

ATB SECURITIES INC.

Financial Statements

MARCH 31, 2006

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AUDITOR'S REPORT

To the Board of Directors of ATB Securities Inc.

I have audited the balance sheet of ATB Securities 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 Securities 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 Securities 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 12, 2006

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

ATB SECURITIES INC.

BALANCE SHEET

As At March 31, 2006

	2006	2005
Assets		
Current assets		
Cash	\$ 11,941,463	\$ 13,744,332
Clients' cash held in trust	7,648,092	7,038,150
Due from affiliates (Note 3)	393,259	326,712
Due from clients	1,508,823	256,852
Client fees receivable	546,900	143,814
Trailer fees receivable	265,564	170,770
Prepaid expenses	32,927	38,270
Due from brokers and dealers	641,722	1,264,940
	22,978,750	22,983,840
Capital assets (Note 4)	462,871	-
	\$ 23,441,621	\$ 22,983,840
Liabilities		
Current liabilities		
Due to clients	\$ 10,993,095	\$ 12,698,978
Due to brokers and dealers	4,547,974	2,141,675
Due to ATB (Note 5)	899,201	1,180,179
Due to affiliates (Note 3)	150,936	-
Accrued liabilities	1,515,344	808,179
Unearned revenue	34,423	21,429
	18,140,973	16,850,440
Subordinated notes (Note 6)	17,495,000	13,995,000
	35,635,973	30,845,440
Commitments (Note 7)		
Shareholder's Deficiency		
Share capital (Note 8)	5,000	5,000
Deficit	(12,199,352)	(7,866,600)
	(12,194,352)	(7,861,600)
	\$ 23,441,621	\$ 22,983,840

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

Approved by the Board of Directors:

B. Normand
Chairman of the BoardM. Frederick
Chief Financial OfficerM. Mezei
Chief Executive Officer

ATB SECURITIES INC.

STATEMENT OF OPERATIONS

For the Year Ended March 31, 2006

	2006	2005
Revenue (Note 9)		
Mutual fund commissions	\$ 5,402,883	\$ 2,504,049
Securities commissions	1,800,787	923,695
Client fees	1,473,912	389,505
Interest revenue	553,295	393,089
Client referral fees	475,757	144,739
Other revenue	56,170	3,490
	9,762,804	4,358,567
Administration and selling expenses (Note 9)		
Variable compensation expense	5,125,357	2,831,152
Salaries and employee benefits	3,657,825	2,861,703
Other expenses	1,972,109	1,561,181
Processing fees	1,928,652	1,135,003
Interest on subordinated debt	718,537	426,395
Professional fees	653,569	595,893
Other interest expense	39,507	17,023
	14,095,556	9,428,350
Net loss for the year	\$ (4,332,752)	\$ (5,069,783)

STATEMENT OF DEFICIT

For the Year Ended March 31, 2006

	2006	2005
Balance - Beginning of year	\$ (7,866,600)	\$ (2,796,817)
Net loss for the year	(4,332,752)	(5,069,783)
Balance - End of year	\$ (12,199,352)	\$ (7,866,600)

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

ATB SECURITIES INC.

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
Cash provided for (used in)		
Operating activities		
Net loss for the year	\$ (4,332,752)	\$ (5,069,783)
Net change in non-cash working capital items		
Increase (decrease) in due to/from affiliates	84,389	(326,712)
Increase in client fees receivable	(403,086)	(131,583)
Increase in trailer fees receivable	(94,794)	(113,730)
Decrease (increase) in prepaid expenses	5,343	(3,698)
Increase in accrued liabilities	707,165	636,585
Increase in unearned revenue	12,994	21,429
Cash (paid to) received from clients	(538,279)	1,219,835
	<u>(4,559,020)</u>	<u>(3,767,657)</u>
Investing activities		
Purchase of capital assets	(462,871)	-
Financing activities		
(Decrease) increase in due to ATB	(280,978)	831,153
Issue of subordinated notes	3,500,000	7,000,000
	<u>3,219,022</u>	<u>7,831,153</u>
(Decrease) increase in cash	(1,802,869)	4,063,496
Cash - Beginning of year	13,744,332	9,680,836
Cash - End of year	<u>\$ 11,941,463</u>	<u>\$ 13,744,332</u>
Supplementary information		
Interest paid	\$ 721,715	\$ 414,697
Interest received	<u>\$ 553,295</u>	<u>\$ 393,089</u>

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

ATB SECURITIES INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 1 INCORPORATION AND OPERATIONS

ATB Securities Inc. ("ATBS") is a wholly owned subsidiary of Alberta Treasury Branches ("ATB") established to facilitate client trading of securities. The continuing operations of ATBS are dependent upon ATB's ongoing financial support. ATBS was incorporated in Alberta under the *Business Corporations Act* (Alberta) on February 6, 2003. ATBS commenced operations on July 26, 2003. As a provincial corporation, ATBS is exempt from income tax. ATBS is a member of the Investment Dealers Association of Canada ("IDA") and the Canadian Investors Protection Fund ("CIPF").

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

ATBS earns its revenue from third party clients and affiliates (note 9). Commission revenue earned on mutual fund sales and securities transactions is recognized on a trade-date basis. Trailer fee revenues are recognized on an accrual basis as they are earned.

Other revenue is recorded on an accrual basis and includes client fees, Registered Retirement Savings Plan ("RRSP") administration fees, Guaranteed Investment Certificate ("GIC") referral revenue, interest income, client referral fee income, and client transaction fee income. GIC referral fees are paid by ATB to ATBS based on the imputed profit earned on the GIC's. Client referral fees are paid by ATB Investment Management Inc. ("ATBIM"), an affiliate, to ATBS based on actual commissions paid to ATBS sales staff. Transaction fees are paid by ATBIM to ATBS based on fair market costs of client trade processing.

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

c) Cash

Cash consists of cash on deposit with ATB.

ATB SECURITIES INC.

Note 2 (continued)**d) Client cash held in trust**

Included in clients' cash held in trust are amounts with respect to Registered Retirement Savings Plans and Registered Retirement Income Funds segregated in trust accounts with Canadian Western Trust. Corresponding liabilities are included in Due to clients. Client balances are reported on a trade date basis.

e) 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.

f) 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 been settled.

NOTE 3 DUE (TO) FROM AFFILIATES

In the normal course of operations, ATBS receives trailing commissions from ATBIM and collects client management fees on behalf of ATBIM. ATB Investment Services Inc. ("ATBIS") pays certain expenses on behalf of ATBS. These amounts are duly recorded, as payables and receivables, in each of ATBS's, ATBIM's and ATBIS's accounts. The amounts due (to)/from affiliates 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 from ATBIM	\$ 393,259	\$ 326,712
Due to ATBIS	(150,936)	-
	<u>\$ 242,323</u>	<u>\$ 326,712</u>

NOTE 4 CAPITAL ASSETS

	2006	2005
System development costs	\$ 462,871	\$ -
Less: Accumulated amortization	-	-
	<u>\$ 462,871</u>	<u>\$ -</u>

ATB SECURITIES INC.

NOTE 5 DUE TO ATB

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

	2006	2005
Due to ATB	\$ 899,201	\$ 1,180,179

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 IDA. 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).

	2006	2005
Balance - Beginning of year	\$ 13,995,000	\$ 6,995,000
Issuances	3,500,000	7,000,000
Balance - End of year	\$ 17,495,000	\$ 13,995,000

NOTE 7 COMMITMENTS

ATBS is committed to payments under service agreements for data processing services through November 2007 in the amount of approximately \$130,000. Annual payments are:

2007	\$ 78,000
2008	52,000

ATB SECURITIES 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, ATBS earns income in the form of trailer fees, and interest and other income from their parent company (ATB) and its other affiliates (ATBIM and ATB Investment Services Inc. (ATBIS)). ATB also charges ATBS for various administrative and selling services, as well as charging interest on subordinated notes and amounts owing to ATB. The summary of these transactions is as follows:

Related party	Transactions	Recorded as	2006	2005
Revenue				
ATB Investment Management Inc.	Trailer fees	Commission revenue	\$ 3,042,754	\$ 1,324,354
ATB Investment Management Inc.	Referral fees	Client referral fees	299,177	102,229
ATB Investment Management Inc.	Transaction fees	Client referral fees	176,580	42,510
ATB	GIC referral fees	Securities commissions	1,208,101	321,768
ATB	Interest income	Interest revenue	444,562	315,158
			<u>\$ 5,171,174</u>	<u>\$ 2,106,019</u>

ATB SECURITIES INC.

Note 9 (continued)

Related party	Transactions	Recorded as	2006	2005
Administration and selling expenses				
ATB	Processing	Processing fees	\$ 1,928,652	\$ 1,134,823
ATB	Information technology, rent and marketing	Other expenses	907,369	706,633
ATB	Employee services	Professional fees	212,884	127,194
ATBIM	Salaries	Salaries and employee benefits	-	8,417
			<u>\$ 3,048,905</u>	<u>\$ 1,977,067</u>
ATBIM	Compass services fee (recovery)	Professional fees	\$ (8,400)	\$ (10,000)
ATBIS	Salaries (recoveries)	Salaries and employee benefits	-	(14,900)
ATBIM	Salaries (recoveries)	Salaries and employee benefits	-	(44,700)
			<u>\$ (8,400)</u>	<u>\$ (69,600)</u>
Interest expense				
ATB	Interest expense on subordinated notes	Interest expense	\$ 718,537	\$ 426,395
ATB	Other interest expense	Interest expense	39,507	14,859
			<u>\$ 758,044</u>	<u>\$ 441,254</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, due from (to) affiliates, client fees receivable, trailer fees receivable, due to brokers and dealers, 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, ATB converted all of its subordinated loans totalling \$17,495,000 to Class A voting, common shares at \$1.00 per share for 17,495,000 shares.