

# ATB INVESTMENT SERVICES INC.

## Financial Statements

YEAR ENDED MARCH 31, 2005

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## AUDITOR'S REPORT

### To the Board of Directors of ATB Investment Services Inc.

I have audited the balance sheet of ATB Investment Services Inc. as at March 31, 2005 and the statements of operations, shareholder's deficiency and cash flows for the year then ended. These financial statements are the responsibility of ATB Investment Services Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of ATB Investment Services Inc. as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta  
May 25, 2005

*[Original Signed]*  
Fred J. Dunn, FCA  
Auditor General

## ATB INVESTMENT SERVICES INC.

## BALANCE SHEET

As at March 31, 2005

	2005	2004
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 6,981,568	\$ 4,304,228
Clients' cash held in trust	3,908,937	5,065,043
Due from clients	277,778	326,591
Trailer fees receivable	72,485	71,623
Prepaid expenses	89,683	84,063
<b>Total assets</b>	<b>\$ 11,330,451</b>	<b>\$ 9,851,548</b>
<b>LIABILITIES AND SHAREHOLDER'S DEFICIENCY</b>		
<b>Current liabilities</b>		
Due to clients	\$ 2,247,952	\$ 3,550,814
Due to brokers and dealers	1,878,251	1,840,820
Due to ATB (Note 3)	610,340	449,393
Variable compensation payable	702,562	91,367
Accrued liabilities	107,621	22,959
Unearned revenue	89,437	-
	5,636,163	5,955,353
<b>Non-current liabilities</b>		
Subordinated notes (Note 4)	21,499,000	12,749,000
	27,135,163	18,704,353
Commitments (Note 5)		
<b>Shareholder's deficiency</b>		
Share capital (Note 6)	1,000	1,000
Deficiency	(15,805,712)	(8,853,805)
	(15,804,712)	(8,852,805)
<b>Total liabilities and shareholder's deficiency</b>	<b>\$ 11,330,451</b>	<b>\$ 9,851,548</b>

Approved by the Board of Directors:

B. Normand,  
Chairman of the Board  
and Chief Executive Officer

M. Frederick,  
Chief Financial Officer

*The accompanying notes are an integral part of these financial statements.*

## ATB INVESTMENT SERVICES INC.

## STATEMENT OF OPERATIONS

For the year ended March 31, 2005

	2005	2004
<b>Revenue (Note 7)</b>		
Commission revenue	\$ 1,984,208	\$ 1,601,161
Deposit instruments	515,478	186,023
Client fees	103,483	71,327
Interest	101,910	63,126
Other revenue	9,418	8,048
	<u>2,714,497</u>	<u>1,929,685</u>
<b>Administration and selling expenses (Note 7)</b>		
Salaries and employee benefits	3,393,232	2,506,562
Processing, selling and premises rental	2,713,000	2,125,094
Other expenses	1,268,739	697,879
Variable compensation expense	1,021,764	378,032
Interest on subordinated debt	642,146	376,206
Professional and training	606,880	536,569
Other interest expense	20,643	24,204
	<u>9,666,404</u>	<u>6,644,546</u>
<b>Total expenses</b>		
	<u>9,666,404</u>	<u>6,644,546</u>
<b>Loss for the year</b>	<u>6,951,907</u>	<u>4,714,861</u>

## STATEMENT OF SHAREHOLDER'S DEFICIENCY

For the year ended March 31, 2005

	2005	2004
Share capital	\$ 1,000	\$ 1,000
Deficiency, beginning of year	8,853,805	4,138,944
Loss for the year	6,951,907	4,714,861
Deficiency, end of year	<u>15,805,712</u>	<u>8,853,805</u>
<b>Total shareholder's deficiency</b>	<u>\$ 15,804,712</u>	<u>\$ 8,852,805</u>

*The accompanying notes are an integral part of these financial statements.*

ATB INVESTMENT SERVICES INC.

## STATEMENT OF CASH FLOWS

For the year ended March 31, 2005

	2005	2004
<b>Cash flows used in operating activities</b>		
Loss for the year	\$ (6,951,907)	\$(4,714,861)
Changes in non-cash working capital		
Increase in trailer fees receivable	(862)	(71,623)
Increase in prepaid expenses	(5,620)	(31,198)
Increase in bonuses payable	611,195	91,367
Increase in accrued liabilities	84,662	22,959
Increase in unearned revenue	89,437	-
Decrease in client cash	(60,512)	-
	<u>(6,233,607)</u>	<u>(4,703,356)</u>
<b>Cash flows from financing activities</b>		
Increase in due to ATB	160,947	357,584
Issue of subordinated notes	8,750,000	8,350,000
	<u>8,910,947</u>	<u>8,707,584</u>
<b>Net increase in cash</b>	2,677,340	4,004,228
<b>Cash, beginning of year</b>	4,304,228	300,000
<b>Cash, end of year</b>	<u>\$ 6,981,568</u>	<u>\$ 4,304,228</u>
<b>Supplementary cash flow information</b>		
Interest paid	\$ 626,097	\$ 368,599
Interest received	\$ 101,910	\$ 63,126

*The accompanying notes are an integral part of these financial statements.*

ATB INVESTMENT SERVICES INC.

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2005

### NOTE 1 INCORPORATION AND OPERATIONS

ATB Investment Services Inc. (ATBIS) is a wholly owned subsidiary of Alberta Treasury Branches (ATB) established for the purpose of distributing mutual funds to customers of ATB. The continuing operations of ATBIS are dependent upon ATB's ongoing financial support. ATBIS was incorporated under the Business Corporations Act (Alberta) on October 3, 1997. As a provincial corporation, ATBIS is exempt from income tax. ATBIS is a member of the Mutual Fund Dealers Association of Canada (MFDA) and is registered with the Alberta Securities Commission (ASC).

### NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. In preparing the financial statements, management makes estimates and assumptions considering values of certain assets, liabilities, revenues, expenses and related disclosures reported in these financial statements. Actual results could differ from these estimates. Certain comparative amounts have been reclassified where necessary to conform to the current year's presentation. The significant accounting policies followed in the preparation of these financial statements are summarized below.

#### Revenue recognition

ATBIS receives its revenue from third party clients and affiliates (Note 7) for providing services as a distributor of mutual funds and other investment products. Commission revenue includes revenue earned on mutual fund sales that is recognized on a trade-date basis and trailer fee revenue that is recognized on an accrual basis as these fees are earned.

Deposit instruments revenue includes Guaranteed Investment Certificate (GIC) referral revenue, which is paid by ATB to ATBIS on a percentage of GIC sales. Client fees include Registered Retirement Savings Plan (RRSP) administration fees, as well as fees to transfer and deregister client accounts. Interest income includes interest earned from cash operating accounts. Other revenue includes miscellaneous ancillary fees earned from third parties. Deposits instruments revenue, client fees, interest income, and other revenue are all recognized on an accrual basis.

Unearned revenue relates to RRSP administration fees on client accounts that are amortized into income over the calendar year.

#### Cash

Cash consists of cash on deposit with ATB.

## ATB INVESTMENT SERVICES INC.

**NOTE 2 (CONTINUED)****Clients' cash held in trust**

Clients' cash held in trust represents amounts in trust accounts with ATB for the settlement of mutual fund transactions. The corresponding liabilities are included in due to clients, brokers and dealers. Client balances are reported on a trade-date basis.

**Due to clients and due to brokers and dealers**

Due to clients represents cash balances in client accounts. These amounts are due on demand.

Due to brokers and dealers represents amounts related to trades which have initiated but not settled.

**NOTE 3 DUE TO ATB**

In the normal course of operations, ATB pays expenses and collects revenues on behalf of ATBIS. These amounts are duly recorded as payable and receivables in the respective accounts of both ATB and ATBIS. The amounts due to and from ATB are generally repaid in the following month. The amounts due to and due from ATB as at March 31 are as follows:

	<b>2005</b>	<b>2004</b>
Due to ATB	\$ 1,084,116	\$ 621,888
Due from ATB	(473,776)	(172,495)
Total	<u>\$ 610,340</u>	<u>\$ 449,393</u>

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2005 was 4.25% (2004 - 4.00%).

**NOTE 4 SUBORDINATED NOTES**

The subordinated notes held by ATB are unsecured and bear interest at the prime lending rate of ATB. The subordinated notes have no specified maturity dates, and are repayable upon demand by ATB, subject to the prior approvals of the ASC and the MFDA. Since ATB does not have the unilateral right to demand repayment, the subordinated notes have been classified as a non-current liability. The amounts outstanding at March 31 are as follows:

	<b>2005</b>	<b>2004</b>
Beginning balance	\$12,749,000	\$ 4,399,000
Issuances	8,750,000	8,350,000
Ending balances	<u>\$21,499,000</u>	<u>\$12,749,000</u>

ATB INVESTMENT SERVICES INC.

## NOTE 5 COMMITMENTS

ATBIS is committed to payments under service agreements for data processing services through November 2007 in the amount of approximately \$1,029,000. Annual payments are:

2006	\$370,000
2007	393,000
2008	266,000

## NOTE 6 SHARE CAPITAL

Authorized:

- An unlimited number of Class A voting common shares without nominal or par value.
- An unlimited number of Class B non-voting common shares without nominal or par value.
- An unlimited number of 10% non-cumulative redeemable non-voting preferred shares without nominal or par value, redeemable at \$100 per share.

Issued:

	2005	2004
100 Class A Voting Common Shares	\$ 1,000	\$ 1,000

## NOTE 7 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBIS earns income in the form of trailer fees and interest and other income from their parent company (ATB) and ATB Investment Management Inc. (ATBIM), another wholly owned subsidiary of ATB. ATB also charges ATBIS for administrative and selling services, as well as charging interest on subordinated notes and amounts owing to ATB. ATBIS recovers from ATB certain administrative, processing and selling costs.



## ATB INVESTMENT SERVICES INC.

**NOTE 7 (CONTINUED)**

The summary of these transactions at March 31 is as follows:

<b>RELATED PARTY</b>	<b>TRANSACTIONS</b>	<b>RECORDED AS</b>	<b>2005</b>	<b>2004</b>
<b>REVENUES</b>				
ATBIM	Trailer fees	Commission Revenue	\$ 1,135,445	\$ 482,432
ATB	Interest income	Interest	101,910	63,126
ATB	GIC referral fees	Deposit Instruments	515,478	186,023
			<u>\$ 1,752,833</u>	<u>\$ 731,581</u>
<b>ADMINISTRATION &amp; SELLING EXPENSES</b>				
ATB	Processing	Processing, selling and premises rental	\$ 2,260,361	\$ 1,636,103
ATB	Selling	Processing, selling and premises rental	364,488	317,515
ATB	Premises and equipment rental	Processing, selling and premises rental	394,594	365,568
ATB	Employee services	Professional and training	228,186	234,444
ATB	Information technology	Other expenses	426,839	291,200
ATBS	Salaries	Salaries and employee benefits	14,900	14,900
ATBIM	Salaries	Salaries and employee benefits	8,417	17,725
			<u>\$ 3,697,785</u>	<u>\$ 2,877,455</u>
ATB	Salaries (recoveries)	Salaries and employee benefits	\$ (212,931)	\$ (473,336)
ATB	Processing (recoveries)	Processing, selling and premises rental	(306,441)	(194,093)
ATB	Training (recoveries)	Professional and training	(21,869)	-
ATB	Compliance (recoveries)	Administration and selling expenses	(441,753)	(226,936)
			<u>\$ (982,994)</u>	<u>\$ (894,365)</u>

## ATB INVESTMENT SERVICES INC.

**NOTE 7 (CONTINUED)**

<b>RELATED PARTY</b>	<b>TRANSACTIONS</b>	<b>RECORDED AS</b>	<b>2005</b>	<b>2004</b>
<b>INTEREST EXPENSE</b>				
ATB	Interest expense on subordinated notes	Interest expense	\$ 642,146	\$ 376,206
ATB	Interest expense on subordinated notes	Interest expense	16,897	24,204
			<u>\$ 659,043</u>	<u>\$ 400,410</u>
			<u>\$ 3,373,834</u>	<u>\$ 2,383,500</u>

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**NOTE 8 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

The fair value of cash, due from clients, trailer fees receivable, due to brokers and dealers, variable compensation payable and accrued liabilities approximates the carrying value due to the short-term nature of these instruments. The fair value of amounts due to ATB and subordinated notes is not readily determinable as there are no fixed terms of repayment.

**NOTE 9 INTEREST RATE RISK**

ATBIS is subject to interest rate risk in that the amounts due to ATB and the subordinated notes are subject to fluctuations in interest rates. For each 1% change in the rate of interest on these obligations, the change in annual interest expense is approximately \$218,000 (2004 - \$132,000) based on the outstanding balances at March 31, 2005. This would be partially offset by increased interest earned on deposits.