

**La Caisse Populaire de Shippagan Limitée
(00984)**

**Financial Statements
As at December 31, 2007**

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AUDITOR'S REPORT

To the members of La Caisse Populaire de Shippagan Limitée,

Persuant to section 113 of the *Credit Unions Act*, we have audited the balance sheet of La Caisse Populaire de Shippagan Limitée as at December 31, 2007 and the statements of results, surplus earnings to be allocated, deficit and cash flows for the seven month period then ended. These financial statements are the responsibility of the Caisse populaire's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Caisse populaire as at December 31, 2007, and the results of its operations and its cash flows for the seven month period then ended in accordance with Canadian generally accepted accounting principles.

The financial statements ended May 31, 2007 were audited by another accounting firm.

*Services Unis de Vérification
et d'Inspection Inc.*

SERVICES UNIS DE VÉRIFICATION
ET D'INSPECTION INC.

Caraquet (New Brunswick)
April 16, 2008

La Caisse Populaire de Shippagan Limitée

Balance Sheet

As at

	Note	December 31 2007	May 31 2007
ASSETS			
Liquid assets and investments	5	98 376 643 \$	61 659 275 \$
Loans	6		
Individuals		86 628 121	91 553 839
Businesses		23 540 867	26 242 121
		110 168 988	117 795 960
Cumulative provision for loan losses		13 472 161	14 068 658
		96 696 827	103 727 302
Other assets	7		
Capital assets		2 057 652	1 900 406
Accrued interest and other		2 526 382	951 432
Future income taxes		-	9 696 000
		4 584 034	12 547 838
Total of assets		199 657 504 \$	177 934 415 \$
LIABILITIES			
Deposits			
Term savings accounts		126 515 532 \$	131 104 048 \$
Other		55 693 587	61 614 064
		182 209 119	192 718 112
Other liabilities	8		
Accrued interest and other		6 850 676	6 852 969
Membership shares		90 220	97 207
Advance from Brunswick Credit Union Federation			
Stabilization Board Limited		-	1 178 027
		189 150 015	200 846 315
MEMBERS' EQUITY (DEFICIENCY)			
Special surplus shares		-	14 288 445
Investment equity shares, Series 96	9	5 000 000	5 000 000
Stabilization preferred shares	10	9 854 609	-
Deficit		(4 347 120)	(42 200 345)
		10 507 489	(22 911 900)
Regulatory level of equity	11		
Change of affiliation and supervision	21		
Total of liabilities and members' equity		199 657 504 \$	177 934 415 \$

Approved by the supervisor of the Caisse populaire

_____, supervisor

La Caisse Populaire de Shippagan Limitée

Statements of Results and Surplus Earnings to be Allocated

For the year ended,

	Note	December 31 2007 (7 months)	May 31 2007 (12 months)
RESULTS			
Interest income		8 160 020 \$	14 674 773 \$
Interest expense		4 050 296	7 248 482
Net interest income		4 109 724	7 426 291
Provision and loan losses (recovery)	6		
General		138 000	(2 868 996)
Specific		(164 292)	2 851 155
		(26 292)	(17 841)
Net interest income after provision and loan losses		4 136 016	7 444 132
Other income	12	654 612	1 332 968
Other expenses			
Personnel		1 588 522	3 289 348
Dues and premiums		487 454	612 545
Premises		324 140	467 895
General expenses	13	1 857 656	2 405 180
		4 257 772	6 774 968
Income before the following		532 856	2 002 132
Write-down of impaired property, plant and equipment and assets held for resale		-	835 199
Gain on disposal of assets held for resale		-	(52 381)
Surplus earnings before income taxes and other items		532 856	1 219 314
Income taxes		179 625	350 000
Reduction of current income tax expenses on the utilization of previously unrecognized future income tax benefits		(179 625)	(350 000)
Additional realization of previously unrecognized future income tax and benefits	14	-	(9 696 000)
Surplus earnings before other items		532 856	10 915 314
Other items	15	23 261 900	-
Surplus earnings for the year after other items		23 794 756	10 915 314
SURPLUS EARNINGS TO BE ALLOCATED			
Transfer to deficit	16	(23 661 030)	(10 915 314)
Interest on stabilization preferred shares		(133 726)	-
Surplus earnings to be allocated		- \$	- \$

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Statement of Deficit

For the year ended ,

	December 31 2007 (7 months)	May 31 2007 (12 months)
Balance, beginning of year	(42 200 345) \$	(52 950 659) \$
Cancellation of the special surplus shares	14 288 445	-
Transfer from the statement of surplus earnings to be allocated	23 661 030	10 915 314
Dividends on investment equity shares, Series 96	(96 250)	(165 000)
Balance, end of year	(4 347 120) \$	(42 200 345) \$

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Statement of Cash Flows

For the year ended,

	December 31 2007 (7 months)	May 31 2007 (12 months)
OPERATING ACTIVITIES		
Surplus earnings for the year after other items	23 794 756 \$	10 915 314 \$
Adjustments to determine cash flows		
Provision and loan losses	(26 292)	(17 841)
Depreciation of capital assets	206 435	502 228
Changes in accrued interest receivable and payable	917 144	(432 193)
Future income tax recovery	-	(9 696 000)
Other	5 786 623	2 479 563
Cash flows from operating activities	30 678 666	3 751 071
FINANCING ACTIVITIES		
Net change in members' deposits	(10 508 993)	(26 761 942)
Stabilization preferred shares	9 854 609	-
Cash flows from financing activities	(654 384)	(26 761 942)
INVESTING ACTIVITIES		
Net change in loans	7 056 767	14 880 340
Net change in investments	(45 549 392)	(926 516)
Net change in capital assets	(363 681)	593 517
Cash flows from investing activities	(38 856 306)	14 547 341
Decrease in cash flows	(8 832 024)	(8 463 530)
Cash flows, beginning of year	36 257 959	44 721 489
Cash flows, end of year	27 425 935 \$	36 257 959 \$
Other details on cash flows:		
Interest paid during the year	2 159 490 \$	7 612 336 \$

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Notes to Financial Statements

For the seven month period ended December 31, 2007

Note 1. Article and types of operations

The Caisse populaire is a co-operative governed by the *Credit Unions Act* whose purpose is to provide a complete range of financial services that meets the needs of its members and operates on a co-operative basis and in accordance with generally accepted co-operative principles.

The Caisse populaire is listed with the New Brunswick Credit Union Deposit Insurance Corporation. It is also member of Office de Stabilisation de La Fédération des Caisses Populaires Acadiennes Limitée (Office de stabilisation) whose purpose is to protect its member credit unions against financial losses and insolvency and to provide financial assistance for the purposes of stabilization.

The year end of the Caisse populaire has been changed from May 31 to December 31.

Note 2. Accounting policies

The preparation of financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts in the financial statements and in the notes to financial statements. Actual results could differ from those estimates.

Conversion of foreign currency

Assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the rate prevailing on the balance sheet date. Gains and losses as a result of translation or settlement of assets and liabilities are recognized in other income.

Other accounting policies

In order to facilitate the comprehension of the financial statements, the significant accounting policies other than the foregoing have been integrated into the Notes.

Note 3. New accounting policies

On January 1st, 2007, the Caisse populaire adopted the new accounting policies published by the Canadian Institute of Chartered Accountants (CICA) entitled "Financial Instruments - Measurement and Reporting" (Section 3855), "Hedges" (Section 3865) and "Comprehensive Income" (Section 1530). Comprehensive Income has no impact on the financial statements of the Caisse populaire. Financial Instruments - Measurement and Reporting and Hedges are described below. The adoption of these new accounting policies has not changed the risk management policies of the Caisse populaire.

Financial Instruments - Measurement and Reporting

Financial assets have to be classified in one of the following categories: "Held for trading"; "Available for sale"; "Held to maturity"; and "Loans and receivables". The financial liabilities have to be classified in the "Held for trading" or in the "Other" category. The financial assets and liabilities are initially recognized at fair value.

Financial assets available for sale consist of shares which have no quoted market prices and are recorded at cost. The categories "Held for trading" and "Held to maturity" are not utilized. The loans and receivables and the financial liabilities which are not held for trading are recorded at amortized cost using the effective interest rate method. The interest income and expense on these assets and liabilities are recorded in net interest income. Transaction costs on the financial instruments related mainly to loans and receivables are capitalized and amortized over the life of the instrument.

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Notes to Financial Statements

For the seven month period ended December 31, 2007

Note 4. Future accounting policy changes

In December 2006, the CICA published new accounting policies entitled "Capital Disclosures" (Section 1535) and "Financial Instruments - Disclosure requirements" (Section 3862) that will apply to the December 31, 2008, financial statements of the Caisse populaire. Section 1535 requires the disclosure of information in order to help the users evaluate the entity's objectives, policies and processes for managing capital. Section 3862 places increased emphases on disclosure of risks associated with financial instruments and how these risks are managed in order to help the users have a better understanding and evaluate the importance of financial instruments on the financial situation and performance of the Caisse populaire. These new policies concerning the disclosure of information will have no impact on the results and financial position of the Caisse populaire.

Note 5. Liquid assets and investments

	December 31 2007 (7 months)	May 31 2007 (12 months)
Cash flows	27 425 935 \$	36 257 959 \$
Shares	756 793	757 200
Term deposits	55 000 000	-
Investment in the liquid assets fund	15 193 915	24 644 116
	98 376 643 \$	61 659 275 \$

Cash flows included cash and other items used for current operations. Shares are recorded at cost. Investments in term deposits are classified in the "Loans and receivables" category.

In order to manage the risks related to liquidity, the Caisse populaire maintains in a liquid assets fund designed for that purpose, the funds necessary to maintain a minimum level of liquidities as defined by the *General Regulation - Credit Unions Act*. The sums deposited in that fund by the caisses populaires must be invested in a portfolio of securities satisfying high safety and negotiability standards so that, if the need arises, these could be cashed without incurring a material loss on their value. The sums deposited in that fund are excluded from cash flows since the regulations prohibit their use for current operations. The investment in that fund is recorded at cost in the "Available for sale" category.

As at December 31, 2007 and May 31, 2007, no devaluation for permanent decline in value is recorded against the investments cost.

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Notes to Financial Statements

For the seven month period ended December 31, 2007

Note 6. Loans

Loans are stated net of a cumulative provision which reflects management's best estimate of potential losses on the loans portfolio. This provision is made up of specific and general provisions.

Specific provisions are determined on loans considered to be impaired. A loan is considered impaired when one of the following situations occur: in the opinion of management, there is reasonable doubt as to the ultimate collectibility of principal and interest; the loan is more than 180 days in arrears; or the interest or principal repayment is 90 days or more past due, unless the loan is fully secured. The value of impaired loans is adjusted by discounting the expected future cash flows from these loans, and the provision is equal to the difference between this valuation and the balance of the loan. Any variation in the cumulative provision due either to the passage of time or to a revision of expected payments is recorded under "Provision and loan losses" in the statement of results. The Caisse populaire ceases to record interest as soon as a loan is considered impaired.

The balance of impaired loans and related cumulative provision on specific cases are as follows:

	Impaired loans		Cumulative provision on specific cases	
	December 31 2007	May 31 2007	December 31 2007	May 31 2007
Individuals	3 908 821 \$	5 539 506 \$	2 449 807 \$	2 337 565 \$
Businesses	9 213 775	9 954 811	5 849 409	6 347 011
	13 122 596 \$	15 494 317 \$	8 299 216 \$	8 684 576 \$

The general provision is intended to evaluate loan losses that cannot be determined on an individual basis. The general allowance for impaired loans is management's best estimate of the loss that is likely to be experienced on loans that were not impaired at the year end. For specific types of loans considered to be higher risk, the general allowance was determined by estimating, based on management's judgment and recent experience, the percentage of the unimpaired loans by loan type that is likely to become impaired and then applying the average estimated loss ratio on similar types of impaired loans that were individually reviewed. For all other impaired loans, the general provision was calculated at 3,5 % for loans issued prior to November 2004 and 2 % for loans issued from November 2004 to May 2007. For loans issued since June 1, 2007, it was established according to the directive 02-01 from the Office de stabilisation and based on the assets at risk at year end.

The general portion of the cumulative provision for loan losses represents an amount of 5 172 945 \$ (5 384 082 \$ as at May 31, 2007).

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Notes to Financial Statements

For the seven month period ended December 31, 2007

Note 6. Loans - continued

The cumulative provision for loan losses recorded as a deduction of loans underwent the following changes:

	December 31 2007 (7 months)	May 31 2007 (12 months)
Balance, beginning of year	14 068 658 \$	19 880 281 \$
Provision and loan losses recorded on the statement of results	(26 292)	(17 841)
Recovery of loans previously written off	185 112	900 837
Write-offs and other	(755 317)	(6 694 619)
Balance, end of year	13 472 161 \$	14 068 658 \$

Significant judgment was exercised by management in making these estimates. As such, actual losses that occur on loans outstanding as at December 31, 2007 will differ from these estimates and the differences could be material. Management estimates that the actual realization of impaired loans could result in a total provision that varies from 12 454 000 \$ to 14 490 000 \$.

Note 7. Capital assets

		December 31 2007	May 31 2007		
	Equivalent useful life	Cost	Accumulated depreciation	Net book value	Net book value
Land		167 536 \$	-	167 536 \$	167 536 \$
Building	20 years	1 363 394	105 947	1 257 447	1 295 224
Material	3 to 5 years	1 452 922	852 825	600 097	404 096
Land improvements	20 years	34 710	2 138	32 572	33 550
		3 018 562 \$	960 910 \$	2 057 652 \$	1 900 406 \$

Capital assets are recorded at cost and depreciated with the straight line and the diminishing balance methods over the equivalent useful life of the assets. The depreciation recorded amounts to 206 435 \$ (502 228 \$ for the year ended May 31, 2007).

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Notes to Financial Statements

For the seven month period ended December 31, 2007

Note 8. Membership shares

The Caisse populaire can issue an unlimited number of membership shares with an issue price of 5 \$ each, redeemable under stipulated conditions provided for in the *Credit Unions Act* and in the statutes. A member has one voting right unregard the number of membership shares he must purchase and hold under the requirements of the Caisse populaire's by-laws.

Membership shares issued and fully paid represent an amount of 90 220 \$ (97 207 \$ as at May 31, 2007).

Note 9. Investments equity shares, Series 96

The investment equity shares, Series 96 have been issued in accordance with the *Credit Unions Act*. These shares have a par value of 1 \$ each, are cumulative, non-voting and non-participating.

Investment equity shares, Series 96 issued and fully paid represent an amount of 5 000 000 \$ (5 000 000 \$ as at May 31, 2007).

Note 10. Stabilization preferred shares

In relation to the change of affiliation by the Caisse populaire which is described in note 21, the Office de stabilisation subscribed to stabilization preferred shares of the Caisse populaire. These shares are held only by the Office de stabilisation. They are non-voting, non participating and are redeemable at the Office de stabilisation's discretion. They bear interest at an annual rate of 3,81 %, payable semiannually on June 30 and December 31.

The stabilization preferred shares issued and fully paid represent an amount of 9 854 609 \$ (- \$ as at May 31, 2007).

Note 11. Regulatory level of equity

In accordance with the *Credit Unions Act*, a credit union's regulatory level of equity must be at least 5 % of assets.

The Caisse populaire's regulatory level of equity is 10 735 709 \$, which represents 5,4 % of assets ((22 814 693) \$ as at May 31, 2007, which represents (12,8) % of assets).

Note 12. Other income

	December 31 2007 (7 months)	May 31 2007 (12 months)
Mainly earned from the administration of deposits	436 024 \$	651 241 \$
Earned from the administration of other services	218 588	681 727
	654 612 \$	1 332 968 \$

The income earned from the administration of deposits consists mainly of charges related to payment authorizations issued without sufficient funds and to service charges, whereas the income earned from the administration of other services are made up of commissions, of charges relating to the collection done on behalf of various organizations and of, income earned from inter-Caisses transactions and foreign exchange.

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the seven month period ended December 31, 2007

Note 13. Particulars of certain other expenses

	December 31 2007 (7 months)	May 31 2007 (12 months)
General expenses		
Computer services	272 721 \$	459 614 \$
Expenses related to the conversion of the computer system	710 000	-
Office supplies and communications	288 165	495 542
Expenses related to deposits and services	161 320	291 387
Advertising and sponsorships	104 616	238 391
Other	320 834	920 246
	1 857 656 \$	2 405 180 \$

Note 14. Income taxes

The following reflects the Caisse populaire's future tax asset:

	December 31 2007 (7 months)	May 31 2007 (12 months)
Non-capital losses carried forward	1 872 989 \$	12 662 000 \$
Tax value of loans and capital assets in excess of the accounting value	2 839 683	4 900 000
Other	180 030	-
	4 892 702	17 562 000
Valuation allowance	4 892 702	7 866 000
Net future tax asset realized	- \$	9 696 000 \$

As at December 31, 2007, losses available to reduce future taxable income and consequently reduce income taxes of the Caisse populaire are as follows:

Expiration date	Loss
2026	6 832 563 \$
2027	1 310 868

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Notes to Financial Statements

For the seven month period ended December 31, 2007

Note 15. Other items

	December 31 2007 (7 months)	May 31 2007 (12 months)
Financial assistance received from the Regional Development Corporation in relation to the change of affiliation of the Caisse populaire	29 624 647 \$	-
Other revenues including the settlement of liabilities in the books as of May 31, 2007	3 333 253	-
	32 957 900	-
Income taxes	11 110 461	-
Reduction of current income tax expenses on the utilization of previously unrecognized future income tax benefits	(1 414 461)	-
	23 261 900 \$	-

In addition, the Caisse populaire received a reimbursement of premiums of 1.3 million dollars from Brunswick Credit Union Federation Stabilization Board Limited and paid that amount to the Office de stabilisation during the year. These transactions were accounted for on a net basis.

Note 16. Transfer to deficit

The supervisor of the Caisse populaire decided to transfer all the surplus earnings to be allocated to the deficit.

Note 17. Related party transactions

Fédération

Since July 26, 2007, the Caisse populaire is affiliated to La Fédération des Caisses Populaires Acadiennes Limitée which offers different services which some are technical, financial and administrative.

In the course of business, the Caisse populaire concludes transactions with institutions of the Mouvement des caisses populaires acadiennes. It also concludes financial transactions with the members of the board. The transactions with related parties are accounted at the exchange value which represents the amount agreed by the parties. The conditions for these transactions are comparable to those offered on the financial markets.

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Notes to Financial Statements

For the seven month period ended December 31, 2007

Note 17. Related party transactions - continued

The following table presents the main transactions other than those shown distinctly in the financial statements.

	Balance sheet		Statement of results	
	December 31 2007	May 31 2007	December 31 2007 (7 months)	May 31 2007 (12 months)
Liquid assets and investments	98 376 643 \$	- \$	2 373 884 \$	- \$
Other income			11 770	-
Other expenses			332 169	-

Other income consists mainly of inter-Caisses transactions whereas other expenses consist mainly of computer services, inter-Caisses transactions, charges related to deposits and services, insurance and options.

Directors and employees

In the course of business, the Caisse populaire concludes financial transactions with the Board members and employees at conditions comparable to those offered to the other members, except for the following:

Employees

- exemption of service charges on their personal chequing accounts;
- exemption of various charges.

The total amount paid to the Board members for per diem and expenses incurred in the course of their duties is 10 395 \$ (22 607 \$ for the year ended May 31, 2007).

Note 18. Interest rate sensitivity

The table below summarizes the Caisse populaire's interest rate position as at December 31, 2007.

	Overall sensitivity gap
Interest rate sensitive elements	
0 to 3 months	(5 588 646) \$
4 to 12 months	9 840 389
1 to 5 years	15 225 128
More than 5 years	409 921
Non-interest rate sensitive elements	(19 886 792)
	- \$

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Notes to Financial Statements

For the seven month period ended December 31, 2007

Note 18. Interest rate sensitivity - continued

The overall sensitivity gap is based on maturity dates or, when they are closer, on repricing dates of fixed-rate assets and liabilities. The sensitivity gap represents the difference between the total of assets and the total of liabilities and equity for a given period.

A positive overall sensitivity gap for a given period means that a lasting rising trend of interest rates would push the Caisse populaire's net interest income up, while a lowering trend would bring net interest income down. The opposite will occur with a negative sensitivity gap.

The average weighted rates for the major categories of interest-sensitive assets and liabilities reported in the balance sheet are as follows:

Assets		Liabilities	
Liquid assets and investments	5,0 %	Deposits	4,6 %
Loans	8,6		

Data showing interest rate sensitivity for major assets and liabilities are available for consultation at the Caisse populaire by members.

Note 19. Fair value of financial instruments

The following table shows the fair value of financial instruments carried on the Caisse populaire's balance sheet. Interest rate sensitivity represents the main cause of fluctuations in the fair value of the Caisse populaire's financial instruments. The book value of financial instruments is not adjusted to take into account increases or drops in the fair value resulting from fluctuating interest rates, considering that the Caisse populaire's intention is to hold on to these instruments until they mature.

The fair value of financial instruments is as follows:

	December 31 2007		May 31 2007	
	Book value	Estimated fair value	Book value	Estimated fair value
Assets				
Liquid assets and investments	98 376 643 \$	100 082 807 \$	61 659 275 \$	61 659 275 \$
Loans	96 696 827	97 262 957	103 727 302	104 782 148
Other financial assets	1 586 871	1 586 871	504 085	504 085
Liabilities				
Deposits	182 209 119	188 553 110	192 718 112	194 855 912
Other financial liabilities	4 508 518	4 508 518	4 235 257	4 235 257

The fair value of financial instruments is based on the following estimation methods and assumptions:

- the fair value of financial assets and liabilities is determined based on a discounted cash flow method that uses market interest rates for similar financial assets and liabilities;

Finally, the fair value of those items not considered financial instruments, such as capital assets, is not included in the preceding table.

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Notes to Financial Statements

For the seven month period ended December 31, 2007

Note 20. Letters of credit

Letters of credit represent irrevocable commitments for the Caisse populaire to make payments in the event that a member cannot meet its obligations to third parties. The Caisse populaire's policy in terms of obtaining collateral on letters of credit is usually the same as the one that applies to loans. At year end, the maximum amount of potential future payments relating to letters of credit is 19 000 \$ (164 850 \$ as at May 31, 2007).

The Caisse populaire determined that no provision for losses is necessary for these letters of credit.

Note 21. Change of affiliation and supervision

On July 26, 2007, the Caisse populaire ceased its affiliation with Brunswick Credit Union Federation Limited and became affiliated with La Fédération des Caisses Populaires Acadiennes Limitée. Therefore, since July 26, 2007, the Caisse populaire has been under the supervision of the Office de stabilisation and is no longer under the supervision of the Brunswick Credit Union Federation Limited.

Note 22. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.