

# ATB INVESTMENT MANAGEMENT INC.

## Financial Statements

MARCH 31, 2006

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## AUDITOR'S REPORT

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

I have audited the balance sheet of ATB Investment Management Inc. as at March 31, 2006 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*[Original Signed]*

Fred J. Dunn, FCA

Auditor General

Edmonton, Alberta

May 26, 2006

*The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.*

## ATB INVESTMENT MANAGEMENT INC.

**BALANCE SHEET**

As At March 31, 2006

	2006	2005
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 2,235,623	\$ 1,950,727
Accounts receivable	1,778,066	958,562
Prepaid expenses	18,084	10,733
	4,031,773	2,920,022
<b>Capital assets (Note 3)</b>	284,367	-
<b>Deferred charges</b>	11,645	29,058
	<b>\$ 4,327,785</b>	<b>\$ 2,949,080</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Due to ATB (Note 4)	\$ 649,023	\$ 474,315
Due to affiliates (Note 5)	693,246	467,536
Accrued liabilities	1,060,149	593,972
	2,402,418	1,535,823
<b>Subordinated notes (Note 6)</b>	-	2,245,000
	2,402,418	3,780,823
<b>Commitments (Note 7)</b>		
<b>Shareholder's Equity</b>		
<b>Share capital (Note 8)</b>	5,000	5,000
<b>Retained earnings (deficit)</b>	1,920,367	(836,743)
	1,925,367	(831,743)
	<b>\$ 4,327,785</b>	<b>\$ 2,949,080</b>

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

Approved by the Board of Directors:

B. Normand  
Chairman of the Board and Chief Executive Officer

M. Frederick  
Chief Financial Officer

## ATB INVESTMENT MANAGEMENT INC.

**STATEMENT OF OPERATIONS**

For the Year Ended March 31, 2006

	<b>2006</b>	<b>2005</b>
<b>Revenue</b>		
Investment management fees	\$ 12,104,253	\$ 5,717,870
Other revenue	686,092	121,279
Interest revenue (Note 9)	57,672	29,623
	<u>12,848,017</u>	<u>5,868,772</u>
<b>Administration and selling expenses (Note 9)</b>		
Trailing commission	5,219,442	2,459,790
Professional fees	2,904,357	1,641,914
Salaries and employee benefits	1,189,085	709,712
Other expenses	696,196	465,573
Interest expense	81,827	96,660
Expense absorption (Note 2(f))	-	182,625
	<u>10,090,907</u>	<u>5,556,274</u>
<b>Net earnings for the year</b>	<u>\$ 2,757,110</u>	<u>\$ 312,498</u>

**STATEMENT OF RETAINED EARNINGS**

For the Year Ended March 31, 2006

	<b>2006</b>	<b>2005</b>
<b>Balance - Beginning of year</b>	\$ (836,743)	\$ (1,149,241)
Net earnings for the year	2,757,110	312,498
<b>Balance - End of year</b>	<u>\$ 1,920,367</u>	<u>\$ (836,743)</u>

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

ATB INVESTMENT MANAGEMENT INC.

**STATEMENT OF CASH FLOWS**

For the Year Ended March 31, 2006

	2006	2005
<b>Cash provided for (used in)</b>		
<b>Operating activities</b>		
Net earnings for the year	\$ 2,757,110	\$ 312,498
<b>Items not affecting cash</b>		
Amortization of deferred charges	17,413	17,414
	2,774,523	329,912
<b>Net change in non-cash working capital items</b>		
Increase in accounts receivable	(819,504)	(600,631)
Increase in prepaid expenses	(7,351)	(2,170)
Increase in accrued liabilities	466,177	375,125
Increase in due to affiliates	225,710	467,536
	2,639,555	569,772
<b>Investing activities</b>		
Purchase of capital assets	(284,367)	-
<b>Financing activities</b>		
Increase in due to ATB	174,708	193,401
Repayment of subordinated notes	(2,245,000)	-
	(2,070,292)	193,401
<b>Increase in cash</b>	284,896	763,173
<b>Cash - Beginning of year</b>	1,950,727	1,187,554
<b>Cash - End of year</b>	\$ 2,235,623	\$ 1,950,727
<b>Supplementary information</b>		
Interest paid	\$ 87,832	\$ 95,613
Interest received	\$ 57,672	\$ 29,623

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

ATB INVESTMENT MANAGEMENT INC.

## NOTES TO FINANCIAL STATEMENTS

March 31, 2006

### NOTE 1 INCORPORATION AND OPERATIONS

ATB Investment Management Inc. ("ATBIM") is a wholly owned subsidiary of Alberta Treasury Branches ("ATB") established for the purpose of managing a family of ATB mutual fund portfolios and other provisions of discretionary portfolio management services. The continuing operations of ATBIM are dependent upon ATB's ongoing financial support. ATBIM was incorporated in Alberta under the *Business Corporations Act* (Alberta) on August 21, 2002. As a provincial corporation ATBIM is exempt from income tax. ATBIM 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. Comparative amounts have been reclassified to conform to the current year's presentation. The significant accounting policies followed in the preparation of these financial statements are summarized below:

**a) Measurement uncertainty**

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.

**b) Revenue recognition**

Investment management fees are based on net asset values of the ATB mutual fund portfolios and are recognized on an accrual basis. Interest revenue includes interest earned on cash deposits with ATB and is recorded on an accrual basis. Other revenue includes fees earned from clients for management of their accounts.

**c) Cash**

Cash consists of cash on deposit with ATB.

**d) Capital assets**

Capital assets are carried at cost less accumulated amortization. System development is amortized on a straight-line basis over the estimated useful life of between 3 and 5 years. Amortization commences in the year the system development is completed.

**e) Deferred charges**

Deferred charges represent the unamortized cost of the implementation fees for setting up the registrar and the transfer agent for the mutual fund portfolios. Amortization is calculated on a straight-line basis, over the four-year term of the related contract. The amortization expense is charged to the mutual fund portfolios over the same contract term, as set out in the management agreement.

## ATB INVESTMENT MANAGEMENT INC.

**Note 2 (continued)****f) Expense absorption**

In its sole discretion, ATBIM may waive or absorb expenses of the ATB Compass Portfolio mutual funds. The effect of such waivers and absorption is to recognize expenses of \$nil (2005 - \$182,625) that are otherwise attributable to the funds. It is expected that such waivers and absorption will decline as the net assets of the funds grow over time.

**NOTE 3 CAPITAL ASSETS**

	2006	2005
System development cost	\$ 284,367	\$ -
Less: Accumulated amortization	-	-
	<u>\$ 284,367</u>	<u>\$ -</u>

**NOTE 4 DUE TO ATB**

In the normal course of operations, ATB pays certain expenses on behalf of ATBIM. These amounts are recorded, as payable and receivable in the respective accounts of both ATB and ATBJM. The amounts due to and due from ATB are generally settled in the following month. The amounts due to ATB as at March 31 are as follows:

	2006	2005
Due to ATB	<u>\$ 649,023</u>	<u>\$ 474,315</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, 2006 was 5.50% (2005 - 4.25%).

ATB INVESTMENT MANAGEMENT INC.

## NOTE 5 DUE (TO) FROM AFFILIATES

In the normal course of operations, ATBIM pays trailing commissions to ATB Investment Services Inc. ("ATBIS") and ATB Securities Inc. ("ATBS"). ATBIS collects client fees on behalf of ATBIM. ATBIS and ATBS pay certain expenses on behalf of ATBIM. These amounts are duly recorded as payable and receivable in the respective accounts of each of ATBIM, ATBIS and ATBS. The amounts due (to) from ATBIS and ATBS are generally settled in the following month and are not subject to interest charges. The amounts due (to) from affiliates as at March 31 are as follows:

	2006	2005
Due to ATBIS	\$ 299,987	\$ 140,824
Due to ATBS	393,259	326,712
	<u>\$ 693,246</u>	<u>\$ 467,536</u>

## NOTE 6 SUBORDINATED NOTES

The subordinated notes held by ATB were unsecured and bore interest at the prime lending rate of ATB. The subordinated notes had no specified maturity dates and were repayable upon demand by ATB, subject to the prior approval of the Alberta Securities Commission. Since ATB did not have the unilateral right to demand repayment, the subordinated notes were classified as a non-current liability.

The subordinated notes were repaid in full by January 19, 2006.

## NOTE 7 COMMITMENTS

ATBIM is committed to payments under service agreements for data processing services through January 1, 2008 in the amount of approximately \$152,000. Annual payments are:

2007	\$ 92,000
2008	60,000



## ATB INVESTMENT MANAGEMENT INC.

**NOTE 8 SHARE CAPITAL**

## Authorized

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value.

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at \$100 per share.

Issued and outstanding

	2006	2005
100 Class A shares	\$ 5,000	\$ 5,000

**NOTE 9 RELATED PARTY TRANSACTIONS**

In the normal course of operations, ATB charges ATBIM for certain administrative and selling services as well as charging interest on subordinated notes and amounts owing to ATB. In addition, ATB Securities Inc. (an affiliate) charges ATBIM for client referral fees and for costs incurred related to transaction processing for ATBIM clients. ATB Securities Inc. and ATB Investment Services Inc. (an affiliate) charge trailing commission fees to ATBIM on the sale of mutual funds. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIM. The summary of these transactions is as follows:

Related Party	Transactions	Recorded as	2006	2005
<b>Revenue</b>				
ATB	Interest income	Interest revenue	\$ 57,672	\$ 29,623
<b>Administration and selling expenses</b>				
ATB Investment Services Inc.	Trailer fees	Trailing commission	\$ 2,176,688	\$ 1,135,445
ATB Securities Inc.	Trailer fees	Trailing commission	3,042,754	1,324,345
ATB	Administrative services	Professional fees	52,782	116,242
ATB	Information technology, rent and marketing	Other expenses	327,458	130,715
ATB Securities Inc.	Client referral fees	Professional fees	299,177	102,229
ATB Securities Inc.	Transaction fees	Other expenses	176,580	42,510
ATB Securities Inc.	Salaries	Salaries and employee benefits	-	44,700
			<u>\$ 6,075,439</u>	<u>\$ 2,896,186</u>

## ATB INVESTMENT MANAGEMENT INC.

**Note 9 (continued)**

Related Party	Transactions	Recorded as	2006	2005
<b>Salaries and employee benefits</b>				
ATB	Salaries (recoveries)	Salaries and employee benefits	\$ -	\$ (58,919)
ATB Investment Services Inc.	Salaries (recoveries)	Salaries and employee benefits	-	(8,417)
ATB Securities Inc.	Salaries (recoveries)	Salaries and employee benefits	-	(8,417)
			<u>\$ -</u>	<u>\$ (75,753)</u>
<b>Interest expense</b>				
ATB	Interest expense on subordinated notes	Interest expense	\$ 57,930	\$ 90,034
ATB	Interest expense on due to ATB	Interest expense	23,897	6,626
			<u>\$ 81,827</u>	<u>\$ 96,660</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 10 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

The fair value of cash, accounts receivable, accrued liabilities, amounts due to ATB and due to affiliates approximates the carrying value due to the short-term nature of these instruments.