

ATB INVESTMENT SERVICES INC.

Financial Statements

MARCH 31, 2006

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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, 2006, and the statements of operations, deficit 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, 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 SERVICES INC.

BALANCE SHEET

As At March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash	\$ 4,884,037	\$ 6,981,568
Clients' cash held in trust	4,331,231	3,908,937
Due from affiliates (Note 3)	450,923	140,824
Due from clients	8,104	277,778
Trailer fees receivable	81,660	72,485
Prepaid expenses	92,128	89,683
	9,848,083	11,471,275
Capital assets (Note 4)	465,428	-
	\$ 10,313,511	\$ 11,471,275
LIABILITIES		
Current liabilities		
Due to clients	\$ 2,445,595	\$ 2,247,952
Due to brokers and dealers	1,773,074	1,878,251
Due to ATB (Note 5)	440,362	751,164
Variable compensation payable	852,645	702,562
Accrued liabilities	303,817	107,621
Unearned revenue	176,685	89,437
	5,992,178	5,776,987
Subordinated notes (Note 6)	27,999,000	21,499,000
	33,991,178	27,275,987
Commitments (Note 7)		
Shareholder's Deficiency		
Share capital (Note 8)	1,000	1,000
Deficit	(23,678,667)	(15,805,712)
	(23,677,667)	(15,804,712)
	\$ 10,313,511	\$ 11,471,275

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 SERVICES INC.

STATEMENT OF OPERATIONS

For the Year Ended March 31, 2006

	2006	2005
Revenue (Note 9)		
Commission	\$ 2,953,749	\$ 1,984,208
Deposit instruments	1,181,705	515,478
Client fees	216,747	103,483
Interest	150,798	101,910
Other	28,607	9,418
	<u>4,531,606</u>	<u>2,714,497</u>
Administration and selling expenses (Note 9)		
Salaries and employee benefits	5,071,886	3,393,232
Processing, selling and premises rental	2,732,891	2,713,000
Other	1,805,640	1,268,739
Interest on subordinated debt	1,115,007	642,146
Variable compensation	1,114,710	1,021,764
Professional and training	518,012	606,880
Other interest	46,415	20,643
	<u>12,404,561</u>	<u>9,666,404</u>
Net loss for the year	<u>\$ (7,872,955)</u>	<u>\$ (6,951,907)</u>

STATEMENT OF DEFICIT

For the Year Ended March 31, 2006

	2006	2005
Balance - Beginning of year	\$ 15,805,712	\$ 8,853,805
Net loss for the year	7,872,955	6,951,907
Balance - End of year	<u>\$ 23,678,667</u>	<u>\$ 15,805,712</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, 2006

	2006	2005
Cash provided for (used in)		
Net loss for the year	\$ (7,872,955)	\$ (6,951,907)
Net change in non-cash working capital items		
Increase in due from affiliates	(310,099)	(140,824)
Increase in trailer fees receivable	(9,175)	(862)
Increase in prepaid expenses	(2,445)	(5,620)
Increase in variable compensation payable	150,083	611,195
Increase in accrued liabilities	196,196	84,662
Increase in unearned revenue	87,248	89,437
Decrease in client cash	(60,154)	(60,512)
	<u>(7,821,301)</u>	<u>(6,374,431)</u>
Investing activities		
Purchase of capital assets	(465,428)	-
Financing activities		
(Decrease) increase in due to ATB	(310,802)	301,771
Issue of subordinated notes	6,500,000	8,750,000
	<u>6,189,198</u>	<u>9,051,771</u>
(Decrease) increase in cash	(2,097,531)	2,677,340
Cash - Beginning of year	6,981,568	4,304,228
Cash, End of year	<u>\$ 4,884,037</u>	<u>\$ 6,981,568</u>
Supplementary information		
Interest paid	\$ 1,092,510	\$ 626,097
Interest received	\$ 150,798	\$ 101,910

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

ATB INVESTMENT SERVICES INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

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.

a) Revenue recognition

ATBIS earns revenue from third party clients and affiliates (note 9) 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 based on the imputed profit earned on the GIC's. 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.

b) Cash

Cash consists of cash on deposit with ATB.

c) 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.

ATB INVESTMENT SERVICES INC.

Note 2 (continued)**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 three and five years. Amortization commences in the year the system development is completed.

e) 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 that have initiated but not settled.

NOTE 3 DUE FROM AFFILIATES

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

	2006	2005
Due from ATBIM	\$ 299,987	\$ 140,824
Due from ATBS	150,936	-
	<u>\$ 450,923</u>	<u>\$ 140,824</u>

NOTE 4 CAPITAL ASSETS

	2006	2005
System development costs	\$ 465,428	\$ -
Less: Accumulated amortization	-	-
	<u>\$ 465,428</u>	<u>\$ -</u>

ATB INVESTMENT SERVICES INC.

NOTE 5 DUE TO ATB

In the normal course of operations, ATB pays certain expenses and collects certain 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 (from) ATB are generally settled in the following month. The amounts due to (from) ATB as at March 31 are as follows:

	2006	2005
Due to ATB	\$ 1,460,316	\$ 1,084,116
Due from ATB	(1,019,954)	(332,952)
	<u>\$ 440,362</u>	<u>\$ 751,164</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%).

NOTE 6 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 (see note 11). The amounts outstanding at March 31 are as follows:

	2006	2005
Balance - Beginning of year	\$ 21,499,000	\$ 12,749,000
Issuances	6,500,000	8,750,000
Balance - End of year	<u>\$ 27,999,000</u>	<u>\$ 21,499,000</u>

NOTE 7 COMMITMENTS

ATBIS is committed to payments under service agreements for data processing services through November 2007 in the amount of approximately \$659,000. Annual payments for the next two fiscal years are:

2007	\$ 393,000
2008	266,000

ATB INVESTMENT SERVICES 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

	2006	2005
100 Class A voting, common shares	\$ 1,000	\$ 1,000

NOTE 9 RELATED PARTY TRANSACTIONS

In the normal course of operations, ATBIS earns revenue 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 9 (continued)

The summary of these transactions for the years ended March 31 is as follows:

Related party	Transactions	Recorded as	2006	2005
Revenue				
ATBIM	Trailer fees	Commission revenue	\$ 2,176,688	\$ 1,135,445
ATB	Referral fees	Interest	150,798	101,910
ATB	Transaction fees	Deposit Instruments	1,181,705	515,478
			<u>\$ 3,509,191</u>	<u>\$ 1,752,833</u>
Administration and selling expenses				
ATB	Processing	Processing, selling and premises rental	\$ 2,494,318	\$ 2,260,361
ATB	Selling	Processing, selling and premises rental	310,919	364,488
ATB	Premises and equipment rental	Processing, selling and premises rental	361,632	394,594
ATB	Administrative Services	Professional and training	244,240	228,186
ATB	Information Technology and Marketing	Other expenses	1,000,005	894,688
ATB	Salaries	Salaries and employee benefits	-	14,900
ATBIM	Salaries	Salaries and employee benefits	-	8,417
			<u>\$ 4,411,114</u>	<u>\$ 4,165,634</u>
ATB	Salaries (recoveries)	Salaries and employee benefits	\$ (214,576)	\$ (212,931)
ATB	Processing (recoveries)	Processing, selling and premises rental	(433,978)	(306,441)
ATB	Training (recoveries)	Professional and training	(39,623)	(21,869)
ATB	Compliance (recoveries)	Administration and selling expenses	(451,811)	(441,753)
ATBIM	Compass services fee recovery	Professional and training	(9,800)	(9,600)
			<u>\$ (1,149,788)</u>	<u>\$ (992,594)</u>
Interest expense				
ATB	Interest expense on subordinated notes	Interest expense	\$ 1,115,007	\$ 642,146
ATB	Other interest expense	Interest expense	46,415	20,643
			<u>\$ 1,161,422</u>	<u>\$ 662,789</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.

ATB INVESTMENT SERVICES INC.

NOTE 10 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

NOTE 11 SUBSEQUENT EVENTS

Subsequent to March 31, 2006, the parent company, ATB, converted all of its subordinated loans totalling \$27,999,000 to Class A Voting Common Shares at \$1.00 per share.

