

Financial Statements

First Nations Bank of Canada

October 31, 2005 and 2004

AUDITORS' REPORT

To the Shareholders of
First Nations Bank of Canada

We have audited the balance sheets of **First Nations Bank of Canada** as at October 31, 2005 and 2004 and the statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
December 9, 2005.

Ernst & Young LLP

Chartered Accountants

First Nations Bank of Canada

BALANCE SHEETS

[in thousands of dollars]

As at October 31

	2005	2004
	\$	\$
ASSETS		
Cash <i>[note 5[a]]</i>	34,076	22,900
Loans, net of allowance for credit losses <i>[note 3]</i>		
Mortgage loans	28,332	23,076
Other loans	78,792	80,402
	107,124	103,478
Cheques and other items in transit, net <i>[note 5[h]]</i>	8,796	8,524
Interest receivable	1,088	952
Future tax assets <i>[note 8]</i>	279	405
Capital assets, net <i>[note 4]</i>	173	210
Deferred costs	305	208
Other receivable	27	5
	151,868	136,682
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Borrowings		
Notice deposits	90,115	79,578
Medium-term certificates	18,361	13,673
Loans from The Toronto-Dominion Bank <i>[note 5[c]]</i>	25,825	26,818
	134,301	120,069
Payable to The Toronto-Dominion Bank	3,405	2,977
Interest payable	766	750
Other liabilities	382	234
Shareholder loan <i>[note 5[d]]</i>	375	375
Total liabilities	139,229	124,405
Shareholders' equity		
Share capital <i>[note 6]</i>	13,135	13,135
Deficit	(496)	(858)
Total shareholders' equity	12,639	12,277
	151,868	136,682

See accompanying notes

On behalf of the Board:



Director



Director

First Nations Bank of Canada

STATEMENTS OF INCOME

[in thousands of dollars]

Years ended October 31

	2005	2004
	\$	\$
INTEREST INCOME		
Term and bank deposits	822	573
Loans		
Mortgage loans	1,529	1,185
Other loans	4,594	4,371
	6,945	6,129
INTEREST EXPENSE		
Notice deposits	984	709
Medium-term certificates	439	402
Loans from The Toronto-Dominion Bank <i>[note 5[c]]</i>	1,544	1,510
	2,967	2,621
Net interest income	3,978	3,508
Provision for credit losses <i>[note 3]</i>	275	54
Net interest income after provision for credit losses	3,703	3,454
Other income	1,451	1,308
Net interest and other income	5,154	4,762
NON-INTEREST EXPENSES <i>[note 5[b]]</i>		
Salary and staff benefits	2,052	1,820
Occupancy	325	359
Marketing	183	104
Professional fees	264	199
Central services	607	428
Travel	86	114
Other	1,028	969
	4,545	3,993
Income before income taxes	609	769
Provision for income taxes <i>[note 8]</i>	233	316
Net income for the year	376	453

See accompanying notes

First Nations Bank of Canada

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of dollars]

Years ended October 31

	2005	2004
	\$	\$
Share capital [note 6]	13,135	13,135
Deficit, beginning of year	(858)	(1,299)
Future tax expense for share issuance	(14)	(12)
Net income for the year	376	453
Deficit, end of year	(496)	(858)
Total shareholders' equity, end of year	12,639	12,277

See accompanying notes

First Nations Bank of Canada**STATEMENTS OF CASH FLOWS**

[in thousands of dollars]

Years ended October 31

	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Net income for the year	376	453
Add (deduct) items not involving cash		
Provision for credit losses	275	54
Future income taxes	126	302
Depreciation and amortization	37	61
Future tax expense for share issuance	(14)	(12)
Changes in non-cash working capital balances related to operations		
Interest receivable	(136)	(27)
Interest payable	16	(36)
Other assets	(391)	(3,620)
Other liabilities	576	455
Cash provided by (used in) operating activities	865	(2,370)
FINANCING ACTIVITIES		
Notice deposits, net	10,537	20,093
Medium-term certificates, net	4,688	(3,601)
Loans from The Toronto-Dominion Bank, net	(993)	4,580
Cash provided by financing activities	14,232	21,072
INVESTING ACTIVITIES		
Mortgage loans	(5,256)	(7,677)
Other loans, net of amounts written off	1,335	(12,320)
Cash used in investing activities	(3,921)	(19,997)
Net increase (decrease) in cash during the year	11,176	(1,295)
Cash, beginning of year	22,900	24,195
Cash, end of year	34,076	22,900
Supplemental cash flow information		
Interest paid	2,951	2,657
Income taxes paid	24	26

See accompanying notes

First Nations Bank of Canada

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2005 and 2004

1. INCORPORATION

First Nations Bank of Canada [the "Bank"] was incorporated under the Bank Act [1992 as amended] by Letters Patent dated November 19, 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Bank, including the accounting requirements of the Superintendent of Financial Institutions Canada, conform with Canadian generally accepted accounting principles and include the following significant accounting policies:

Use of estimates

The preparation of the financial statements of the Bank requires management to make estimates and assumptions based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates. The accounting for loan losses, fair value of financial instruments and income taxes are areas where management makes such estimates and assumptions.

Loans

Loans are stated net of unearned income and an allowance for credit losses. Interest income is recorded on an accrual basis until such time as the loan is classified as impaired. Interest on impaired loans subsequently received is recorded as income only when management has reasonable assurance as to the timely collection of the full amount of the principal and interest. An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the Bank no longer has reasonable assurance as to the timely collection of the full amount of the principal and interest.

Mortgage loans

Mortgage loans are carried at cost net of unamortized discounts, premiums and buy-down fees. Interest received on prepayment and discharges of mortgages is recorded in income.

Allowance for credit losses

An allowance is maintained which is considered adequate to absorb all credit-related losses in the Bank's portfolio of loans and mortgages. The allowance is deducted from the applicable asset in the balance sheets.

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[in thousands of dollars unless otherwise indicated]

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The allowance consists of specific and general allowances.

Specific allowances include all the accumulated provisions for losses on particular assets required to reduce the book values to estimated realizable amounts in the ordinary course of business.

General allowances include all the accumulated provisions for losses which are considered to have occurred but cannot be determined on an item-by-item basis. The level of the general allowance depends upon an assessment of business and economic conditions, historical and expected loss experience, loan portfolio composition and other relevant indicators. The resulting allowance is considered adequate, when combined with the specific allowances, to absorb all credit losses in the portfolio.

Actual write-offs, net of recoveries, are deducted from the allowance for credit losses. The provision for credit losses, which is charged to the statements of income, is added to bring the allowance to a level which management considers adequate to absorb probable credit-related losses in the portfolio.

Capital assets

Equipment, including furniture and fixtures and leasehold improvements, are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided over the estimated useful lives of the assets using the following annual rates and methods:

Computer equipment	30% declining balance
Furniture, fixtures and other equipment	20% declining balance
Leasehold improvements	straight-line over the term of the lease

Deferred costs

The legal, accounting and other costs related to a private placement of common and preferred shares are deferred and deducted from the related capital account when the issuance of such shares is complete. If such offerings are not consummated, the related costs are expensed.

Income taxes

The Bank follows the liability method of tax allocation for accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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[in thousands of dollars unless otherwise indicated]

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Employee future benefits

The Bank's employees are covered by The Pension Fund Society of The Toronto-Dominion Bank, which is a defined benefit plan for which membership is voluntary. The employees are also covered by The Toronto-Dominion Bank's ["TD Bank"] post-retirement benefits, post-employment benefits, compensated absences and termination benefits plans. The costs of these pension and non-pension benefit plans are not specifically allocated to, or funded separately by, the Bank. As a result, the Bank is not able to identify its share of the underlying assets and liabilities and the benefit plans are accordingly accounted for as defined contribution plans.

3. LOANS, IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

	2005					
	Gross amount of loans	Specific provisions	General provisions	Total provisions	Net amount of loans	Gross impaired loans
	\$	\$	\$	\$	\$	\$
Mortgage loans	28,350	—	18	18	28,332	180
Other loans	79,432	122	518	640	78,792	260
	107,782	122	536	658	107,124	440

	2004					
	Gross amount of loans	Specific provisions	General provisions	Total provisions	Net amount of loans	Gross impaired loans
	\$	\$	\$	\$	\$	\$
Mortgage loans	23,096	—	20	20	23,076	138
Other loans	80,827	11	414	425	80,402	11
	103,923	11	434	445	103,478	149

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[in thousands of dollars unless otherwise indicated]

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Allowance for credit losses

	2005	2004
	\$	\$
Balance, beginning of year	445	512
Write-offs	(62)	(121)
Provision for credit losses charged to statements of income		
Specific	173	41
General	102	13
	275	54
Balance, end of year	658	445

Mortgage loans include \$26,566 [2004 - \$21,382] of insured loans. Other loans include \$28,590 [2004 - \$40,416] of government guaranteed loans.

4. CAPITAL ASSETS

Capital assets consist of the following:

	2005		2004	
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	\$	\$	\$	\$
Computer equipment	19	15	4	5
Furniture, fixtures and other equipment	86	57	29	36
Leasehold improvements	322	182	140	169
	427	254	173	210

First Nations Bank of Canada

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

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5. RELATED PARTY TRANSACTIONS

[a] Cash

Cash is held with TD Bank.

[b] Services

The Bank has entered into a Master Services Agreement with TD Bank, pursuant to which TD Bank performs banking, financial and discretionary services, including but not limited to financial accounting and reporting, head office and divisional support, corporate secretarial and treasury services. Payments to TD Bank for its services are on market terms and conditions. Some of the Bank's capital assets are also supplied monthly from TD Bank. During the year, the Bank incurred \$1,429 [2004 - \$1,305] for these services.

[c] Loans from TD Bank

The Bank has entered into agreements under which TD Bank has agreed to provide the Bank with credit facilities for purposes of managing liquidity and interest rate risk. The credit facilities are established at market terms and interest rates. At October 31, 2005, the available credit facilities totalled \$33,925 [2004 - \$37,241 and U.S.\$1,000]; the total outstanding balance was \$25,825 [2004 - \$26,818] and matures between November 2005 and January 2010. Interest payable to TD Bank as at October 31, 2005 amounted to \$576 [2004 - \$585].

[d] Shareholder loan

The Bank entered into an agreement with TD Bank to receive \$375 [2004 - \$375] to cover costs incurred in obtaining an Order to Commence Business. The loan is non-interest bearing.

[e] Guarantee

For the purposes of obtaining Canada Deposit Insurance Corporation ["CDIC"] insurance coverage, TD Bank has guaranteed to CDIC the Bank's deposit liabilities up to \$40 million of the Bank's deposit liabilities to the extent that they are in respect of deposits that are, or are required to be, insured pursuant to the CDIC Act. A guarantee fee of 1/22 of 1% of the insured deposits as at April 30, 2005 and 2004 was paid to TD Bank in October 2005 and July 2004, respectively.

The Bank has also guaranteed to the Cree Regional Authority deposit liabilities on behalf of certain beneficiaries.

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NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2005 and 2004

[f] Assets under administration

The Bank has monies invested with related parties on behalf of clients of approximately \$2,366 [2004 - \$3,165].

[g] Loans to directors and employees

At October 31, 2005, loans provided to the Bank's directors and employees at discounts to customer rates amounted to \$912 [2004 - \$1,145].

[h] Cheques and other items in transit, net

The Bank uses TD Bank as its settlement agent. The balance from the daily settlement with TD Bank at fiscal year-end is a net receivable from TD Bank.

6. SHARE CAPITAL

Share capital consists of the following:

	<u>2005</u>		<u>2004</u>	
	#	\$	#	\$
Authorized				
Unlimited common shares				
Unlimited Class A non-voting preferred shares				
Unlimited Class B voting preferred shares				
Unlimited Class C non-voting preferred shares				
Issued and outstanding				
Common shares	1,052,071	1,089	1,052,071	1,089
Class A preferred shares	2,813,086	4,046	2,813,086	4,046
Class B preferred shares	8,000,000	8,000	8,000,000	8,000
	13,135		13,135	

Class B voting preferred shares are held by TD Bank. The Bank's Class A non-voting preferred shares will be converted to common shares when TD Bank no longer controls the Bank on the basis of one common share for one Class A preferred share.

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Under the terms of the By-laws of the Bank, common shares and Class A preferred shares may be owned only by First Nations Investors as defined in the By-laws and, until 2006, the Class B preferred shares may be owned only by TD Bank or one of its affiliates. Owners of all classes of shares are entitled to dividends, if declared by the Board of Directors of the Bank within the first 60 days after the Bank's fiscal year end. No dividends may be declared on common shares unless the Bank concurrently declares an equal per share Class A preferred share dividend. While TD Bank is an owner of the Class B preferred shares, the aggregate amount of the dividends paid for a given year to owners of the common and Class A preferred shares may not exceed the First Nations Distributable Amount, as defined. Likewise, the amount of the dividends paid for a given year to owners of the Class B preferred shares may not exceed the TD Distributable Amount, as defined.

As at October 31, 2005, the TD Distributable Amount was an income of \$705 [2004 - income of \$445] and the First Nations Distributable Amount was a deficit of \$1,201 [2004 - deficit of \$1,303].

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Balance sheets	2005		2004	
	Carrying value \$	Estimated fair value \$	Carrying value \$	Estimated fair value \$
ASSETS				
Loans, net	107,124	108,707	103,478	107,158
LIABILITIES				
Borrowings	134,301	134,446	120,069	119,798

The aggregate of the estimated fair value amounts presented does not represent management's estimate of the underlying value of the Bank. Moreover, fair values disclosed represent estimates of values made at a specific point in time and may not be reflective of future fair values.

Fair values are based on the following methods of valuation and assumptions:

In the case of items which are short-term in nature or contain variable rate features, fair value is considered to be equal to carrying value.

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The estimated fair value of loans reflects changes in general interest rates which have occurred since the loans were originated and the creditworthiness of individual borrowers. For fixed-rate loans, estimated fair value is determined by discounting the expected future cash flows related to these loans at market interest rates for loans with similar credit risks.

The estimated fair value of borrowings, other than short-term items, is determined by discounting the contractual cash flows using interest rates currently offered for deposits with similar terms.

8. INCOME TAXES

Significant components of the Bank's future tax assets are as follows:

	2005	2004
	\$	\$
Future tax assets		
Allowance for credit losses	202	158
Capital assets	70	79
Loss carryforwards	—	145
Other	7	23
	279	405

At October 31, 2005, the Bank has net loss carryforwards of nil [2004 - \$398] for income tax purposes. For financial reporting purposes, a future tax asset of nil [2004 - \$145] has been recognized in respect of these loss carryforwards.

Significant components of the provision for income taxes are as follows:

	2005	2004
	\$	\$
Current income tax expense	121	26
Future income tax provision (recovery)		
Relating to origination and reversal of temporary differences	(33)	(13)
Resulting from recognition of loss carryforwards	145	303
Provision for income taxes	233	316

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Current income tax expense includes \$97 income tax [2004 - nil] and \$24 [2004 - \$26] federal Large Corporations Tax.

The provision for income taxes shown in the statements of income differs from that obtained by applying statutory tax rates to the income before provision for incomes taxes for the following reasons:

	<u>2005</u>		<u>2004</u>	
	\$	%	\$	%
Pre-tax net income	609		769	
Income tax at statutory rate	223	36.6	282	36.7
Large Corporations Tax	24	3.9	26	3.4
Tax provided through deficit	(14)	(2.3)	(12)	(1.6)
Others	—	—	20	2.6
Effective tax	233	38.2	316	41.1

9. INTEREST RATE RISK

The following tables set out the assets and liabilities on the date of the earlier of contractual maturity or when they re-price. Use of these tables to derive information about the Bank's interest rate risk position is limited by the fact that the date the financial instruments re-price may be different from the earlier of contractual maturity or re-pricing date. Examples of this include mortgages which are shown at contractual maturity but which often prepay earlier, and certain borrowings, which are shown at contractual maturity but which are often cashed before their contractual maturity.

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NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2005 and 2004

	2005						Total \$
	Floating rate \$	Less than 1 year \$	1 to 2 years \$	2 to 3 years \$	Over 3 years \$	Non- interest rate sensitive \$	
ASSETS							
Cash	34,076	—	—	—	—	—	34,076
Mortgage loans	—	6,252	4,519	5,930	11,631	—	28,332
<i>Effective yield</i>		5.67	6.06	5.40	5.42		
Other loans	49,912	26,488	1,758	239	395	—	78,792
<i>Effective yield</i>	5.22	7.00	6.94	8.21	7.98		
Cheques and other items in transit, net	—	—	—	—	—	8,796	8,796
Other	—	—	—	—	—	1,872	1,872
	83,988	32,740	6,277	6,169	12,026	10,668	151,868
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	91,327	39,308	1,586	1,689	391	—	134,301
<i>Effective yield</i>	0.70	4.36	3.83	4.31	2.82		
Other	—	—	—	—	—	4,553	4,553
Shareholder loan	—	—	—	—	—	375	375
Shareholders' equity	—	—	—	—	—	12,639	12,639
	91,327	39,308	1,586	1,689	391	17,567	151,868

First Nations Bank of Canada

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2005 and 2004

	2004						Total \$
	Floating rate \$	Less than 1 year \$	1 to 2 years \$	2 to 3 years \$	Over 3 years \$	Non-interest rate sensitive \$	
ASSETS							
Cash	22,900	—	—	—	—	—	22,900
Mortgage loans	—	6,397	4,341	3,629	8,709	—	23,076
<i>Effective yield</i>		6.58	6.17	6.41	5.83		
Other loans	49,264	6,860	22,047	1,753	478	—	80,402
<i>Effective yield</i>	5.36	5.26	7.14	6.59	8.05		
Cheques and other items in transit, net	—	—	—	—	—	8,524	8,524
Other	—	—	—	—	—	1,780	1,780
	72,164	13,257	26,388	5,382	9,187	10,304	136,682
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	81,527	12,340	23,121	1,349	1,732	—	120,069
<i>Effective yield</i>	0.65	2.37	5.81	4.02	4.17		
Other	—	—	—	—	—	3,961	3,961
Shareholder loan	—	—	—	—	—	375	375
Shareholders' equity	—	—	—	—	—	12,277	12,277
	81,527	12,340	23,121	1,349	1,732	16,613	136,682

First Nations Bank of Canada

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2005 and 2004

10. LEASE COMMITMENTS

The Bank has obligations under long-term, non-cancellable leases for premises as follows:

	\$
2006	98
2007	97
2008	38

11. CONTINGENT LIABILITIES, COMMITMENTS AND GUARANTEES

In the normal course of operations, the Bank, as set out in its By-laws, indemnifies directors and officers in certain circumstances, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the Bank. The Bank may be required to indemnify directors, officers and such person's heirs or legal representatives for costs incurred as a result of civil, criminal or administrative actions to which such person is made a party in certain circumstances. The duty of the Bank to indemnify is further contingent on the director or officer meeting certain criteria in the By-laws such as to have acted honestly and in good faith with a view to the best interest of the Bank. The nature of the indemnification prevents the Bank from making a reasonable estimate of the maximum potential amount that the Bank would be required to pay such persons. No amount has been accrued in the financial statements with respect to this indemnification.