

ATB INVESTMENT SERVICES INC.  
Financial Statements  
March 31, 2003

Auditor's Report

Balance Sheet

Statement of Operations

Statement of Changes in Shareholder's Deficiency

Statement of Cash Flows

Notes to the Financial Statements



## 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, 2003, and the statements of operations, changes in 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 amount 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, 2003 and the results of its operations and 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 2, 2003

**ATB INVESTMENT SERVICES INC.**  
**BALANCE SHEET**  
**AS AT MARCH 31**

	2003	2002
<b>ASSETS</b>		
Current assets		
Cash	\$ 300,000	\$ 300,000
Prepaid expenses	52,865	100,493
Client funds held in trust	3,571,511	348,913
	<u>3,924,376</u>	<u>749,406</u>
Non-current assets		
Property and equipment (Note 3)	-	136,734
Total assets	<u>\$ 3,924,376</u>	<u>\$ 886,140</u>
<b>LIABILITIES AND SHAREHOLDER'S DEFICIENCY</b>		
Current liabilities		
Due to ATB (Note 4)	\$ 91,809	\$ 464,734
Trust liabilities	3,571,511	348,913
	<u>3,663,320</u>	<u>813,647</u>
Non-current liabilities		
Subordinated notes (Note 5)	4,399,000	1,910,196
	<u>8,062,320</u>	<u>2,723,843</u>
Shareholder's deficiency		
Share capital (Note 6)	1,000	1,000
Deficiency	(4,138,944)	(1,838,703)
	<u>(4,137,944)</u>	<u>(1,837,703)</u>
Total liabilities and shareholder's deficiency	<u>\$ 3,924,376</u>	<u>\$ 886,140</u>

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

C. Warnock  
Director and Chief Financial Officer

**ATB INVESTMENT SERVICES INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED MARCH 31**

	2003	2002
Revenue		
Commission	\$ 1,607,441	\$ 1,252,966
Other	132,864	11,579
	<u>1,740,305</u>	<u>1,264,545</u>
Administrative and selling expenses		
Salaries and employee benefits	1,887,106	724,677
Processing, selling and premises rental (Note 7)	865,590	341,102
Professional and training (Note 7)	775,952	312,535
Other expenses (Note 7)	401,236	192,136
	<u>3,929,884</u>	<u>1,570,450</u>
Interest expense (Note 7)	110,662	105,378
Total expenses	<u>4,040,546</u>	<u>1,675,828</u>
Loss for the year	<u>\$ (2,300,241)</u>	<u>\$ (411,283)</u>

**ATB INVESTMENT SERVICES INC.**  
**STATEMENT OF CHANGES IN SHAREHOLDER'S DEFICIENCY**  
**FOR THE YEAR ENDED MARCH 31**

	2003	2002
Share capital	\$ 1,000	\$ 1,000
Deficiency		
Deficiency, beginning of year	1,838,703	1,427,420
Loss for the year	2,300,241	411,283
Deficiency, end of year	<u>4,138,944</u>	<u>1,838,703</u>
Total shareholder's deficiency	<u>\$ 4,137,944</u>	<u>\$ 1,837,703</u>

**ATB INVESTMENT SERVICES INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MARCH 31**

	2003	2002
Cash flows used in operating activities		
Loss for the year	\$ (2,300,241)	\$ (411,283)
Adjustments to determine net cash flows:		
Decrease (increase) in prepaid expenses	47,628	(11,539)
Writedown of property and equipment	71,199	-
Amortization expense	20,515	39,929
	<u>(2,160,899)</u>	<u>(382,893)</u>
Cash flows from investing activities:		
Net sales (purchases) of capital assets	45,020	(81,841)
Cash flows used in financing activities:		
Issue of subordinate note	2,488,804	793,016
Decrease in Due to ATB	(372,925)	(328,282)
	<u>2,115,879</u>	<u>464,734</u>
Net change in cash		
Cash, beginning of year	300,000	300,000
Cash, end of year	<u>\$ 300,000</u>	<u>\$ 300,000</u>
Supplementary cash flow information		
Amount of interest paid during the year	\$ nil	\$ nil

**ATB INVESTMENT SERVICES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2003**

**NOTE 1 INCORPORATION**

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. 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.

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized below:

- 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, such as amortization, accrued liabilities and costs allocated from ATB. Actual results could differ from these estimates.

- Revenue Recognition

ATBIS receives its revenue from third party clients and affiliates (Note 7) for providing services to act as a distributor of mutual funds and other investment products. Revenues are recognized on a monthly basis as earned.

- Cash and Client Funds Held in Trust

Cash includes cash and short-term investments with original maturities of less than three months.

Client funds held in trust represent amounts in trust accounts with ATB, principally for the settlement of purchase transactions. A small portion of funds represent amounts in transit from the sale of mutual funds or those awaiting client instructions. The corresponding liabilities are included in trust liabilities.

- Property and Equipment

Equipment and software are reported at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the related assets. The maximum life limits for equipment and software are up to 5 years.

Gains and losses on the disposal of property and equipment are recorded in the Statement of Operations in the year of disposal. Losses due to write-downs of the net carrying value of property and equipment are recorded in the Statement of Operations in the year the asset is impaired.

**NOTE 3 PROPERTY AND EQUIPMENT**

			2003	2002
	Cost	Accumulated amortization	Net carrying value	Net carrying value
Software	\$ -	\$ -	\$ -	\$ 129,160
Computer equipment	-	-	-	7,574
	\$ -	\$ -	\$ -	\$ 136,734

All property and equipment was sold to ATB in the year (Note 7).

Amortization charged to the Statement of Operations with respect to property and equipment was \$20,515 (2002 - \$39,929).

**NOTE 4 DUE TO ATB**

In the normal course of operations, ATB pays expenses and collects revenues on behalf of ATBIS. These amounts are duly recorded on both ATB's and ATBIS's accounts. ATB management has agreed to defer the settlement of these amounts until such time when ATBIS generates adequate revenues to enable it to pay its obligations to ATB. From time to time, the net amount due to ATB is converted into a subordinated note. The amounts due to (from) ATB at March 31 are as follows:

	2003	2002
Due to ATB	\$ 137,804	\$ 1,729,279
Due from ATB	(45,995)	(1,264,545)
Total	\$ 91,809	\$ 464,734

The net amount due to ATB is subject to interest charges at ATB's prime lending rate. The prime lending rate at March 31, 2003 was 4.75%.

**NOTE 5 SUBORDINATED NOTE**

The subordinated notes held by ATB are secured by a floating charge on all the assets of ATBIS and bear interest at the prime lending rate of ATB. The subordinated notes have no specified maturity dates, and are repayable upon demand of ATB, subject to the prior approval of the Alberta Securities Commission and the Mutual Fund Dealers Association of Canada.

Date of Issue	2003	2002
Oct. 31, 1997	\$ 99,000	\$ 99,000
May 31, 2000	1,018,180	1,018,180
June 18, 2001	793,016	793,016
Aug. 13, 2002	386,332	-
Nov. 27, 2002	31,937	-
Dec. 31, 2002	336,085	-
Feb. 28, 2003	655,413	-
Mar. 31, 2003	1,079,037	-
Total	\$ 4,399,000	\$ 1,910,196

**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.

Issued:

100 Class A voting common shares	<u>\$1,000</u>
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**NOTE 7 RELATED PARTY TRANSACTIONS**

ATB charges ATBIS for certain administrative and selling services. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIS, for information technology services, and for allocation of self contained office space. These expenses are recorded at the exchange amount which is the value agreed upon by the two parties. For the year ended March 31, 2003, amounts incurred in respect of employee services was \$1,136,071 (2002 - \$197,725); for premises rental was \$45,873 (2002 - \$143,377); and for information technology was \$84,800 (2002 - \$nil). These allocated costs have been included in processing, selling and premises rental expenses in professional and training expenses and in other expenses.

ATBIS also incurred interest expense for the year ended March 31, 2003 on amounts due to ATB in the amount of \$9,170 (2002 - \$19,521) and the subordinated notes in the amount of \$101,492 (2002 - \$85,857).

ATBIS also receives from Alberta Treasury Branch Investment Management Inc. (ATBIM), another wholly owned subsidiary of ATB, trailer fees on the sale of ATB Mutual Funds. For the year ended March 31, 2003 revenue earned with respect to trailer fees from ATBIM was \$23,784 (2002 - \$nil).

During the year, ATBIS sold all its property and equipment to ATB at the net carrying amount and entered into a rental agreement with ATB. The net carrying amount of assets at the time of sale was \$49,526. This agreement enables ATBIS to rent computer equipment and software on a short term basis as required.

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

The fair value of financial instruments, excluding amounts due to ATB, approximates the carrying value due to the short term nature of these instruments. The fair value of amounts due to ATB, including subordinated notes, is not readily determinable as there are no fixed terms of repayment.

**NOTE 9 COMPARATIVE AMOUNTS**

Comparative amounts have been reclassified where necessary to conform to the current year's presentation.