Credit Union seeks to become the primary provider of a full range of financial services to members, by surveying its members to determine what business they conduct at other financial institutions, devising and implementing a marketing strategy to provide and sell the services members are currently obtaining at other financial institutions, and monitoring the effect of the marketing strategy. The Credit Union also intends to develop youth marketing programs, and to improve upon its sales/service culture by conducting additional training. The Credit Union intends to continue balanced growth in both its deposit and loan portfolios; while at the same time continuing to increase non-interest revenue to enhance the Credit Union's profitability. The Credit Union is also considering renovating or relocating its facility in Ignace because of concerns regarding the image the current facility projects, and directing efforts to developing its business in Ignace.

### **CAPITAL STRUCTURE OF THE CREDIT UNION**

Prior to October 30, 1995, Northern Lights authorized capital consisted of an unlimited number of Membership Shares, as this was the only class of share that was legally permitted to be issued under the former credit union legislation. The Credit Union, subsequent to October 30, 1995, filed Articles of Amendment to create an unlimited number of Class A Special Shares ("Class A Shares"). After a further membership meeting held January 28, 1998, and a meeting of the Class A Shareholders held February 26, 1998, the Credit Union filed Articles of Amendment to create an unlimited number of Class B Special Shares ("Class B Shares").

### **Membership Shares**

Membership Shares are issued at \$5 each, the price established by the Board of Directors, to persons who wish to become members of Northern Lights.

Pursuant to the By-laws of Northern Lights, each member of 18 years or age and over must hold, within 12 months of the later of acceptance into membership or attaining the age of 18 years, five Membership Shares. Members under the age of 18 years are required to hold one Membership Share of the Credit Union.

Each member of 18 years of age and over is entitled to one vote at all membership meetings, if they are a member in good standing; only such membership meetings may take certain actions, such as electing the Credit Union's Board. Pursuant to the Act, the By-laws of Northern Lights can be changed by Special Resolution of the members.

The holders of Membership Shares may receive dividends if, as and when declared by the directors of the Credit Union. Membership Shares rank junior to Class A Shares, and to Class B Shares, as to priority in the declaration and payment of dividends. Membership Shares are non-cumulative as to dividends, which may be paid in cash, in shares other than Membership Shares, or in a combination of cash and shares other than Membership Shares.

In the event of liquidation, dissolution or winding-up of the Credit Union or other distribution of assets or property of the Credit Union among its members or shareholders for the purpose of winding-up its affairs, the holders of the Membership Shares shall each be entitled to receive an amount representing equal portions of the assets or property of the Credit Union remaining after payment of all the Credit Union's debts and obligations, including redemption of all senior classes of shares as specified in the Credit Union's Articles of Incorporation, including Class A Shares and Class B Shares.

Membership Shares are redeemable at the amount paid up thereon, plus any declared but unpaid dividends, when a member dies, withdraws or is expelled from membership. Membership Shares cannot be redeemed if the Credit Union is not meeting the requirements of section 84 of the Act (see also "Capital Adequacy" in the section on "Risk Factors", beginning on page 15), except as permitted by a capital adequacy variation. The Credit Union is currently awaiting receipt of a capital adequacy variation from the Ministry of Finance.

Membership Shares are not transferable between members.

The Credit Union has a lien on the Membership Shares of each member for any indebtedness of the member to the Credit Union.

As at December 31, 1996, there were 66,688 issued and outstanding Membership Shares with a total stated value of \$333,440. As at December 31, 1997, there were 53,502 issued and outstanding Membership Shares, with a total stated value of \$267,510.

### **Class A Special Shares**

The Credit Union is authorized, by a resolution of the Board of Directors of the Credit Union passed October 30, 1995 pursuant to its powers under the Act to preserve the "patronage shares" previously authorized by the Credit Union's by-laws, to issue to its members an unlimited number of Class A Shares. The Credit Union may pay dividends on Membership Shares, or patronage rebates, in the form of additional Class A Shares; the Credit Union, however, does not intend at this time to pay additional dividends in the form of Class A Shares, but intends to pay such dividends in cash.

The Class A Shares may only be held by members of the Credit Union. If a member holding Class A Shares wishes to withdraw from membership in the Credit Union and redeem his or her Membership Shares, he or she will not be permitted to redeem his or her Membership Shares until he or she has either redeemed his or her Class A Shares as discussed at page 8, or transferred his or her Class A Shares to another member of the Credit Union as discussed at page 8.

The Class A Shares rank in priority to the Membership Shares, but junior to the Class B Shares, in the payment of dividends. Dividends are non-cumulative, and may be paid in cash, in Class A Shares, or in a combination of cash and Class A Shares.

In the event of liquidation or dissolution of the Credit Union, or any other distribution of its assets for the purpose of winding-up its affairs, holders of Class A Shares are entitled to receive the Redemption Amount for each Class A Share held. Class A Redemption Amounts will be paid in priority to payments to the holders of Membership Shares, but after provision for payment of all of the Credit Union's other debts and obligations and after payments to holders of senior classes of shares, including Class B Shares. Holders of Class A Shares are not thereafter entitled to participate in the distribution of residual assets of the Credit Union.

Class A Shares of the Credit Union may be converted at the holder's initiative, on a one-for-one basis, into shares of a more senior class being offered by the Credit Union pursuant to an offering statement. Class A Shares may therefore be converted into Class B Investment Shares if the holder wishes. Conversion requires written notice, signed by the holder of the Class A Shares, and shall be accompanied by a share certificate. Upon receipt of such a notice, the Credit Union will issue certificates for the appropriate number of Class B Shares of the appropriate series and, if the holder converts less than all of his / her Class A Shares, a certificate for the Class A Shares such holder continues to hold. If this offering is only subscribed to the minimum level, the Credit Union will, however, not close this offering if less than 500,000 Class B Investment Shares have

been purchased for cash. See page 23 for further details.

Redemptions of Class A Shares will only be permitted when the holder of such shares dies, terminates his membership in the Credit Union, or is expelled from membership in the Credit Union. Redemptions are not permitted when the Credit Union is not in compliance with the Leverage Ratio and Risk-Weighted Ratio required by section 84 of the Act. In any one fiscal year, the Credit Union may not redeem more than 10% of the Class A Shares outstanding at the end of the preceding fiscal year; redemptions shall be processed on a first-come, first-served basis, and, if more than 10% of the Class A Shares are presented for redemption in a fiscal year of the Credit Union, the Class A Shares not redeemed in that fiscal year shall be the first shares redeemed in the following fiscal year of the Credit Union.

The Credit Union has the option of redeeming, at the Redemption Amount, all or any portion of the Class A Shares then outstanding, subject to restrictions in the Act, after giving at least 21 days notice of its intent to redeem, at any time after five years from the date of issuance. If the Credit Union redeems only a portion of the Class A Shares then outstanding, the Credit Union must redeem such Class A Shares *pro rata* from all holders of such shares at that time, and must, at its expense, issue certificates to each holder of Class A Shares representing the number of Class A Shares such holder continues to hold.

The Class A Shares are non-voting for the purposes of annual general or special meetings of the members. In the event of a proposed dissolution or amalgamation, or the purchase of assets amounting to a Substantial Portion of the Credit Union's assets, or the sale, lease or transfer of a Substantial Portion of the Credit Union's assets, or a proposed resolution which affects the rights attaching to the Class A Shares, the Credit Union must hold a special meeting of the holders of Class A Shares to obtain their approval of the proposed action by Special Resolution of those present, in person or by proxy as permitted by the Credit Union's By-laws, and voting. Holders of Class A Shares have one vote per Class A Share held at such meetings.

Class A Shares may only be transferred to another member of the Credit Union or other person legally permitted to hold the shares, and all such transfers require the approval of the Board of Directors.

As of December 31, 1996, the Credit Union had 1,334,727 Class A Shares outstanding, with a stated capital of \$1,334,727. As of December 31, 1997, the Credit Union had 1,334,562 Class A Shares issued and outstanding, with a stated capital of \$1,334,562.

### **Class B Special Shares**

The Credit Union is authorized, pursuant to a resolution of the membership passed January 28, 1998, and of the Class A Shareholders passed February 26, 1998, to issue to its members an unlimited number of Class B Special Shares ("Class B Shares"), issuable in series.

The Class B Shares rank in priority to both the Class A Patronage Shares and the Membership Shares regarding the payment of dividends.

In the event of liquidation or dissolution of the Credit Union, or any other distribution of its assets for the purpose of winding-up its affairs, holders of Class B Shares are entitled to receive the Redemption Amount for each Class B Share held. Class B Redemption Amounts will be paid in priority to payments to the holders of Class A Shares, and Membership Shares, but after provision for payment of all of the Credit Union's other debts and obligations. Holders of Class B Shares are not thereafter entitled to participate in the distribution of residual assets of the Credit Union.

The Class B Shares are non-voting for the purposes of annual general or special meetings of the members. In

the event of a proposed dissolution or amalgamation, or the purchase of assets amounting to a Substantial Portion of the Credit Union's assets, or the sale, lease or transfer of a Substantial Portion of the Credit Union's assets, or a proposed resolution which affects the rights attaching to the Class B Shares, the Credit Union must hold a special meeting of the holders of Class B Shares to obtain their approval by Special Resolution of the shareholders present, in person or by proxy as permitted by the Credit Union's By-laws, and voting. In some cases, a separate meeting of the holders of each series of Class B Shares will be required. Holders of Class B Shares have one vote per Class B Share held at such meetings.

Class B Shares may only be transferred to another member of the Credit Union or to another person legally permitted to hold the shares, and all such transfers are subject to Board approval.

The Credit Union has a lien on the Class B Shares of each member, not held in the member's RRSP, for any indebtedness of the member to the Credit Union, pursuant to the Credit Union's By-laws.

#### Series 1, Class B Special Shares

The Board has authorized the creation and issuance of Series 1, Class B Special Shares ("Class B Investment Shares"), at an issue price of \$1.00 each. For an outline of the terms and conditions of these shares, see "Description of Securities Being Offered", below.

There are no Class B Investment Shares issued or outstanding as of the date of this Offering Statement.

## **DESCRIPTION OF SECURITIES BEING OFFERED**

### **Class B Investment Shares**

#### Issue

Class B Investment Shares, issuable at \$1.00 each, will only be issued to members of Northern Lights. If the purchaser is a natural person, he or she must be at least 18 years of age.

#### Dividends

The holders of Class B Investment Shares are entitled, in preference to the Membership Shares and to the Class A Patronage Shares, to receive dividends if, as and when declared by the Board. Dividends for the Class B Investment Shares are dependent upon, in part, the earnings and/or undivided earnings of Northern Lights, and on its ability to comply with the capital adequacy and liquidity requirements of section 84 of the Act (see also "Capital Adequacy" in the section on "Risk Factors" beginning on page 15). The payment of such dividends will be in such manner (including whether in the form of additional Class B Investment Shares, or in cash, or partly in shares and partly in cash), and on such terms as may be determined from time to time by the Board. Fractional Class B Investment Shares may be allotted as part of a declared dividend, and any such allotment will result in the issuance of fractional shares.

For a discussion of the Credit Union's dividend policy, see pages 21 and 22.

#### Canadian Federal Income Tax Aspects

The following commentary has been prepared by Winters & Company, Chartered Accountants, based solely on the information contained in this Offering Statement and their understanding of the meaning and intent of the relevant provisions of the *Income Tax Act*, including legislation that is pending at the date of this Offering Statement. This commentary summarizes the principal Canadian federal income tax consequences to individuals, other than trusts, who are resident in Canada for income tax purposes, who become holders of Class B Investment Shares by acquiring shares pursuant to this Offering Statement and who hold the interest as capital

property. No advance income tax ruling has been requested or obtained from Revenue Canada in connection with this Offering Statement, and there is therefore the risk that Revenue Canada may have a different view of the income tax consequences to holders from that described herein. **INVESTORS ARE CAUTIONED THAT THIS COMMENTARY IS OF A GENERAL NATURE ONLY AND IS NOT INTENDED TO CONSTITUTE ADVICE TO ANY PARTICULAR INVESTOR. INVESTORS SHOULD SEEK INDEPENDENT ADVICE FROM THEIR OWN ADVISORS.**

Dividends paid on the Class B Investment Shares, whether paid in cash, in additional shares or in a combination of cash and additional shares, would be required to be included in the income of the shareholder in the year in which the dividend was received. The dividend as received by the shareholder would be deemed for income tax purposes to be interest income from Canadian sources.

If a dividend on the Class B Investment Shares was paid in the form of additional shares, the value assigned to the dividend would be included in the shareholder's income as outlined above and would also be added to the shareholder's adjusted cost base for income tax purposes of the Class B Investment Shares.

The disposition by a shareholder of the Class B Investment Shares so owned may give rise to a capital gain or a capital loss to the extent that the proceeds of disposition exceed or are exceeded by the adjusted cost base of the shares plus the disposition costs, if any, so incurred. Three-quarters of a capital gain or capital loss would be considered to be the shareholder's taxable capital gain or allowable capital loss and would be included in the shareholder's income accordingly. If certain criteria are met, an allowable capital loss may be considered to be an allowable business investment loss.

Upon the redemption of the Class B Investment Shares by Northern Lights Credit Union Limited, any amount paid in excess of the paid-up capital for income tax purposes would be considered to be received as interest income from Canadian sources and would be included in the shareholder's income.

If a shareholder borrows the money to acquire the Class B Investment Shares on a non-registered basis, the interest incurred, if reasonable under the circumstances, would be deductible for income tax purposes. Upon the disposition of the Class B Investment Shares, the interest expense so incurred would cease to be deductible.

The Class B Investment Shares will be qualified investments for RRSP contracts. Any transfer by the shareholder from a non-registered to a registered plan would constitute a disposition for income tax purposes and would be subject to the capital gain treatment outlined above. Should a capital loss be recognized on such a disposition, it would be deemed to be nil for income tax purposes.

#### Northern Lights Investment Retirement Plan

The Co-operative Trust Company of Canada is the trustee of this retirement savings plan, which will accept Class B Investment Shares as contributions to a member's Registered Retirement Savings Plan (RRSP).

#### Rights on Distributions of Capital

On liquidation or dissolution, holders of Class B Investment Shares will be paid the Redemption Amount for each such share held, in priority to payments to the holders of the Class A Shares, and the Membership Shares, but after provision for payment of all the Credit Union's other debts and obligations. Holders of Class B Investment Shares shall not thereafter be entitled to participate in the distribution of the Credit Union's assets then remaining.

#### Voting Rights

The Class B Investment Shares are non-voting for the purposes of annual general or special meetings of the members. In the event of a proposed dissolution, amalgamation, purchase of assets representing a Substantial

Portion of Northern Lights' assets, the sale, lease or transfer of a Substantial Portion of Northern Lights' assets, or a proposed resolution which affects the rights attaching to the Class B Investment Shares, the Credit Union shall hold a special meeting of the holders of Class B Investment Shares. The holders of Class B Investment Shares shall have one vote per Class B Investment Share held at such meetings to consider such an event or resolution, which requires approval by Special Resolution of those present in person or, as permitted by the Credit Union's By-laws, by proxy, and voting.

#### Redemption Provisions and Restrictions

Any holder of Class B Investment Shares may, at any time, make a request to the Board, in writing, to redeem, at the Redemption Amount, their Class B Investment Shares held. All redemptions, however, are subject to the statutory aggregate limits detailed below.

Approval of any redemption request is in the sole and absolute discretion of the Board. The Board will ordinarily approve such requests unless, in the opinion of the Board, such redemption will cause the Credit Union to be unable to comply with the capital requirements of section 84 of the Act.

In no case shall total redemptions approved for holders of Class B Investment Shares in any fiscal year exceed an amount equal to 10% of the total Class B Investment Shares outstanding at the end of the preceding fiscal year. The Board will approve redemption requests on a first come, first served basis as evidenced by the time and date to be marked on each request when received by the Credit Union. Redemption requests not fulfilled during one fiscal year will be carried forward and considered at the first meeting of the Board of Directors in the following fiscal year.

The Credit Union has the option of redeeming, at the Redemption Amount, all or any portion of the Class B Investment Shares then outstanding, subject to restrictions in the Act, after giving at least 21 days notice of its intent to redeem, at any time after five years from the date of issuance. If the Credit Union redeems only a portion of the Class B Investment Shares then outstanding, the Credit Union must redeem such Class B Investment Shares *pro rata* from all holders of such shares at that time, and must, at its expense, issue certificates to each holder of Class B Investment Shares representing the number of Class B Investment Shares such holder continues to hold.

**Purchasers of Class B Investment Shares who are intending to include such shares in an RRSP contract should carefully review the above redemption provisions and restrictions before proceeding.**

#### Modification

Modification of the provisions attached to Class B Investment Shares will require the approval by Special Resolution of the members voting at a special or annual general meeting, and the approval of the holders of Class B Investment Shares. The approval of Class A Shares may be required if the rights of the Class A Shareholders, as holders of a junior class of shares, are affected. Such shareholder approval will be expressed by Special Resolution of the holders of the Class B Investment Shares present, in person or by proxy as permitted by the Credit Union's By-laws, and voting at a separate meeting of such shareholders, with each shareholder having one vote per Class B Investment Share held. The approval of the Class A Shareholders, if required, will be obtained in a similar manner.

#### Restrictions on Transfer

Class B Investment Shares may not be transferred except to another member of Northern Lights, or to a person prescribed in the Act and accompanying Regulations. Transfers will be subject to the approval of the Board of Directors. The Board generally will not approve transfers which do not occur at a price equal to the Redemption Amount at that time. Transfer requests must be in writing, using a form approved by the Board. Transfer requests will be tendered to the Head Office of the Credit Union, together with the certificate or

certificates representing the shares to be transferred.

No member, through transfers of Class B Investment Shares from other members, will be allowed to hold more Class B Investment Shares than the member would otherwise have been able to subscribe for in this initial offering (100,000 or the Maximum Permissible Holding, whichever is lesser). **There is no market for the Class B Investment Shares issued by the Credit Union.**

Articles of Amendment

Prospective purchasers of Class B Investment Shares may obtain, on request at the Head Office of the Credit Union, a copy of the Special Resolution of the membership, and the Special Resolution of the Board of Directors, which amended Northern Lights Articles of Incorporation and defines its share capital structure, including the full terms and conditions, rights and privileges of Class B Investment Shares.

## CAPITALIZATION TABLE FOR REGULATORY PURPOSES

The capitalization of the Credit Union as at December 31, 1996, December 31, 1997, and December 31, 1997 after giving effect to the full issuance of the Class B Investment Shares, is set out in the following table:

Share Capital	As at <u>December 31, 1996</u> (audited)	As at <u>December 31, 1997</u> (audited)	As at <u>December 31, 1997</u> after giving effect to the full issuance of the Class B Investment Shares (unaudited)
Membership Shares	\$333,440	\$267,510	\$267,510
Class A Shares	\$1,334,727	\$1,334,562	\$1,334,562
Class B Investment Shares	\$0	\$0	\$2,000,000 (2,000,000 shares)
<b>Reserve for Financial Stability</b>	<u>\$1,020,073</u>	<u>\$998,186</u>	<u>\$998,186</u>
<b>Total</b>	<u>\$2,688,240</u>	<u>\$2,600,258</u>	<u>\$4,600,258</u>
 Class A Patronage Shares			
- authorized	unlimited	unlimited	unlimited
- outstanding	1,334,727	1,334,562	1,334,562
Class B Investment Shares			
- authorized	none	unlimited	unlimited
- outstanding	nil	nil	2,000,000

### Accounting Treatment

The Canadian Institute of Chartered Accountants recently issued handbook section 3860, "Financial Instruments - Disclosure and Presentation". Effective January 1, 1997 the standard required the Credit Union to classify its financial instruments as either debt or equity in accordance with whether the terms of the instruments entitle the holder to participate in the distribution of the residual assets of the Credit Union. The classification will result in the Credit Union's Class B Investment Shares and Class A Shares being reclassified as debt, since the Class B Investment Shares and Class A Shares are not so entitled. This classification is not properly reflected in the audited financial statements as at December 31, 1997, and will be corrected in the audited financial statements as at December 31, 1998. Accordingly, dividends declared on these shares will be treated as interest expense. Total proceeds will be treated as a liability, although separately from other liabilities of the Credit Union. Under the new Standard the costs of this offering will be recognized as a deferred financing charge on the balance sheet and amortized into income over a five-year period.



## SUMMARY OF SHARE TERMS AND CONDITIONS

The following represents a summary of the key terms and conditions of the Class A Shares and the Class B Investment Shares, including their right to dividends, voting, redeemability at the shareholders' initiative, redeemability at the Credit Union's initiative, participation on wind-up of the Credit Union, and treatment as Regulatory Capital.

### Right

	<b>Class A Shares</b>	<b>Class B Investment Shares</b>
Dividends	Dividends on these shares are non-cumulative, and are paid if, as, and when declared by the Board before the Credit Union may pay dividends on its Membership Shares, but after the Credit Union has paid dividends on the Class B Investment Shares. Holders may, by majority vote, consent to the payment of a dividend on the Membership Shares when the Credit Union has not paid a dividend on the Class A Shares.	Dividends on these shares are non-cumulative, and are paid if, as, and when declared by the Board before the Credit Union may pay dividends on its Membership Shares or Class A Shares. Holders may, by majority vote, consent to the payment of a dividend on the Class A Shares or the Membership Shares when the Credit Union has not paid a dividend on the Class B Investment Shares. See pages 21 and 22 for a discussion of the Credit Union's dividend policy regarding these shares.
Voting	These shares do not carry a vote, except when required by the Act.	These shares do not carry a vote, except when required by the Act.
Redeemability at the Shareholders' Initiative	These shares are redeemable only when the holder dies, terminates his membership in the Credit Union, or is expelled from membership in the Credit Union. Redemptions in any fiscal year may not exceed 10% of the Class A Shares issued and outstanding at the start of the fiscal year.	These shares are redeemable, but all redemptions in any fiscal year may not exceed 10% of the Class B Investment Shares issued and outstanding at the start of the fiscal year.
Redeemability at the Credit Union's Initiative	The Credit Union may, at its initiative, redeem some or all of these shares at any time after five years following the issuance of the shares.	The Credit Union may, at its initiative, redeem some or all of these shares at any time after five years following the issuance of the shares.

## Right

Participation on Wind-up	On wind-up of the Credit Union, all holders are entitled to the Redemption Amount for each Class A Share held before the Credit Union makes any payment to the holders of Membership Shares, but after provision for payment of the Credit Union's other debts and obligations, and after the Credit Union satisfies its obligation to the holders of Class B Investment Shares.	On wind-up of the Credit Union, all holders are entitled to the Redemption Amount for each Class B Investment Share held before the Credit Union makes any payment to the holders of either Class A Shares or Membership Shares, but after provision for payment of the Credit Union's other debts and obligations.
Treatment as Regulatory Capital	Of the Class A Shares issued and outstanding, 90% are included as Tier I capital and the remaining 10% are included as Tier II capital.	Of the Class B Investment Shares issued and outstanding, 90% are included as Tier I capital and the remaining 10% are included as Tier II capital.

Capital is defined by its relative permanence (inability to be redeemed quickly), freedom from mandatory fixed charges against the earnings of the Credit Union (*e.g.*, cumulative dividends), and subordinate position to the rights of depositors and other creditors of the Credit Union, who are paid the sums they are due before the holders of capital receive any funds. Tier I capital qualifies as capital under all three definitions. Tier II capital, in general, meets only two of the three definitions. A credit union, to the extent that its Tier II capital exceeds its Tier I capital, may not include the excess Tier II capital as Regulatory Capital. A credit union's Membership Shares and undivided earnings qualify as Tier I capital.

## RISK FACTORS

The following risk factors should be considered in making a decision to purchase Class B Investment Shares.

### Transfer and Redemption Restrictions

**There is no market through which the Class B Investment Shares may be sold.** Further, it is not expected that any market will develop. These securities may only be transferred to another member of the Credit Union or to a person prescribed by the Act and accompanying Regulations.

Redemptions of Class B Investment Shares are not permitted when the Credit Union does not comply with the required Leverage Ratio and Risk-Weighted Ratio, and are limited in any fiscal year to 10% of the Class B Investment Shares outstanding at the end of the previous fiscal year. Consequently, holders of Class B Investment Shares may not be able to redeem their securities when they wish to do so.

**Members who intend to hold Class B Investment Shares within an RRSP contract should carefully review this risk factor before proceeding.**

### Capital Adequacy

The Act requires Northern Lights to maintain certain levels of regulatory capital according to its risk-weighted

assets (*i.e.*, actual assets multiplied by a percentage, set by Regulation, to approximate the risk associated with these assets) ("Risk-Weighted Ratio") and its actual assets ("Leverage Ratio") as follows:

	<b>RISK-WEIGHTED RATIO</b>	<b>LEVERAGE RATIO</b>
as of January 1, 1996	7.00% (7.34% attained)	4.25% (3.37% attained)
as of January 1, 1997	7.50% (10.21% attained)	4.60% (4.63% attained)
as of January 1, 1998 and thereafter	8.00% (8.23% attained)	5.00% (4.43% attained)

The Credit Union was required to maintain the minimum capital ratios set out above on a continuous basis throughout the periods until the ratios increased to the next level.

As disclosed in the above table, the Credit Union was not, as of January 1, 1998, in compliance with the Leverage Ratio requirements of Section 84 of the Act, and accordingly is required to apply for a capital adequacy variation, to have effect until this offering is completed. If this offering is closed successfully, the Credit Union will at closing fully comply with all Regulatory Capital requirements. If this offering is fully subscribed, assuming the levels of assets and equity stated in the December 31, 1997 audited financial statements, the Credit Union will enjoy a Leverage Ratio of 7.83%. If this offering is minimally subscribed, on the same conditions, the Credit Union will enjoy a Leverage Ratio of 6.13%. If the offering is fully subscribed but all of the Class A Patronage Shares are converted into Class B Investment Shares, the Credit Union's Leverage Ratio would be 5.56%. If the offering is only minimally subscribed and 500,000 Class A Patronage Shares are converted into Class B Investment Shares, the Credit Union's Leverage Ratio would be 5.23%.

The Director of Credit Unions is empowered to specify terms and conditions with which the Credit Union must comply while its Regulatory Capital does not meet the minimum levels specified in section 84 of the Act.

### **Payment of Dividends**

This is the initial offering of Class B Investment Shares and, accordingly, there is no dividend record for the Class B Investment Shares. The payment of dividends to the holders of Class B Investment Shares is dependent on the ability of Northern Lights to meet the capital adequacy requirements of the Act, the availability of earnings, and the exercise by the Board of Directors of the Credit Union of its discretion as to whether or not to declare a dividend, the rate at which the dividend is to be declared, and the proportions of additional shares and cash for payment of such dividend.

Holders of Class B Investment Shares may consent, by majority vote, to the payment of dividends on a junior class of shares before the Credit Union pays a dividend on Class B Investment Shares.

**The Board has stated a dividend policy for Class B Investment Shares, as outlined on pages 21 and 22 hereof; this policy may be changed at any time at the discretion of the Board, and therefore dividends paid may not be as required by the policy outlined herein.**

The Credit Union incurred a small loss in its fiscal year ended December 31, 1997, as a result of decreased financial margin and increased operating expenses. If the Credit Union's profitability does not improve, there is a risk the Credit Union will be unable to pay dividends on Class B Investment Shares.

## Credit Risk

The major activity of Northern Lights is the lending of money to members and, as a result, there exists the risk of loss from uncollectible loans. The lending policies of the Credit Union, the care and attention of staff and management in applying such policies to loan applications and loans granted, and the security taken in connection with such applications, will affect the future profitability of the Credit Union and impact on its ability to pay dividends and redeem Class B Investment Shares when the members wish it to do so. The loan portfolio at December 31, 1996 and December 31, 1997, segregated into those classes of loans which are defined in the Regulations to the Act, and the activity in the allowance for loan losses are detailed below.

Loans by Classification	December 31, 1996	December 31, 1997
Personal Loans	\$13,707,962	\$15,702,615
Residential Mortgages	\$19,227,851	\$21,115,025
Commercial Loans	\$2,136,499	\$3,097,015
Commercial Mortgages	<u>\$3,417,003</u>	<u>\$6,086,193</u>
	\$38,489,315	\$46,000,848
Less allowance for loan losses	<u>(\$52,321)</u>	<u>(\$106,573)</u>
	<u>\$38,436,994</u>	<u>\$45,894,275</u>

### ALLOWANCE FOR LOAN LOSSES - CONTINUITY SCHEDULES FOR THE FISCAL YEARS ENDED DECEMBER 31, 1996 AND DECEMBER 31, 1997

December 31, 1996	PERSONAL	RESIDENTIAL MORTGAGE	COMMERCIAL LOAN	COMMERCIAL MORTGAGE	TOTAL
Opening Balance	\$58,211	\$0	\$42,275	\$0	\$100,486
Recoveries on loans written off	\$43,727	\$0	\$780	\$0	\$44,507
Accounts written off	(\$6,583)	(\$0)	(\$0)	(\$11,153)	(\$17,736)
Provision charged (credited) to operations	(\$55,089)	\$0	(\$31,000)	\$11,153	(\$74,936)
Balance, end of Period	\$40,266	\$0	\$12,055	\$0	\$52,321

December 31, 1997	PERSONAL	RESIDENTIAL MORTGAGE	COMMERCIAL LOAN	COMMERCIAL MORTGAGE	TOTAL
Opening Balance	\$40,266	\$0	\$12,055	\$0	\$52,321
Acquired from Rainy River Community Credit Union Ltd.	\$5,824	\$0	\$0	\$0	\$5,824
Recoveries on loans written off	\$12,910	\$0	\$0	\$0	\$12,910
Accounts written off	(\$19,517)	(\$0)	(\$0)	(\$0)	(\$19,517)
Provision charged (credited) to operations	\$16,160	\$1,932	(\$2,219)	\$39,162	\$55,035
Balance, end of Period	\$55,643	\$1,932	\$9,836	\$39,162	\$106,573

Loans are recorded at principal amounts, less allowance for anticipated losses plus accrued interest. Interest income is recorded on the accrual basis.

Allowance for credit losses represent, as of the date hereof, specific provisions established as a result of reviews of individual loans and groups of loans. Specific allowances are established by reviewing the credit worthiness of individual borrowers and the value of the collateral underlying the loan.

A provision for loss is established when there is reasonable doubt that the full amount of principal and interest will be collected. In such case, a specific provision is established to write down the loan to its estimated realizable amount. The estimated realizable amount is measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In cases where it is impractical to estimate the future cash flows, the carrying amount of the loan is reduced to its estimated realizable value by measuring the fair value of any security, net of expected costs, or its observable market price.

Northern Lights has an established policy of providing, on a monthly basis, an allowance to cover potential loan losses, plus accrued interest. Each month the allowance is reviewed and, if potential loan losses are identified, an allowance is specifically allocated to each impaired loan. The Credit Union calculates its allowance in accordance with By-law No. 6 of DICO. The following table shows Northern Lights impaired loans net of the related allowance for loan losses as of December 31, 1996 and December 31, 1997:

	December 31, 1996	December 31, 1997
<b>Impaired Loans</b>		
Personal loans	\$40,569	\$114,373
Residential Mortgage Loans	\$28,766	\$85,327
Commercial Loans and Mortgages	<u>\$203,802</u>	<u>\$299,274</u>
Total impaired loans	\$273,137	\$498,974
Less allowance for loan losses	<u>(\$52,321)</u>	<u>(\$106,573)</u>
Net impaired loans	<u>\$220,816</u>	<u>\$392,401</u>
Impaired personal loans as a percentage of gross personal loans	0.30%	0.73%
Impaired residential mortgages as a percentage of gross residential mortgages	0.15%	0.41%
Impaired commercial loans and mortgages as a percentage of gross commercial loans and mortgages	3.67%	3.26%
Total impaired loans as a percentage of total gross loans outstanding	0.71%	1.09%

Net loans written off during the fiscal years ended December 31, 1996 and 1997 were \$17,736 and \$19,517, respectively. The provision for loan losses charged to operations for the same periods was \$74,936 and \$55,035 respectively. The allowance for loan losses is 0.14% of total loans outstanding as at December 31, 1996 and 0.23% of total loans outstanding as of December 31, 1997.

#### Risk of Loss on Investments

The Credit Union is also exposed to risk in respect of its investments. The Credit Union is to consider when making investments, in order of priority, safety of principal, liquidity management, and yield. Approved investments outside CUCO include federal and provincial government and government-guaranteed bonds and Treasury Bills, bankers' acceptances issued by Schedule "A" banks, and instruments issued by the Co-operative Trust Company of Canada. Investments are reported to the Credit Union's Board monthly, and any investments which do not conform to policy must have the prior approval of the Board; this requirement for Board approval of contraventions of policy was instituted to permit the Credit Union, with unanimous Board approval, to enter into derivatives contracts. As of December 31, 1997, the Credit Union complied with this investment policy, and had no significant investments, other than Membership Shares of, and term deposits with, CUCO.

#### Liquidity Risk

Liquidity risk is the risk that a financial institution will have to sell assets at a loss to meet cash demands. As a member of a qualifying liquidity pool, the Credit Union must maintain an amount at least equal to 8% of its members' deposits and borrowings in prescribed classes of assets pursuant to Regulations to the Act. The

Credit Union's policy is as the Regulations require. The Credit Union maintained an average liquidity position of 29.9% in the fiscal year ended December 31, 1995, of 31.3% in the fiscal year ended December 31, 1996, and of 25.1% in the fiscal year ended December 31, 1997.

### **Interest Rate Risk**

Interest rate risk arises from a mismatch between rates and maturities of members' deposit liabilities and the yields and maturities of members' loans and other investments of the Credit Union. Regulations require that the Credit Union expose no more of its net income than a sum equal to 15 basis points of its total assets to a reasonably-anticipated change in interest rates. The Credit Union's interest rate risk management policy is as required by the Regulations. To achieve this matched position, the Credit Union uses a comprehensive set of financial reporting systems, including computerized modelling techniques. The Credit Union can respond to market interest rate changes with immediate pricing adjustments to deposit and loan products, if necessary to correct a potential mismatch, although such adjustments, because they only affect new transactions, may not succeed in eliminating the mismatch.

The Credit Union's policy also permits the Credit Union to invest in hedging instruments, *e.g.*, interest rate swaps and forward rate agreements, to meet its interest rate risk policy. The Credit Union, however, held no hedging instruments as at December 31, 1997.

The Credit Union was not in compliance with its interest rate risk policy for the months of June and July 1995; November, 1996; and January, February, April, and June, 1997; but Board and management did not regard this non-compliance as a significant risk for the Credit Union. In all cases, the Credit Union was in compliance if interest rates increased, but not if rates decreased. In June 1995, management took action to attract deposits, and this action succeeded in eliminating the non-compliance by August 1995. In the other cases, management did not feel corrective action was necessary, since the prime rate was at a 40-year low and further decreases were unlikely.

In the event that the Credit Union were to become mismatched to an extent which exceeds the limits described above, future profitability could become seriously eroded, with a resulting negative impact on the ability of the Credit Union to pay dividends or redeem shares. As at December 31, 1997, calculations indicated that the Credit Union was exposed to a change in its net income equal to 1 basis point of its total assets if interest rates increased by 1%, and to 11 basis points if rates decreased by 1%.

### **Regulatory Action**

Under the Act, the Deposit Insurance Corporation of Ontario, as stabilization authority for the credit unions and caisses populaires in Ontario, can ask the Director of Credit Unions to place a credit union or caisse populaire under Supervision, and may, itself, place a credit union or caisse populaire under Administration should it believe that there is a potential for the credit union or caisse populaire to encounter financial or management problems which could affect its financial well-being or which could tend to increase the risk of claims by the credit union or caisse populaire against the deposit insurance fund.

### **Reliance on Key Management**

The success of Northern Lights business strategy is dependent on the ability of the Credit Union to retain its senior management personnel. The inability to retain such persons, or replace them with individuals of equal competence, could adversely affect the Credit Union's financial performance. The Credit Union does not have in place written employment agreements covering the services of any key management personnel which would require those personnel to provide the Credit Union with longer notice than would ordinarily be required by

law, of their intention to terminate their employment relationship with the Credit Union.

### **Geographic/Industry Risk**

The areas which the Credit Union serves generally do not have a great degree of economic diversification. In Dryden, the Avenor Inc. pulp and paper mill is the largest employer in the town. There is some economic diversification provided by a transportation sector which delivers the mill production to purchasers, and some cash crop and livestock farming. In Fort Frances, again the pulp and paper mill is the largest area employer. There is, again, some diversification provided by cash crop and livestock farming, and a transportation sector which delivers the mill production to customers. Sioux Lookout has a more diversified economy, with significant civil service and tourism employment in addition to its mill. In Ignace, the major industry is, again, wood-related transportation. There is some diversification provided by the tourism sector. In Vermilion Bay, tourism, particularly from the United States, is the major economic sector. In Rainy River, a more diversified economy exists, with tourism and wood-related employment, and cash crop and livestock farming.

The Credit Union, like every other financial institution, is also affected by periods of economic downturn which result in a lack of consumer confidence, a drop in demand for loans and mortgages, and a reduction in the level of savings.

### **Competitive Risk**

The areas served by the Credit Union, with the exception of Ignace, Vermilion Bay and Rainy River, are reasonably well-served by financial institutions. The financial services industry continues to be extremely competitive. The major banks have expanded their traditional core banking business into other financial services, where they now dominate the brokerage and trust industries. As a result, the sheer size and increasing scope of their diversified operations represent a challenge to credit unions. The success of credit unions largely depends on their ability to differentiate themselves from large banks and trust companies, and on their ability to be proactive in providing new products and services to meet their members' needs while ensuring that they earn sufficient profits to continue to grow and prosper.

## **DIVIDEND RECORD AND POLICY**

Prior to the recent creation of the current classes of shares, Northern Lights' formal capital structure consisted only of Membership Shares on which dividends could be paid. The Credit Union paid patronage rebates regarding its fiscal years ended December 31, 1995 and 1996, in the form of Class A Shares, as detailed in the following table:

Issued and Outstanding Membership Shares	Fiscal Year Ending	Patronage Rebates Paid
\$267,510	December 31, 1997	\$0
\$333,440	December 31, 1996	\$767,538
\$313,560	December 31, 1995	\$567,189
\$295,150	December 31, 1994	\$0
\$298,885	December 31, 1993	\$0

For a discussion of the priority of the various classes of shares in the payment of dividends, and the restrictions



placed on the Board in the declaration of dividends, see page 9.

The dividend policy of the Northern Lights Board of Directors for Class B Investment Shares shall be to pay a dividend or dividends for every year in which there are sufficient profits to do so while still fulfilling all Regulatory Capital and operational requirements. The dividend rate shall be established by the Board of Directors, in its sole and absolute discretion, based on financial and other considerations prevailing at the time of the declarations. The Board shall consider whether or not a dividend shall be declared, and at what rate and in which manner, at least annually following each fiscal year end and before each annual general meeting of members. Although there can be no guarantee that a dividend will be paid for each year, it is the policy of the Board that an appropriate dividend will be declared and paid for each year, provided that the Credit Union is in compliance with Section 84 of the Act. The Board of Directors has defined an appropriate dividend rate on the issue price of the share to be a rate which exceeds by 1% the simple average of the yields of Government of Canada three-year and five-year benchmark bonds, as published in the Bank of Canada Review (Ref. B113892 regarding the three-year bond, and Ref. B113893 regarding the five-year bond), as at the Wednesday immediately preceding, or being, December 31 in the fiscal year regarding which the dividend is to be paid. Had the Class B Investment Shares been issued and outstanding throughout 1997, this policy would have resulted in a dividend rate of 6.33%, the three-year Government of Canada benchmark bond yield being 5.32% at December 31, 1997 while the five-year yield was 5.34%. This calculation, however, is provided for illustrative purposes only and should not be regarded as indicative of future dividend potential. The dividend, in the fiscal year Class B Investment Shares are first issued, shall be pro-rated for the number of days the Class B Investment Shares were issued and outstanding in that fiscal year.

**The dividend policy followed by the Credit Union is at the discretion of the Board, and is subject to change. Dividends paid may therefore not be in accordance with this policy.**

Following consideration and payment of a dividend on the Class B Investment Shares, the Board may decide to pay a dividend on shares ranking junior to the Class B Investment Shares, including Class A Shares and Membership Shares. The holders of Class B Investment Shares may, by majority vote, consent to the payment of a dividend on the Membership Shares and/or the Class A Shares before a dividend is paid on the Class B Investment Shares.

## USE OF PROCEEDS FROM SALE OF SECURITIES

Shares will be issued for cash, or in return for the conversion of Class A Shares of the Credit Union only. If this offering is only minimally subscribed, however, the Credit Union will not close this offering if less than 500,000 Class B Investment Shares are purchased for cash; see page 23 for details.

The principal uses of the net proceeds, and purpose, of this offering will be to enable the Credit Union to increase its Regulatory Capital so that it complies both with the Act's requirements, and also with sound business practices. Based on a Leverage Ratio of 5%, assuming the offering is fully subscribed and that in all other respects the Credit Union's assets and equity are as stated on its December 31, 1997 audited financial statements, the Credit Union's capitalization could support additional growth of approximately \$33,273,782. On the same assumptions except that the offering is minimally subscribed, the Credit Union's capitalization could support additional growth of approximately \$13,273,782. If the offering is fully subscribed but all of the Class A Patronage Shares are converted into Class B Investment Shares of the Credit Union, the Credit Union could grow by \$6,582,542. If the offering is only minimally subscribed and 500,000 Class A Patronage Shares are converted into Class B Investment Shares, the Credit Union's capitalization could support additional growth of \$3,274,182. The cash generated from the issuance of the securities, to the extent it represents new cash to the Credit Union rather than being a transfer from existing accounts, will be used for general business purposes,

being primarily the lending of money to members and the investment of surplus funds in high quality investments.

Potential for additional growth at the minimum and maximum subscription levels is calculated in the following manner. As stated in the capitalization table for Regulatory Capital purposes on page 13, if this offering is fully subscribed, the Credit Union anticipates Regulatory Capital of \$4,600,258 if its level of Membership Shares, Class A Shares, and reserve for financial stability remain as stated on its December 31, 1997 audited balance sheet. Dividing the \$4,561,758 in Regulatory Capital by the required level of 5% of total assets illustrates that this amount of Regulatory Capital could support total assets of \$92,005,160. Subtracting from \$92,005,160 the Credit Union's total assets as reported on its December 31, 1997 audited balance sheet, plus deferred financing charges of \$35,000, of \$58,731,378 illustrates that the Credit Union could grow by \$33,273,782. The Regulatory Capital available if all of the Class A Patronage Shares are converted is calculated by subtracting the \$1,334,562 in Class A Patronage Shares stated on the Credit Union's audited December 31, 1997 financial statements from the Regulatory Capital stated in the capitalization table at page 13. If the offering is only minimally subscribed, however, the Credit Union can expect net proceeds of only \$1,000,000. Regulatory Capital, therefore, will only reach \$3,600,258 (the net proceeds of the offering, plus the Membership Shares, Class A Shares and reserve for financial stability as stated on the Credit Union's audited balance sheet as at December 31, 1997). Dividing \$3,600,258 by the required Leverage Ratio of 5% illustrates that this amount of Regulatory Capital would support total assets of \$72,005,160. Subtracting from \$72,005,160 the Credit Union's total assets of \$58,731,378 (as stated on its December 31, 1997 audited balance sheet, plus deferred financing charges of \$35,000) illustrates that the Credit Union could grow by \$13,273,782 if the offering is minimally subscribed. If 500,000 Class A Patronage Shares were converted into Class B Investment Shares, and the offering was minimally subscribed, the amount of Regulatory Capital available is calculated by assuming proceeds of \$1,000,000 as above, and subtracting \$500,000 from the value of the Class A Patronage Shares outstanding as of December 31, 1997, therefore achieving Regulatory Capital of only \$3,100,278.

## PLAN OF DISTRIBUTION

1. The price to members for each Class B Investment Share will be \$1.00.
2. There will be no discounts or commissions paid to anyone for the sale of these securities.
3. One hundred per cent (100%) of the proceeds of the sale of these securities will go to the Credit Union, which will then be responsible for the payment of the costs associated with this Offering Statement.

Subscriptions for the Class B Investment Shares shall be accepted as of the date hereof, and for a period of six months after the date hereof; or until a date on which subscriptions have been received for the maximum 2,000,000 Class B Investment Shares; or until a date, when the Credit Union has received subscriptions for at least the minimum 1,000,000 Class B Investment Shares, of which at least 500,000 Class B Investment Shares have been purchased for cash rather than by the conversion of Class A Shares, but has not received subscriptions for the maximum 2,000,000 Class B Investment Shares, before six months have passed from the date hereof, on which the Board, in its sole and absolute discretion, shall determine to close the offering; whichever shall occur first (the "Closing Date"). Subscriptions will be accepted on a first come, first served basis, and subscription forms will be marked with the time and date accepted. The Credit Union will closely monitor subscriptions being received as total subscriptions approach the maximum. Potential purchasers making subscription requests at that time may not be allowed to subscribe for the full number or amount of shares they desire, or their subscription request may be refused. This Offering may not be over-subscribed, and subscriptions will not be pro-rated.

If the funds to be used by a subscriber to pay for shares subscribed are on deposit at the Credit Union, the subscriber will authorize the Credit Union to place a hold on such accounts in an amount equal to the issue price of the number of shares for which the member subscribes. If the offering is completed, such hold will be released, and the authorized amount will be used to pay for the shares for which the member subscribed. If the offering is withdrawn, or if the decision to buy is reversed by the subscriber (as described on the cover of this Offering Statement), the hold will be released immediately thereafter.

If the funds to be used by a subscriber to pay for shares subscribed are coming from outside the Credit Union, such funds will be held in escrow, in accounts to be trusted by Co-operative Trust Company of Canada, until the offering is completed or withdrawn, or until the subscriber exercises the right to reverse the decision to purchase the securities (as described on the cover of this Offering Statement). If the offering is completed, the proceeds will be released from escrow and used to pay for the shares for which the member subscribed. If the offering is withdrawn, or if the subscriber reverses the decision to buy, the proceeds will be refunded in full, plus interest calculated at the Credit Union's 30-day term deposit rate as at the date of this Offering Statement, pro-rated for the number of days the funds were in escrow, to those who subscribed.

If a member subscribes for more than the Maximum Permissible Holding, the Credit Union will honour the subscription to the Maximum Permissible Holding. To the extent the subscription exceeds the Maximum Permissible Holding, for the purposes of the hold and escrow arrangements described above, the Credit Union will regard the member as having properly withdrawn the over-subscribed portion of the subscription on the Closing Date, regardless of when the member received the offering statement, and will either release the hold on the member's accounts, or return funds held in escrow to the member (together with applicable interest), as required above.

The above-noted terms and conditions regarding holds on deposit accounts and regarding escrow accounts are detailed on the Credit Union's subscription form for Class B Investment Shares and on separate agreements, to be signed by subscribers, authorizing holds on deposit accounts and/or placement of proceeds in escrow accounts. Copies of the Subscription Form and the forms for authorization of a hold on funds in deposit accounts and/or placement of funds in escrow accounts are printed in this Offering Statement on pages 51, 52 and 53.

If fully subscribed, the gross proceeds to be derived by the Credit Union from the sale of the Class B Investment Shares shall be \$2,000,000. The costs of issuing these securities are not expected to exceed \$35,000, and will be deferred and amortized over five years. The estimated maximum proceeds of this offering of securities are \$2,000,000.

Shares for which subscriptions have been received shall be issued within 60 days of the Closing Date.

If, after six months from the date of this Offering Statement, subscriptions received for the Class B Investment Shares amount to less than \$1,000,000 in the aggregate, or do not consist of at least 500,000 Class B Investment Shares purchased for cash rather than through the conversion of Class A Shares, and this offering for Class B Investment Shares has not been renewed with the approval of the Director of Credit Unions, it will be cancelled and withdrawn, and all funds "frozen" or held in escrow to support subscriptions will be returned to the respective members within 30 days thereof, with applicable interest, without shares being issued.

The Class B Investment Shares will not be sold by underwriters or other dealers in securities. The minimum subscription per member shall be \$1,000 for 1,000 Class B Investment Shares. The maximum subscription per member shall be \$100,000 for 100,000 Class B Investment Shares; no member, however, may purchase more than the Maximum Permissible Holding. Shares will only be issued subject to the full price of such securities

being paid, either in cash or through the conversion of Class A Shares of the Credit Union.

## **MARKET FOR THE SECURITIES**

**There is no market for the Class B Investment Shares. These securities may only be transferred to another member of the Credit Union or to a person prescribed by the Act and accompanying Regulations.**

### **SENIOR DEBT (RANKING AHEAD OF CLASS B INVESTMENT SHARES)**

Northern Lights has arranged lines of credit and overdraft facilities, bearing interest at the prime lending rate, totalling CAN\$5,000,000 and US\$500,000, at CUCO. The purpose of these facilities is to cover fluctuations in daily clearing volume on the chequing accounts of the members of the Credit Union, and to secure the Credit Union's obligations under the index-linked term deposit hedge agreements discussed at page 28. As security for these credit facilities, the Credit Union has given CUCO promissory notes, a general assignment of its book debts, and a general security agreement covering all of its assets.

During the fiscal year ended December 31, 1996, the balance owing on the Canadian-dollar line of credit with CUCO fluctuated from a high of \$1,621,313 to a low of \$0. During the fiscal year ended December 31, 1997, the balance owing on the Canadian-dollar line of credit with CUCO fluctuated from a high of \$1,734,134 to a low of \$0. In both fiscal years, its US dollar line of credit was utilized only once, and the usage resulted from an error by CUCO.

### **AUDITORS, REGISTRAR AND TRANSFER AGENT**

The auditors of Northern Lights Credit Union Limited are Winters & Company, Chartered Accountants, 45 King Street, Dryden, Ontario, phone 807-223-5987, fax 807-223-5471.

The registrars and transfer agents for the Class B Investment Shares are designated staff of Northern Lights.

### **DIRECTORS AND SENIOR MANAGEMENT**

#### **Board of Directors**

The following table sets forth the board of directors of Northern Lights:

<b>Name/Municipality of Residence</b>	<b>Principal Occupation</b>	<b>Position/Office</b>	<b>Director Since</b>
Graeme Olson Dryden, Ontario.	Human Resources - Avenor Inc.	Chair	1991
Michael Eliuk Sioux Lookout, Ontario.	Retired	Vice Chair; Member, Audit Committee	1992
Victor Allard Dryden, Ontario.	Purchasing Agent - Avenor Inc.	Corporate Secretary; Chair, Audit Committee	1988
Barbara Bond Ignace, Ontario.	Teacher	Director	1997
David Coulter Vermilion Bay, Ontario.	Manager, Liquor Control Board of Ontario	Director; Member, Audit Committee	1993
Gordon Dingman Eagle River, Ontario.	Retired	Director; Member, Audit Committee	1995
Kenneth Hampton Fort Frances, Ontario.	Electrician - Abitibi Consolidated	Director	1993
Robert Ivanowich Dryden, Ontario.	Technician, Bell Canada	Director	1998
Eltjo Wiersema Rainy River, Ontario.	Retired	Director	1998

### Senior Management

The following table sets forth the senior management of Northern Lights:

<b>Name/Municipality of Residence</b>	<b>Position/Title</b>	<b>Employed Since</b>
Doug Robinson Dryden, Ontario.	Treasurer - Manager	1976
Helen Romas Dryden, Ontario.	Operations Manager	1981
Lynda Stefanick Dryden, Ontario.	Loan Manager	1982
Jan Dolk Fort Frances, Ontario.	Chief Financial Officer	1974
Brian MacDonald Dryden, Ontario.	Commercial Loan Manager	1996

All senior management have been employed continuously by the Credit Union during at least the previous five years except for Brian Macdonald, who has been employed with the Credit Union since 1996 and had previously been employed by a major Canadian chartered bank as a full-service branch manager.

## **LAWSUITS AND OTHER MATERIAL OR REGULATORY ACTIONS**

Other than actions to recover delinquent loans where Northern Lights is the plaintiff, the Credit Union is not aware of any material pending or contemplated legal proceedings to which the Credit Union is a party. The Credit Union is not aware of any regulatory actions resulting from any past non-compliance with regulatory capital requirements.

## **MATERIAL INTERESTS OF DIRECTORS, OFFICERS AND EMPLOYEES**

All loans to the directors, officers and employees and persons related to them are made in the normal course of business, using standard credit granting criteria, and are made at market rates.

Employees, directors, and credit committee members are entitled to personal loans and lines of credit at a rate exceeding the Credit Union's prime rate by 1%. As of December 31, 1996, the Credit Union had outstanding \$630,825 in such discount personal loans, and had authorized \$41,650 in such discount lines of credit. As of December 31, 1997, the Credit Union had outstanding \$663,112 in such discount personal loans, and had authorized \$77,250 in such discount lines of credit.

Employees, directors, and credit committee members are entitled to a discount of 0.50% from the posted rate offered by the Credit Union on any residential mortgage. As of December 31, 1996, the Credit Union had outstanding \$1,205,114 in such discount residential mortgages. As of December 31, 1997, the Credit Union had outstanding \$1,344,962 in such discount residential mortgages.

The aggregate value of loans in all categories to restricted parties (directors, officers, committee members, their spouses, and their dependants), as of December 31, 1996, amounted to \$288,541, and the Credit Union had authorized lines of credit to restricted parties as of the same date of \$65,000, and, as of December 31, 1997, amounted to \$270,162, and the Credit Union had authorized lines of credit to restricted parties as of the same date of \$65,000. No allowance for loan losses was required in respect of these loans, and all loans were secured by mortgages.

As members of Northern Lights, directors, officers and employees of the Credit Union each hold Membership Shares in the number required to maintain membership in Northern Lights. Accordingly, each director, officer and employee may subscribe for the Class B Investment Shares, should any of such persons wish to do so.

## **MATERIAL CONTRACTS**

The following material contracts have been entered into by Northern Lights during the last three years, or remain in effect as at the date hereof.

### **Agreement with CDSL Canada Limited ("CDSL"), dated October 28, 1997**

This agreement will be effective when the Credit Union converts to the data system referred to as "RFS for Windows NT". The agreement will expire on December 31, 2003, and requires CDSL to provide to the Credit Union, in conjunction with other credit unions from a central location, on-line processing of transactions on

members' accounts, which includes ABM, Interac, Plus, telephone banking, MasterCard, and bill payment transactions. CDSL will invoice the Credit Union monthly for services utilized. CDSL warrants the RFS for Windows NT system is year-2000 compliant.

#### **Index-Linked Term Deposit User Agreement with CUCO, dated May 30, 1997; Index-Linked Term Deposit Hedge Agreements with CUCO**

This agreement permits the Credit Union to offer this product, on which the principal is insured and guaranteed by DICO up to \$60,000, but on which returns are based on the increase in the Toronto 35 Index (an index of 35 "blue-chip" stocks traded on the Toronto Stock Exchange), to its members, and to use the registered trademark "Toronto 35" in its promotion. The Credit Union has sold index-linked term deposits to its members, and therefore has entered into various agreements with CUCO to hedge the risk the Credit Union undertakes in offering this product to its membership. The notional principal amounts of the hedge agreements range from \$46,215 to \$74,903, and total \$169,055. The agreements, which mature between August 8, 2000 and October 7, 2002, require the Credit Union to make annual payments to CUCO of simple interest on the notional principal amounts, at rates ranging between 4.132% and 4.811%. CUCO is obliged, in return, to pay to the Credit Union on the maturity date, for payment to the Credit Union's members who purchased the index-linked term deposits, the return owed by the Credit Union to those members who purchased the index-linked term deposits. As long as the notional principal amount of the hedge agreement equals the amount of the index-linked term deposits sold by the Credit Union to its members, the hedge completely eliminates the risk to the Credit Union of offering the products, and the Credit Union can treat the funds as if they were invested in standard term deposits bearing simple interest at the rate paid to CUCO on the hedge agreement.

#### **Line of Credit with CUCO**

This agreement, which is renewed annually, provides the Credit Union with a CAN\$5,000,000 line of credit and a US\$500,000 line of credit. The purpose of these lines of credit is to cover fluctuations in daily clearing volume on the chequing accounts of the members of the Credit Union, and to secure the Credit Union's obligations under the Index-Linked Term Deposit hedge agreements discussed above. This facility will next be reviewed in July, 1998.

#### **Memorandum of Agreement with Rainy River Community Credit Union Limited, made March 4, 1997**

Under this agreement, Rainy River Community Credit Union Limited sold to the Credit Union all of its assets, and the Credit Union agreed to assume all of Rainy River Community Credit Union's liabilities. This agreement was, as required, approved by the Director of Credit Unions on March 25, 1997, and approved by the membership of Rainy River Community Credit Union on April 22, 1997. The Credit Union's membership was not required to approve the transaction. The transaction closed October 1, 1997.

#### **Agreement of Purchase and Sale with Dr. Oleh Zmiyivsky and Marilyn & Michael Bilsbarrow, effective November 5, 1997**

This agreement provides for the two commercial tenants in premises the Credit Union owns near its head office location, to purchase the building from the Credit Union at a price of \$375,000, and assume the existing residential tenancies in the building. The Credit Union is taking back a \$285,000 mortgage at market rates. The Credit Union anticipates that, as a result of this purchase, its income will not be significantly affected by this transaction.

### **OPERATING RESULTS AND VARIATIONS**

#### **Fiscal Year ended December 31, 1997 over Fiscal Year ended December 31, 1996**

Total assets of the Credit Union grew by 0.87%, largely as a result of increases in the Credit Union's cash resources (95.74%) and loans to members net of its allowance for doubtful loans (19.40%), almost completely offset by a decrease in the Credit Union's investments (73.88%). Members' deposits increased by 1.13% due

to increases in special savings accounts (7.60%), and registered retirement income funds (358.22%), offset by decrease in term deposits (9.16%) and registered retirement savings plan (9.46%). Members' equity declined by 3.27%, as a result of declines in both Membership Shares (19.77%) and the reserve for financial stability (2.14%). The decline in Membership Shares resulted from the Credit Union's redemption, once it attained compliance with Regulatory Capital requirements, of the Membership Shares held by members who had withdrawn from membership in the Credit Union during 1995 and 1996. The decline in the reserve for financial stability resulted from the loss incurred by the Credit Union in the year. As a result of the decline in members' equity and the growth in the Credit Union's total assets, the Credit Union's Leverage Ratio declined to 4.43% as at December 31, 1997, from 4.63% as at December 31, 1996, and its Risk-Weighted Ratio declined to 8.23% as at December 31, 1997, from 10.21% as at December 31, 1996.

The interest income received by the Credit Union on its loans to its members decreased to 5.47% of average assets held during the fiscal year ended December 31, 1997, from 5.69% of average assets held during the fiscal year ended December 31, 1996, due to a general decline in interest rates in the Canadian economy. The Credit Union's investment income also decreased, to 0.56% of average assets held during the fiscal year ended December 31, 1997, from 2.60% of average assets held during the fiscal year ended December 31, 1996, due to the Credit Union's investment in Treasury Bills and bankers' acceptances throughout 1997 rather than its previous investments in long-term Government of Canada bonds, as a result of its expectation of increased loan demand, both because of increased consumer loan demand and also the opportunity to increase its commercial and agricultural lending. The Credit Union's interest expense, however, also decreased as a result of the same general decline in interest rates in the Canadian economy, to 2.18% of average assets held during the fiscal year ended December 31, 1997, from 3.10% of average assets held during the fiscal year ended December 31, 1996. Largely as a result of the decline in the Credit Union's investment income, the Credit Union's financial margin decreased, to 3.85% of average assets held during the fiscal year ended December 31, 1997, from 5.19% of average assets held during the fiscal year ended December 31, 1996. The Credit Union's rental, service charge, and other income, however, increased to 2.08% of average assets held during the fiscal year ended December 31, 1997, from 1.63% of average assets held during the fiscal year ended December 31, 1996. The Credit Union's operating expenses increased, to 5.97% of average assets held during the fiscal year ended December 31, 1997, from 5.48% of average assets held during the fiscal year ended December 31, 1996. As a result of the Credit Union's decreased financial margin and increased operating expenses, in spite of increased non-financial income, it experienced a pre-tax loss of 0.072% of average assets held during the fiscal year ended December 31, 1997, compared to a pre-tax profit of 1.34% of average assets held during the fiscal year ended December 31, 1996.

#### **Fiscal Year ended December 31, 1996 over Fiscal Year ended December 31, 1995**

Total assets of the Credit Union grew by 2.82%, largely as a result of growth in the Credit Union's loan portfolio net of its allowance for doubtful loans (6.86%), offset by a decline in the Credit Union's liquidity (cash resources declined by 31.08%). Members' deposits grew by 1.88%, as a result of growth in chequing (9.98%) and special savings (11.06%) accounts and the introduction of RRIFs, offset to a degree by a decline in term deposits (11.22%). Members' equity increased by 11.27%, as a result of the Credit Union's profitability (Class A Patronage Shares, which represent dividends paid by the Credit Union from its profits, increased by 135.32%). As a result of this growth in members' equity, the Credit Union's Leverage Ratio increased to 4.63% and its Risk-Weighted Ratio increased to 10.21% as of December 31, 1996, from 3.34% and 7.34% respectively as at December 31, 1995.

The interest income received by the Credit Union on loans to members declined, to 5.69% of average assets held in the fiscal year ended December 31, 1996, from 6.66% of average assets held in the fiscal year ended December 31, 1995, due to a general decline in interest rates in the Canadian economy. The Credit Union's investment income increased, however, to 2.60% of average assets held during the fiscal year ended December 31, 1996, from 1.93% of average assets held during the fiscal year ended December 31, 1995. The Credit



Union's interest expense also decreased, to 3.10% of average assets held during the fiscal year ended December 31, 1996, from 3.48% of average assets held during the fiscal year ended December 31, 1995, also due to general economic conditions. As a result of the Credit Union's increased investment income and decreased interest expense, the Credit Union's financial margin increased slightly, to 5.19% of average assets held during the fiscal year ended December 31, 1996, from 5.11% of average assets held during the fiscal year ended December 31, 1995. The Credit Union's rental, service charge, and other income also increased slightly, to 1.63% of average assets held during the fiscal year ended December 31, 1996, from 1.59% of average assets held during the fiscal year ended December 31, 1995. The Credit Union's operating expenses, as well, declined to 5.48% of average assets held during the fiscal year ended December 31, 1996, from 5.67% of average assets held during the fiscal year ended December 31, 1995. As a result of the Credit Union's increased financial margin and rental, service charge, and other income, and its decreased operating expenses, the Credit Union's pre-tax profit increased, to 1.34% of average assets held in the fiscal year ended December 31, 1996, from 1.03% of average assets held in the fiscal year ended December 31, 1995.

#### **Fiscal Year ended December 31, 1995 over Fiscal Year ended December 31, 1994**

Total assets of the Credit Union increased by 5.99%, as a result both of growth in the Credit Union's liquidity (cash resources increased by 74.38%, and investments increased by 2.77%), and also in its loan portfolio net of its allowance for doubtful loans (3.01%). Members' deposits increased by 4.66%, as a result of growth in almost all deposit categories. Members' equity grew by 44.25%, as a result of the Credit Union's introduction of Class A Shares to distribute its profit to its members. As a result of this growth in members' equity, the Credit Union's Leverage Ratio increased, to 3.37% as at December 31, 1995, from 2.47% as at December 31, 1994.

The Credit Union's interest income received on loans to members increased, to 6.66% of average assets held during the fiscal year ended December 31, 1995, from 5.76% of average assets held during the fiscal year ended December 31, 1994. The Credit Union's income from its investments also increased, to 1.93% of average assets held during the fiscal year ended December 31, 1995, from 1.45% of average assets held during the fiscal year ended December 31, 1994. The Credit Union's interest expense, however, also increased significantly, to 3.48% of average assets held during the fiscal year ended December 31, 1995, from 2.37% of average assets held during the fiscal year ended December 31, 1994. Because of the substantial increase in both interest and investment income, though, financial margin increased, to 5.11% of average assets held during the fiscal year ended December 31, 1995, from 4.84% of average assets held during the fiscal year ended December 31, 1994. The Credit Union's rental, service charge, and other income also increased, to 1.59% of average assets held during the fiscal year ended December 31, 1995, from 1.48% of average assets held during the fiscal year ended December 31, 1994. The Credit Union's operating expenses, however, increased, to 5.67% of average assets held during the fiscal year ended December 31, 1995, from 5.55% of average assets held during the fiscal year ended December 31, 1994. Because of the increased financial margin and other income, however, the Credit Union's pre-tax profit increased, to 1.03% of average assets held during the fiscal year ended December 31, 1995, from 0.77% of average assets held in the fiscal year ended December 31, 1994.

The following table presents financial performance indicators for the Credit Union for the fiscal years ended December 31, 1997, 1996, and 1995. These figures are based on the audited financial statements for the fiscal years (1 basis point (1 bp) equals 0.01% of average assets during the period).

<u>Financial Performance Indicators</u>	<u>Year Ended December 31, 1997</u>	<u>Year Ended December 31, 1996</u>	<u>Year Ended December 31, 1995</u>
<u>Profitability</u>			
Total Assets (\$ Thousands)	\$58,696	\$58,189	\$56,595
Pre-tax Profit (Loss) (\$ Thousands)	(\$42)	\$768	\$567
Pre-tax Profit (Loss) (bp)	(7)	134	103
Financial Margin (bp)	385	519	511
Non-Interest Income (bp)	208	163	159
Total Operating Expenses (bp)	597	548	567
<u>Compliance with Capital Requirements</u>			
Risk-Weighted Capital Ratio	8.23%	10.21%	7.34%
Risk-Weighted Capital Ratio Requirement (8% at January 1, 1998)	7.50%	7.00%	6.50%
Leverage Ratio	4.43%	4.63%	3.37%
Leverage Ratio Requirement (5% at January 1, 1998)	4.60%	4.25%	4.00%
<u>Loan Composition</u>			
Total Net Loans Outstanding (\$ Thousands)	\$45,894	\$38,437	\$35,971
Net Personal Loans (% of net total)	34.09%	35.55%	35.06%
Net Residential Mortgage Loans (% of net total)	46.00%	50.02%	49.26%
Net Commercial Loans (% of net total)	6.73%	5.53%	5.96%
Net Commercial Mortgages (% of net total)	13.18%	8.89%	9.72%

	Year Ended December 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995
<u>Loan Quality</u>			
Allowance for Loan Losses (% of Total Gross Loans Outstanding)	0.23%	0.14%	0.28%
Provision for loan losses charged to operations (Recovery) (bp)	9	(13)	3
<u>Other Factors</u>			
Total Members' Deposits (\$ Thousands)	\$55,276	\$54,658	\$53,648
Average Liquidity During the Period (% of total deposits and borrowings)	25.1%	31.3%	29.9%
Asset Growth (Decline) (% change for Period)	0.87%	2.82%	5.99%
Total Regulatory Capital (\$ Thousands)	\$2,600	\$2,688	\$1,903
Regulatory Capital Growth (Decline) (% change for Period)	(3.27%)	11.27%	44.25%

Please see the financial statements which are included in this Offering Statement, beginning on page 33.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Management has developed and maintains the necessary systems of internal controls to provide reasonable assurance that transactions are authorized and assets are safeguarded. The controls are also designed to provide reasonable assurance that relevant and reliable financial information is produced. The Board meets monthly to oversee management's performance, and to discharge its other legal obligations set out in the *Credit Unions and Caisses Populaires Act, 1994*. The Board has appointed an Audit Committee, comprised of four members of the Board, which reviews the financial statements, adequacy of internal controls, the audit process and financial reporting with management and the external auditors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the Offering Statement and has ensured that it is consistent with that in the financial statements.

NORTHERN LIGHTS CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 1997

**Winters & Company**  
Chartered Accountants

Partners  
J. W. (Willie) Winters, C.A.  
Garry W. E. Fuerst, C.A.

45 King Street  
Dryden, Ontario  
P8N 1B7

Principal  
William Owchar Jr., C.G.A.

(807) 223-5987  
Fax (807) 223-5471

**AUDITORS' REPORT**

To the Members of Northern Lights Credit Union Limited:

We have audited the balance sheet of Northern Lights Credit Union Limited as at December 31, 1997 and its statements of income (loss), undivided earnings and reserve for financial stability 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 statements based on our audit.

We conducted our audit in accordance with 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 Northern Lights Credit Union Limited as at December 31, 1997 and the results of its operations for the year then ended in accordance with generally accepted accounting principles.

*Winters & Company*

Dryden, Ontario  
January 27, 1998

Chartered Accountants

NORTHERN LIGHTS CREDIT UNION LIMITED

BALANCE SHEET

DECEMBER 31

	<u>1997</u>	<u>1996</u>	<u>1995</u>
ASSETS			
Cash resources	\$ 5,675,115	\$ 2,899,349	\$ 4,206,599
Income taxes recoverable	2,781	293	76,227
Investments, note 2	3,583,282	13,718,384	13,228,425
Loans to members, note 3	45,894,275	38,436,994	35,970,913
Accrued interest receivable, note 4	196,043	208,442	200,224
Prepaid expenses	131,695	101,487	103,034
Capital, note 5	<u>3,213,187</u>	<u>2,824,268</u>	<u>2,809,982</u>
	<u>\$ 58,696,378</u>	<u>\$ 58,189,217</u>	<u>\$ 56,595,404</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 75,027	\$ 72,794	\$ 52,857
Deposits of members, note 6	55,275,737	54,658,186	53,647,778
Accrued interest payable	720,986	734,853	959,026
Deferred income taxes, note 7	<u>24,370</u>	<u>35,144</u>	<u>32,844</u>
	<u>56,096,120</u>	<u>55,500,977</u>	<u>54,692,505</u>

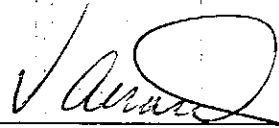
MEMBERS' EQUITY

Share capital, note 8	1,602,072	1,668,167	880,749
Undivided earnings	-	-	-
Reserve for financial stability	<u>998,186</u>	<u>1,020,073</u>	<u>1,022,150</u>
	<u>2,600,258</u>	<u>2,688,240</u>	<u>1,902,899</u>
	<u>\$ 58,696,378</u>	<u>\$ 58,189,217</u>	<u>\$ 56,595,404</u>

SIGNIFICANT ACCOUNTING POLICIES, note 1  
 COMMITMENTS, note 9  
 OTHER INFORMATION, note 10

Approved on behalf of the Board:

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Director

NORTHERN LIGHTS CREDIT UNION LIMITED

STATEMENT OF INCOME (LOSS)

YEAR ENDED DECEMBER 31

	<u>1997</u>	<u>1996</u>	<u>1995</u>
<b>Income</b>			
Interest on mortgage loans	\$ 1,671,126	\$ 1,804,858	\$ 1,909,783
Interest on non-mortgage loans	1,527,241	1,459,467	1,752,381
Investment	327,572	1,494,686	1,062,635
Rental	100,543	115,303	124,332
Service charges and other	<u>1,096,539</u>	<u>820,362</u>	<u>752,127</u>
	<u>4,723,021</u>	<u>5,694,676</u>	<u>5,601,258</u>
<b>Expense</b>			
Share and loan life insurance	14,324	17,443	22,352
Remuneration of staff, schedule 1	1,650,582	1,505,972	1,412,092
Occupancy costs, schedule 2	349,875	332,103	330,545
Other administrative expense, schedule 3	1,418,188	1,365,637	1,319,289
Provision for losses on loans, note 3	<u>55,035</u>	<u>( 74,936)</u>	<u>34,141</u>
	<u>3,488,004</u>	<u>3,146,219</u>	<u>3,118,419</u>
Income before interest on deposits of members and income taxes	1,235,017	2,548,457	2,482,839
Interest on deposits of members	<u>1,277,245</u>	<u>1,780,919</u>	<u>1,915,650</u>
Income (loss) before income taxes	<u>( 42,228)</u>	<u>767,538</u>	<u>567,189</u>
<b>Income taxes</b>			
Current	499	176,310	131,550
Deferred	<u>( 10,574)</u>	<u>2,300</u>	<u>680</u>
	<u>( 10,075)</u>	<u>178,610</u>	<u>132,230</u>
NET INCOME (LOSS) FOR THE YEAR	<u>\$ ( 31,953)</u>	<u>\$ 588,928</u>	<u>\$ 434,959</u>

NORTHERN LIGHTS CREDIT UNION LIMITED

STATEMENT OF UNDIVIDED EARNINGS

YEAR ENDED DECEMBER 31

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Balance, beginning of year	\$ -	\$ -	\$ -
Acquired from Rainy River Community Credit Union Limited	( 3,685)	-	-
Net income (loss) for the year	<u>( 31,953)</u> ( 35,638)	<u>588,928</u> 588,928	<u>434,959</u> 434,959
Patronage distribution to members	-	( 767,538)	( 567,189)
Income tax recovery due to patronage distribution to members	-	176,533	130,453
Transfer from (to) Reserve for Financial Stability	<u>35,638</u>	<u>2,077</u>	<u>1,777</u>
BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STATEMENT OF RESERVE FOR FINANCIAL STABILITY

YEAR ENDED DECEMBER 31

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Balance, beginning of year	\$ 1,020,073	\$ 1,022,150	\$ 1,023,927
Acquired from Rainy River Community Credit Union Limited	13,751	-	-
Transfer from (to) Undivided Earnings	<u>( 35,638)</u>	<u>( 2,077)</u>	<u>( 1,777)</u>
BALANCE, END OF YEAR	<u>\$ 998,186</u>	<u>\$ 1,020,073</u>	<u>\$ 1,022,150</u>



NORTHERN LIGHTS CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Credit Union:

a) Allowance for doubtful loans

The allowance for doubtful loans has been computed in accordance with standards outlined in By-Law #6 of Deposit Insurance Corporation of Ontario prescribed under section 90 of the Credit Unions and Caisses Populaires Act, 1994. In addition to the minimums required by By-Law #6, subsequent events, knowledge of the individual accounts and past experience with respect to doubtful loans were taken into account in the determination of the allowance.

b) Capital assets and amortization

Capital assets are recorded at cost. Amortization is provided using the straight line method as follows:

Automotive	- 20%
Buildings	- 2.5%, 4% & 5%
Electronic equipment	- 20%
Furniture, fixtures and equipment	- 10%, 20% & 33.3%

c) Investments

Investments are recorded at cost.

2. INVESTMENTS

	1997	1996	1995
Co-Operative Trust Company of Canada (1,313 shares)	\$ 13,150	\$ 13,130	\$ 13,130
Co-Operators Data Services Ltd. (6,586 shares)	-	65,860	65,860
Co-Operative EFT Development Association (2 shares)	20	20	20
Credit Union Central of Ontario (CUCO)			
- shares	709,379	681,606	644,415
- mandatory liquidity pool	2,837,521	2,726,426	2,577,660
Investment in government securities	28,252	10,231,342	9,927,340
	<u>\$ 3,588,282</u>	<u>\$ 13,718,384</u>	<u>\$ 13,228,425</u>

continued

NORTHERN LIGHTS CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31

2. INVESTMENTS, continued

CUCO shares

At the General Meeting of CUCO's membership on March 31, 1990, the membership approved by-laws which require each member to purchase and hold as many shares in the capital stock of CUCO as may be required to bring the total shares held by such member to an amount equal to 1.25% of the total of the Credit Union's own share capital and deposits of members as at the fiscal year end, subject to a ceiling of \$1,500,000. No market exists for these shares except that they may be surrendered, upon withdrawal from membership of CUCO, for proceeds equal to the paid-in value with such amount to be received over a period not exceeding ten years.

The Credit Union is to remit \$1,593 by February 28, 1998 to maintain its required investment.

CUCO mandatory liquidity pool

By-laws of CUCO require that the Credit Union maintain a cash deposit with CUCO equal to 5% of the total of the Credit Union's own share capital and deposits of members as at the fiscal year end. These funds are used by CUCO to provide an effective means of assuring future credit union movement liquidity requirements.

The Credit Union is to remit \$6,369 by February 28, 1998 to maintain its required investment.

Co-Operators Data Services Ltd. (CDSL)

During fiscal 1997, the Credit Union divested itself of its investment in shares of CDSL. The resultant gain of \$52,091 has been included as part of income - service charges and other on the Statement of Income (Loss).

Investment in government securities

This investment position was comprised of the following:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Cash in broker's account	\$ 23,232	\$ 25,992	\$ 131,582
Government of Canada Treasury Bill, at cost	-	10,199,356	9,790,102
Accrued interest receivable	-	5,994	5,656
	<u>\$ 23,232</u>	<u>\$ 10,231,342</u>	<u>\$ 9,927,340</u>

NORTHERN LIGHTS CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31

3. LOANS TO MEMBERS	1997	1996	1995
Commercial			
- mortgage	\$ 6,047,031	\$ 3,417,003	\$ 3,498,352
- non-mortgage	<u>3,087,179</u>	<u>2,124,444</u>	<u>2,142,310</u>
	<u>9,134,210</u>	<u>5,541,447</u>	<u>5,640,662</u>
Personal			
- mortgage	21,113,093	19,227,851	17,718,707
- non-mortgage	<u>15,646,972</u>	<u>13,667,696</u>	<u>12,611,544</u>
	<u>36,760,065</u>	<u>32,895,547</u>	<u>30,330,251</u>
	<u>\$ 45,894,275</u>	<u>\$ 38,436,994</u>	<u>\$ 35,970,913</u>

The figures presented above are net of the allowance for doubtful loans which may be analyzed as follows:

	1997	1996	1995
Balance, beginning of year	\$ 52,321	\$ 100,486	\$ 160,697
Acquired from Rainy River Community Credit Union Limited	5,824	-	-
Increase (decrease) in accordance with the computed balance	<u>48,428</u>	<u>( 48,165)</u>	<u>( 60,211)</u>
Balance, end of year	<u>\$ 106,573</u>	<u>\$ 52,321</u>	<u>\$ 100,486</u>

The provision for losses on loans portrayed on the Statement of Income (Loss) may be analyzed as follows:

	1997	1996	1995
Loans written off	\$ 19,517	\$ 17,736	\$ 136,880
Recoveries on loans previously written off	<u>( 12,910)</u>	<u>( 44,507)</u>	<u>( 42,528)</u>
	6,607	( 26,771)	94,352
Increase (decrease) in the allowance for doubtful loans	<u>48,428</u>	<u>( 48,165)</u>	<u>( 60,211)</u>
	<u>\$ 55,035</u>	<u>\$ ( 74,936)</u>	<u>\$ 34,141</u>

NORTHERN LIGHTS CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31

	<u>1997</u>	<u>1996</u>	<u>1995</u>
4. ACCRUED INTEREST RECEIVABLE			
Loans to members			
Commercial	\$ 25,782	\$ 32,953	\$ 64,894
- mortgage	<u>13,163</u>	<u>20,487</u>	<u>22,245</u>
- non-mortgage	<u>38,945</u>	<u>53,440</u>	<u>87,139</u>
Personal	90,020	57,302	66,147
- mortgage	<u>66,714</u>	<u>40,732</u>	<u>45,811</u>
- non-mortgage	<u>156,734</u>	<u>98,034</u>	<u>111,958</u>
	195,679	151,474	199,097
Investments			
CUCO mandatory liquidity pool	<u>364</u>	<u>56,968</u>	<u>1,127</u>
	<u>\$ 196,043</u>	<u>\$ 208,442</u>	<u>\$ 200,224</u>

NORTHERN LIGHTS CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31

5. CAPITAL ASSETS	1997	
	Cost	Accumulated Amortization
Land	\$ 348,126	\$ -
Automotive	54,505	20,578
Buildings		
- operating	3,051,595	809,453
- rental	436,055	145,307
Electronic equipment	383,349	287,183
Furniture, fixtures and equipment	<u>745,848</u>	<u>543,770</u>
	<u>5,019,478</u>	<u>1,806,291</u>
Net book value		<u>\$ 3,213,187</u>
	1996	
	Cost	Accumulated Amortization
Land	\$ 345,243	\$ -
Automotive	54,505	9,677
Buildings		
- operating	2,722,682	729,330
- rental	432,710	133,890
Electronic equipment	303,175	261,187
Furniture, fixtures and equipment	<u>588,670</u>	<u>488,633</u>
	<u>4,446,985</u>	<u>1,622,717</u>
Net book value		<u>\$ 2,824,268</u>
	1995	
	Cost	Accumulated Amortization
Land	\$ 315,026	\$ -
Automotive	39,518	23,264
Buildings		
- operating	2,652,060	649,905
- rental	432,710	122,474
Electronic equipment	275,801	245,529
Furniture, fixtures and equipment	<u>572,524</u>	<u>436,485</u>
	<u>4,287,639</u>	<u>1,477,657</u>
Net book value		<u>\$ 2,809,982</u>

NORTHERN LIGHTS CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31

6. DEPOSITS OF MEMBERS	<u>1997</u>	<u>1996</u>	<u>1995</u>
Chequing accounts	\$ 9,965,433	\$ 9,028,463	\$ 8,208,871
Life insured savings	620,544	697,004	765,603
Savings accounts	2,161,661	2,298,714	2,411,437
Special savings accounts	17,695,737	16,446,457	14,808,543
Term deposits	11,471,755	12,628,396	14,224,428
Registered retirement income funds	1,350,485	294,725	-
Registered retirement savings plans	<u>12,010,122</u>	<u>13,264,427</u>	<u>13,228,896</u>
	<u>\$ 55,275,737</u>	<u>\$ 54,658,186</u>	<u>\$ 53,647,778</u>

7. DEFERRED INCOME TAXES

Deferred income taxes arise from the difference between income for accounting purposes and income for tax purposes. These timing differences and deferred income taxes were determined as follows:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Timing difference			
Capital cost allowance claimed for tax purposes in excess of amortization recorded for accounting purposes	\$ 105,958	\$ 152,799	\$ 142,800
Tax rate	<u>x 23%</u>	<u>x 23%</u>	<u>x 23%</u>
Deferred income taxes	<u>\$ 24,370</u>	<u>\$ 35,144</u>	<u>\$ 32,844</u>

NORTHERN LIGHTS CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31

8. SHARE CAPITAL	<u>1997</u>	<u>1996</u>	<u>1995</u>
Membership	\$ 267,510	\$ 333,440	\$ 313,560
Class A Patronage	<u>1,334,562</u>	<u>1,334,727</u>	<u>567,189</u>
	<u>\$ 1,602,072</u>	<u>\$ 1,668,167</u>	<u>\$ 880,749</u>

The Credit Union is authorized to issue an unlimited number of shares of either class.

A membership share represents the amount which has been received from members on account of membership in the Credit Union. Each member greater than 18 years of age is required to own five shares valued at \$5 each. A member under 18 years of age is required to own one share valued at \$5.

The Class A patronage share is non-voting and non-cumulative. Any amounts so allocated as a patronage distribution are to be retained by the Credit Union until such time as the Credit Union is in compliance with its capital and liquidity requirements as described in note 10(a).

Share capital together with the reserves and the undivided earnings (if any) represent the members' residual interest in the Credit Union's net assets.

Amounts allocated as membership share capital may be withdrawn on demand upon ceasing membership in the Credit Union.

9. COMMITMENTS

The total of mortgage and non-mortgage loans approved but not disbursed at year end amounted to \$1,767,080 (1996 - \$477,916, 1995 - \$713,700).

NORTHERN LIGHTS CREDIT UNION LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31

10. OTHER INFORMATION

a) Capital and liquidity requirements

As stipulated by section 84 of the Credit Unions and Caisses Populaires Act, 1994, the Credit Union is to maintain, in relation to its operations, adequate and appropriate forms of capital and liquidity.

In regards to capital, section 12 of the Ontario Regulation 76/95 made under the Credit Unions and Caisses Populaires Act, 1994 stipulates that, for the fiscal year ended December 31, 1997, the Credit Union was to maintain regulatory capital at 4.60% of its total assets and 7.50% of its risk weighted assets. The applicable ratios as at December 31, 1997 were 4.43% and 8.23% respectively.

In regards to liquidity, section 16 of the Ontario Regulation 76/95 made under the Credit Unions and Caisses Populaires Act, 1994 stipulates that the Credit Union was to maintain liquidity at 8.00% of its members' deposits and external borrowings. The liquidity position, which fluctuates with every cash transaction, was 15.00% as at December 31, 1997 (28.15% as at December 31, 1996 and 30.64% as at December 31, 1995).

b) Interest rate risk management

As stipulated by section 78 of the Ontario Regulation 76/95 made under the Credit Unions and Caisses Populaires Act, 1994, the Credit Union is required to establish policies and procedures to manage its interest rate risk. Interest rate risk refers to the potential impact of changes in interest rates on a credit union's earnings and net asset values when the dates of its payments of principal and interest and its receipts of principal and interest are not matched.

As at December 31, 1997, the Credit Union was in compliance with the interest rate risk management requirements so stipulated by the Ontario Regulation 76/95 made pursuant to the provisions of the Credit Unions and Caisses Populaires Act, 1994.

c) Statement of Changes in Financial Position

A Statement of Changes in Financial Position has not been presented on the basis that it would not provide additional meaningful information.



NORTHERN LIGHTS CREDIT UNION LIMITED

YEAR ENDED DECEMBER 31

REMUNERATION OF STAFF

SCHEDULE 1

	1997	1996	1995
Salaries	\$ 1,451,535	\$ 1,322,459	\$ 1,246,272
Employee benefits	199,047	183,513	165,820
	<u>\$ 1,650,582</u>	<u>\$ 1,505,972</u>	<u>\$ 1,412,092</u>

OCCUPANCY COSTS

SCHEDULE 2

	1997	1996	1995
Amortization - buildings	\$ 91,539	\$ 90,840	\$ 86,479
Insurance - buildings and equipment	19,841	20,880	21,796
Maintenance and repairs	54,609	38,152	52,234
Municipal taxes	127,585	125,980	123,202
Utilities	56,301	56,251	46,834
	<u>\$ 349,875</u>	<u>\$ 332,103</u>	<u>\$ 330,545</u>

OTHER ADMINISTRATIVE EXPENSE

SCHEDULE 3

	1997	1996	1995
Advertising	\$ 51,107	\$ 55,848	\$ 56,556
Amortization			
- automotive	10,901	9,025	7,058
- equipment	72,408	67,806	65,918
Annual meeting	3,107	426	630
Bank charges	261,785	270,043	273,524
Collection costs	41,707	37,576	6,042
Data processing charges	397,430	385,287	377,400
Directors' and committee meetings	46,617	41,896	27,035
Education	27,629	28,930	32,762
Insurance			
- bonding	24,201	28,302	24,163
- DICO	130,208	121,556	121,543
League dues	35,245	35,179	36,998
Office supplies and administration	224,581	216,461	218,805
Professional fees	32,902	23,096	23,330
Registered retirement income fund fees	1,017	650	-
Registered retirement savings plan fees	5,082	5,445	6,233
Telephone	52,261	38,111	41,292
	<u>\$ 1,418,188</u>	<u>\$ 1,365,637</u>	<u>\$ 1,319,289</u>

**Winters & Company**  
Chartered Accountants

Partners

J. W. (Willie) Winters, C.A.  
Garry W. E. Fuerst, C.A.

45 King Street  
Dryden, Ontario  
P8N 1B7

Principal

William Owchar Jr., C.G.A.

(807) 223-5987  
Fax (807) 223-5471

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To the Board of Directors of  
Northern Lights Credit Union Limited:

In regards to the Offering Statement relating to the sale and distribution of Class B Investment Shares of Northern Lights Credit Union Limited dated March 31, 1998, we hereby consent to the use in such Offering Statement of our Auditors' Report dated January 27, 1998 that was addressed to the Members of Northern Lights Credit Union Limited. The financial statements upon which we reported included the balance sheet as at December 31, 1997 and the statements of income (loss), undivided earnings and reserve for financial stability for the year then ended.

We have read this Offering Statement and have no reason to believe that there are any misrepresentations in the information therein that is derived from the financial statements upon which we have reported or that is within our knowledge as a result of our audit of such financial statements.

We also consent to the use of our name and the inclusion of our comments relating to certain income tax considerations in this Offering Statement under the subheading "Canadian Federal Income Tax Aspects".

This letter is provided to Northern Lights Credit Union Limited pursuant to the requirements of the *Credit Unions and Caisses Populaires Act, 1994* and not for any other purpose.

*Winters & Company*

Dryden, Ontario  
March 31, 1998

Winters & Company  
Chartered Accountants

## STATEMENT OF OTHER MATERIAL FACTS

There are no other material facts relating to the issues of securities in this Offering Statement which have not been suitably disclosed herein.

## BOARD RESOLUTION

February 12, 1998

*"The Board of Directors of Northern Lights Credit Union Limited approves the issue of Class B Special Shares (Investment Shares), subject to the Articles of Incorporation and Articles of Amendment of Northern Lights Credit Union Limited, and as described in the Offering Statement to be dated March 31, 1998."*

I certify the above to be a true copy of a resolution adopted by the Board of Directors of Northern Lights Credit Union Limited at their meeting of February 12, 1998.



\_\_\_\_\_  
Victor Allard, Corporate Secretary

# CERTIFICATE

Form 1

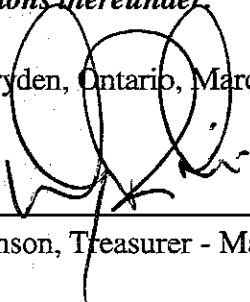
*Credit Unions and Caisses Populaires Act, 1994*

## CERTIFICATE OF DISCLOSURE

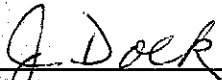
(Subsection 77 (4) of the Act)

*The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Offering Statement as required by Part V of the Credit Unions and Caisses Populaires Act, 1994, and the regulations thereunder.*

Dated at Dryden, Ontario, March 31, 1998



Doug Robinson, Treasurer - Manager



Jan Dolk, Chief Financial Officer



Graeme Olson, Chair

# Subscription Form

Please accept my subscription for ( ) (number of shares)

Class B Investment Shares (at \$ 1.00 per share)

of Northern Lights Credit Union Limited

Name (as it should appear on share certificate/shareholders' register)

Social Insurance Number

Street Address

Apt. #

Account #

City

Province Postal Code

I will be paying cash for these shares as follows: (check as many as apply)

\$ \_\_\_\_\_ is already on deposit at Northern Lights Credit Union Limited. I have signed a separate authorization form to put these funds on hold until this offering is completed or withdrawn.

\_\_\_\_\_ is held by me in Class A Shares of the Credit Union. Please convert those shares into Class B Investment Shares of the Credit Union when Class B Investment Shares are issued.

\$ \_\_\_\_\_ is coming from outside the Credit Union. I have signed a separate authorization form to place these funds in escrow until this offering is completed or withdrawn.

\$ \_\_\_\_\_ of the shares being subscribed are to be put into the Northern Lights Investment Retirement Plan (RRSP). I have completed and signed a separate RRSP Contract Application Form.

\$ \_\_\_\_\_ of the shares are to be held by me outside any RRSP I may have.

By signing this form, I hereby acknowledge that I am a member of Northern Lights Credit Union Limited, have received and read in its entirety a copy of the Offering Statement dated March 31, 1998 for Northern Lights Credit Union Limited Class B Investment Shares, serial number \_\_\_\_\_, and that I have noted in particular the Description of Securities Being Offered as set out on pages 9 to 12 and the Risk Factors starting on page 15. I also understand that the securities being purchased are NOT deposits, and are NOT insured by the Deposit Insurance Corporation of Ontario, and that dividends on these securities are NOT guaranteed. I understand that a majority of the holders of the Class B Investment Shares, present in person or by proxy as permitted by the Credit Union's By-laws, may approve the waiver of a dividend, which may result in the payment of a dividend only to classes of shares ranking junior to the Class B Investment Shares. I have considered whether or not I should obtain independent advice on the suitability of this investment to my particular financial situation, and have either obtained such advice or determined that I do not require such advice.

Member's Signature

Date

Time (a.m./p.m.)

## FOR OFFICE USE ONLY

Date and Time

Accepted by:

Employee's Signature

Branch #

**AUTHORIZATION TO PLACE FUNDS ON HOLD**

Name of Member: \_\_\_\_\_

Date: \_\_\_\_\_

I have subscribed today to buy a total of \_\_\_\_\_ Class B Investment Shares of Northern Lights Credit Union Limited. By signing this form below, I hereby authorize Northern Lights Credit Union Limited to place the following funds on deposit at the Credit Union on hold to guarantee payment for these shares.

This hold will be released only in one of the following three manners:

1. Upon the Offering being closed, the Credit Union will release the hold and then debit the accounts to pay for the shares on the issue date. If I have subscribed for more than the Maximum Permissible Holding, the Credit Union will release the hold and then debit the accounts to pay for the Maximum Permissible Holding on the issue date.
2. If the Offering is withdrawn or cancelled for any reason, the Credit Union will release the hold immediately.
3. If I exercise my right to reverse my decision to purchase these shares within two days, excluding weekends and holidays, following receipt of a copy of the Offering Statement, dated March 31, 1998, for the Class B Investment Shares, the Credit Union will release the hold on funds immediately upon being informed of such reversal.

The Credit Union account(s) and dollar amount(s) to be placed on hold under this agreement is (are):

Branch #	Acc't #	Type	Sub #	\$
Branch #	Acc't #	Type	Sub #	\$
Branch #	Acc't #	Type	Sub #	\$
Branch #	Acc't #	Type	Sub #	\$
Branch #	Acc't #	Type	Sub #	\$
Branch #	Acc't #	Type	Sub #	\$

\_\_\_\_\_  
(Credit Union Witness)

\_\_\_\_\_  
(Credit Union Member/Share Subscriber)

**AUTHORIZATION TO PLACE FUNDS IN ESCROW**

Name of Member: \_\_\_\_\_

Date: \_\_\_\_\_

I have subscribed today to buy a total of \_\_\_\_\_ Class B Investment Shares of Northern Lights Credit Union Limited. By signing this form below, I hereby authorize Northern Lights Credit Union Limited to place the funds specified below, as soon as such funds are made payable to the Credit Union, into an escrow account, to be trusted by the Co-operative Trust Company of Canada ("Co-op Trust"), to guarantee payment for these shares.

These funds will be released from escrow only in one of the following four manners:

1. Upon the Offering being closed, Co-op Trust will release the funds from escrow to the Credit Union to pay for the shares on the issue date. If I have subscribed for more than the Maximum Permissible Holding, Co-op Trust will release sufficient funds from escrow to the Credit Union to pay for the Maximum Permissible Holding on the issue date. Co-op Trust will then deal with the funds remaining in escrow as required by paragraph 3 or 4 hereof, whichever is applicable, as if I had reversed my decision to purchase the oversubscription within two days, excluding weekends and holidays, following receipt of a copy of the Offering Statement, dated March 31, 1998, for the Class B Investment Shares.
2. If the Offering is withdrawn or cancelled for any reason, Co-op Trust will immediately release the non-RRSP funds from escrow and pay them to me, together with interest calculated at the Credit Union's 30-Day Term Deposit rate as of March 31, 1998, prorated for the number of days such funds were in escrow.
3. If I exercise my right to reverse my decision to purchase these shares within two days, excluding weekends and holidays, following receipt of a copy of the Offering Statement, dated March 31, 1998, for the Class B Investment Shares, Co-op Trust will immediately release the non-RRSP funds from escrow and pay them to me, together with interest calculated at the Credit Union's 30-Day Term Deposit rate as of March 31, 1998, prorated for the number of days such funds were in escrow.
4. If all or part of such funds which are used to purchase shares are identified as being part of a Registered Retirement Savings Plan (RRSP) contract, the RRSP funds will be transferred directly into an RRSP contract held in escrow at the Credit Union under the control of Co-op Trust. If not used to pay for shares under the terms outlined above, the RRSP funds will stay in such RRSP contract until I have given Co-op Trust direction as to their disposition.

The source(s) of funds and dollar amount(s) to be placed in escrow under this agreement is (are):

Source	\$
_____	_____
Source	\$
_____	_____

\_\_\_\_\_  
(Credit Union Witness)

\_\_\_\_\_  
(Credit Union Member/Share Subscriber)