

Annual Report 2006-2007



NEW BRUNSWICK
SECURITIES COMMISSION

COMMISSION DES
VALEURS MOBILIÈRES
DU NOUVEAU-BRUNSWICK



Transmittal Letter

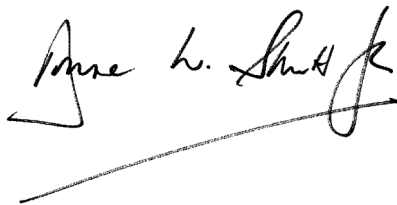
September 2007

The Honourable Thomas J. Burke, Q.C.
Minister of Justice and Consumer Affairs
Province of New Brunswick

Dear Minister Burke:

I am pleased to submit the New Brunswick Securities Commission's Annual Report for the fiscal year 1 April 2006 to 31 March 2007 to the Legislative Assembly of New Brunswick. This report outlines the Commission's vision, mission, mandate and values. The report also provides the Commission's financial statements and our report on performance regarding our strategic priorities.

Respectfully submitted,

A handwritten signature in black ink, reading "Donne W. Smith". The signature is written in a cursive style with a long horizontal stroke extending to the left.

Donne W. Smith
Chair and Chief Executive Officer
New Brunswick Securities Commission



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NEW BRUNSWICK
SECURITIES COMMISSION

COMMISSION DES
VALEURS MOBILIÈRES
DU NOUVEAU-BRUNSWICK



About the New Brunswick Securities Commission

Our strategic direction

OUR VISION

The New Brunswick Securities Commission is a respected leader in the regulation of capital markets because we are fair and balanced in our regulatory conduct; respectful and efficient in providing our services; and determined and innovative in achieving our goals.

OUR MISSION

- Inspire confidence in our capital markets by enhancing the ability of investors and market participants to understand their roles and responsibilities.
- Foster dynamic and competitive capital markets in New Brunswick that present investment and economic development opportunities and access to capital.
- Establish and enforce a regulatory environment that protects the integrity of our capital markets and makes them attractive and fair.

OUR MANDATE

- Provide protection to investors from unfair, improper or fraudulent practices.
- Foster fair, efficient capital markets and confidence in capital markets.

OUR VALUES

- Integrity in how we operate
- Competence in what we do
- Accountability for our decisions and actions
- Respect for those with whom we deal
- Fairness in how we deal
- Responsible leadership in fulfilling our mandate
- Excellence as a cost-effective and efficient regulator

OUR STRATEGIC PRIORITIES

Our Corporate Priority

Implement the infrastructure needed for the established corporate entity to excel as a Crown corporation and quasi-judicial tribunal.

Our Education Priority

Create an environment where investors and market participants are informed about their rights and responsibilities respecting the capital markets.

Our Capital Market Growth Priority

Grow the capital markets in New Brunswick.

Our Investor Protection Priority

Protect the integrity of New Brunswick's capital markets through active compliance and vigorous enforcement measures.

Message from the Chair and Chief Executive Officer



On behalf of the Members of the New Brunswick Securities Commission, I am pleased to present the Commission's Annual Report for the operating year 2006-07. This report summarizes the many advances and achievements we have realized during this year as we endeavoured to fulfill our vision, mission, mandate and strategic priorities.

2006-07 was our third fiscal year of operation. The Commission Members continued to exercise strong leadership by providing corporate oversight, setting our policy direction and carrying out increasing quasi-judicial responsibilities. The Commission's Governance Policy – fundamental to a regulatory agency such as ours – is second-to-none, in our view, in the New Brunswick government environment.

We continued to mature as an organization after achieving our start-up objectives, enabling us to better focus on our regulatory mandate. We renewed our organizational plan and adjusted it to our most important asset – our Commission staff.

We are excited about our leadership in the Fullsail initiative and in the successful partnerships that have formed and continue to evolve.

Our capital markets initiative garnered significant stakeholder support and media interest this year. Our successes were evidenced in the positive press and media attention, highlighted by stories in the local media and features in a number of out-of-

province business publications. We were particularly pleased to receive the "Best New Initiative" award at the Canadian Investment Awards in November 2006 for our Fostering Capital Markets initiative. This is the first time that a government agency has been the recipient, and the first time that the award has been presented to an organization east of Montreal. We expended considerable time and energy throughout 2006 to execute what has become known as the Fullsail Initiative. The Fullsail Summit conference in January 2007 was a highlight of the year's activities. We are excited about our leadership in this initiative and in the successful partnerships that have formed and continue to evolve. We especially look forward to the follow-up Fullsail Summit in 2008 where we intend to celebrate the initiative's successes.

Our mandate to protect investors continued as a prime focus throughout the year. We worked very hard to prevent, detect and deter market abuses. I am proud of our staff's devotion to the people of New Brunswick as we partnered with other securities regulators, government and law enforcement agencies to protect the investing public.

I am pleased that the Commission once again took an active role to reform Canada's national regulatory system. The Canadian Securities Administrators (CSA) are championing a fundamental restructuring of the Canadian securities regulatory system. This initiative, called Passport, is being enhanced significantly to enable a single window of access to multiple jurisdictions. This year the CSA strengthened Passport by allowing the participants to clear prospectuses, register as a dealer or adviser or obtain an exemption from one

home province regulator. Once fully implemented next fiscal year, the system will be cheaper, faster and simpler than any proposal currently being discussed. It is expected that participants will be subject to only one set of laws, eliminating professional costs for dealing with multiple regulators and complying with different statutes.

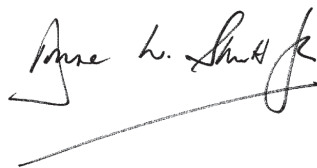
Our legislative proposals consequential from the national regulatory reforms became law in May 2007. These amendments – the first since the *Securities Act* was proclaimed in 2004 – must be viewed as a significant achievement given their extensive nature. That such an amending Bill was introduced and passed is, in my view, evidence of the Legislature’s full support of our mandate. Staff of the Commission are to be congratulated for their efforts in achieving another legislative milestone.

We should be increasingly proud that our regulatory voice is both heard and respected. Our regulatory partners acknowledge us as an agency of vision, expertise and drive. There is a growing recognition by CSA members and industry-related associations that the Commission is an important participant in our national regulatory system. Our staff continue to assume positions of leadership within the national regulatory system, participating on nearly 30 CSA committees. Our Executive Director now chairs the very important CSA Executive Directors’ Committee and is helping it to more effectively support the leadership of the Chairs of Canada’s commissions. These are positive examples of our work, and confirm that our approach to future uncertainty is to continue to demonstrate present value and regulatory excellence.

It is unfortunate for New Brunswick investors and capital markets that there continues to be some uncertainty with regard to the future of the current national regulatory system. Proponents of a centralized securities regulator continue to promote a model which would, in our view, disadvantage New Brunswick investors and capital markets. No centralized regulator can possibly expect to duplicate the efforts in New Brunswick of a regulatory agency close to the people and markets it is mandated to serve.

This Annual Report reflects the activities of Commission Members and staff as they continue to work diligently to build a respected regulatory agency. As we enter our fourth year of operations, however, we must be cognisant of the dangers of “resting on our laurels.” We must continue to ensure that we remain a unique, cutting-edge organization of influence, both provincially and nationally. Commission Members and staff will be challenged to maintain the bold corporate and regulatory culture upon which the Commission was founded.

As Chair and Chief Executive Officer, I take great pride in the accomplishments which this report details. I extend once again my sincere thanks to Members and staff who demonstrate their dedication to our mandate and the people of New Brunswick throughout the year.



Donne W. Smith
Chair and Chief Executive Officer
New Brunswick Securities Commission

The Commission

OVERVIEW

The New Brunswick Securities Commission consists of Commission Members and operational staff. Members act as our board of directors, set policy and recommend changes to the *Securities Act*, and act as a quasi-judicial tribunal. The Chair, a full-time Member, acts as our Chief Executive Officer and is responsible for the overall operation of the organization. There are five part-time independent Members, one of whom fulfills the role of Lead Member. Our Members are appointed by the Lieutenant-Governor in Council for terms not exceeding five years, and Members may be re-appointed.

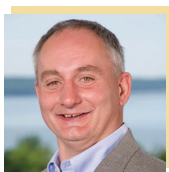
At the end of March 2007, the Members of the Commission were:



Donne W. Smith, Chair and Chief Executive Officer, of St. Andrews: At the time of his appointment, Mr. Smith had 20 years of experience in securities law. Previously, he had assumed the role of Administrator and Director of the Securities Administration Branch of the Department of Justice under the *Security Frauds Prevention Act*. For several years, he concurrently held the role of secretary of the Board of Commissioners of Public Utilities and Motor Carrier Board. Mr. Smith was also acting Chair of the Public Utilities Board in 2006. He is a member of the New Brunswick Law Society, the Canadian Bar Association and former vice-chair of the Canadian Securities Administrators.



David T. Hashey, Q.C., of Fredericton: Mr. Hashey is the Lead Member of the Commission and is a Member of the Human Resources and Governance Committee. Mr. Hashey is a partner with the Fredericton law offices of Cox Palmer. One of his major areas of practice is health law. He also practices in commercial litigation, fisheries, and natural resources. He is currently a member of the Law Society of New Brunswick, the Canadian Bar Association, the York-Sunbury Law Society, the Defence Research Institute, and is a Fellow with the American College of Trial Lawyers. He also served as Past-Director and President of the Federation of Law Societies of Canada.



William D. Aust, of Riverview: Mr. Aust is the Chair of the Audit Committee and a Member of the Human Resources and Governance Committee. He retired from a banking career with the Bank of Nova Scotia as senior manager of credit in the commercial banking area. Mr. Aust has a Masters Degree in Business Administration with a concentration in finance and is obtaining a Certified Financial Analyst designation. He has completed the Institute of Corporate Directors course and is currently a board member of Moncton Headstart Recycles Inc. and of the South East Regional Health Authority.



Hugh J. Flemming, Q.C., of Rothesay: Mr. Flemming is a member of the Audit Committee. He was admitted to the Law Society of New Brunswick in 1978 and has practiced in the areas of bankruptcy, insolvency, municipal law and corporate and commercial banking. He is a Member of the Law Society of New Brunswick, the Canadian Bar Association and the Saint John Law Society. Mr. Flemming is currently the owner and operator of Caldwell Transport Ltd.



Anne La Forest, of Fredericton: Ms. La Forest is the Chair of the Human Resources and Governance Committee. After many years in private practice and as a professor, Ms. La Forest was appointed Dean of the University of New Brunswick's Faculty of Law and remained Dean until 2004. Professor La Forest teaches in the areas of property law, international law, comparative law, commercial law, conflict of laws, and securities law. In 1995, she received the Dalhousie Law Alumni Association and Law Students' Society Teaching Award. She is a member of the Law Society of New Brunswick, the Canadian Bar Association and of the bars of Nova Scotia and Ontario. She has extensive experience as an arbitrator, is a Fellow of the Cambridge Commonwealth Society and is currently a member of the Board of Governors of the National Judicial Institute.



Paulette Robert, of Tracadie-Sheila: Ms. Robert is a Member of the Audit Committee. She is the Executive Director of the Community Business Development Corporation of the Acadian Peninsula in New Brunswick. Prior to this, Ms. Robert was Assistant Manager of two branches of the National Bank of Canada, operating with both individual and commercial banking. She has had board responsibilities with several organizations.

Member	Date Appointed	Current Term Expires
Donne W. Smith (Chair)	1 July 2004	30 June 2009
William D. Aust	1 July 2004	30 June 2007
Hugh J. Flemming	1 July 2004	30 June 2008
David T. Hashey	1 July 2004	30 June 2008
Anne La Forest	1 July 2004	30 June 2008
Paulette Robert	1 July 2004	30 June 2007



From left to right:
 David T. Hashey, Q.C.,
 William D. Aust,
 Paulette Robert,
 Hugh J. Flemming, Q.C.,
 Anne La Forest, and
 Donne W. Smith.

RESPONSIBILITIES

The Chair

The Chair, also our Chief Executive Officer, is responsible for the administration of the *Securities Act* and for the overall performance and management of the organization. He reports to the provincial legislature through the Minister of Justice and Consumer Affairs, who is also the Minister responsible for securities regulation. The Chair presides over the Commission when it acts as a board of directors.

The Chair is our chief spokesperson and demonstrates and exercises leadership by representing the organization to the general public. At a senior level, he also manages our relationship with national and international organizations such as the Canadian Securities Administrators, self-regulatory organizations, advisory committees and senior industry organizations.

Members

Commission Members direct the regulation of the capital markets in New Brunswick by making rules and policies that govern the conduct of securities market participants, such as dealers, advisers and their employees. The Members meet regularly in their role as policy-makers. As part of this function, Members approve rules or regulations and recommend changes to the *Securities Act*, as needed.

Our Members also act as a quasi-judicial tribunal by holding hearings and making decisions as set out in our legislation. In their role as adjudicators, they participate in enforcement proceedings, consider applications for exemptive relief from the requirements of the legislation and hear appeals from decisions of the Executive Director. During the 2006-07 fiscal year, our panels heard six enforcement matters over 24 hearing days. Some of these enforcement proceedings are still ongoing. Two Member panels also met 55 times over the fiscal period to consider applications for exemptive relief.

Members act as our board of directors and are responsible for overseeing the management of the organization's business, including the review of our strategic business plan, operating budget, and financial statements. During the fiscal year 2006-07, Members of the Commission met nine times as a board of directors.

Corporate Governance

The Commission has a Governance Policy which allows practical and effective management within a context of high standards of governance. The full text of the policy is found on our website at www.nbsc-cvmnb.ca.

The Chair and Chief Executive Officer is considered to be “non-independent” from staff, as defined in the Canadian *Corporate Governance Guidelines for Reporting Issuers*. We hold regularly-scheduled meetings of the independent Members of the Commission and of its standing committees to maintain full independence in our processes.

The Lead Member is appointed for a one-year term, which can be renewed once. David T. Hashey, Q.C., was appointed as Lead Member on 30 January 2006 and his term was renewed for one year.

We review our Governance Policy and practices on a yearly basis in our ongoing efforts to achieve excellence. During the fiscal year, we undertook a thorough review of our nomination process for Member appointments. This review was performed in anticipation of the expiry of the terms of two of our Members, William D. Aust and Paulette Robert, on 1 July 2007.

Although Members are appointed by Order-in-Council, our good governance practices suggest that Members play an active role in selecting candidates to be recommended to the Minister responsible for the Commission. We entered into a Memorandum of Understanding (MOU) with the Department of Justice and Consumer Affairs on 16 May 2006, confirming Members’ involvement in the nomination process. The MOU provides that we are to:

- notify the Minister of upcoming Member vacancies;
- prepare selection criteria and identify the needed skills for new Members;
- identify potential individuals who best meet the identified requirements; and
- recommend appropriate candidates to the Minister.

Our Human Resources and Governance Committee developed a profile for our organization as a whole and assessed the current strengths of our Members against this profile. Position descriptions were developed based on this assessment in anticipation of the expiry of two of its Members’ terms.

COMMITTEES

We have two standing committees of the Commission: the Audit Committee and the Human Resources and Governance Committee. The mandate of the committee determines its size, and each includes a minimum of three Members. Both committees are currently comprised of four Members. The committee chairs and other voting Members of the Committee are all independent Members of the Commission. The Chair of the Commission is an *ex officio* and non-voting Member of each of the standing committees.

The Members designate one of the independent committee Members as chair. Committee Members are appointed or reappointed at the first Commission meeting following the end of the fiscal year.

Audit Committee

This committee assists us in our oversight role with respect to the quality and integrity of internal controls, management information systems, financial information and risk management. Members of the Audit Committee are required to be sufficiently versed in financial matters to understand our accounting practices and policies and the principles involved in preparing the financial statements. The Members are: William D. Aust (Chair), Hugh J. Flemming, Q.C., Paulette Robert and Donne W. Smith (*ex officio*). For the fiscal year 2006-07, Members of this committee met seven times.

The Auditor General of New Brunswick is the independent auditor and audits our year-end financial statements.

Human Resources and Governance Committee

The Human Resources and Governance Committee ensures that a proper corporate organizational structure is in place; senior officers create a culture of integrity throughout the organization; and appropriate succession planning is undertaken, including procedures for selecting, training and monitoring Members and senior management. This committee also oversees our governance procedures, including the performance assessment processes for the organization, our committees, Members and staff. The Members are: Anne La Forest (Chair), William D. Aust, David T. Hashey, Q.C., and Donne W. Smith (*ex officio*). For the fiscal year 2006-07, Members of this committee met 11 times, including three meetings by teleconference.

ORIENTATION OF NEW MEMBERS AND CONTINUING EDUCATION OF MEMBERS

We developed a comprehensive orientation program for new Members that is intended to provide them with an overview of the Canadian and New Brunswick securities regulatory landscape, the organization's operations, financial affairs and governance practices. The program will be delivered through a series of meetings with the Chair, current Members and senior staff. We will also provide each new Member with a comprehensive reference manual.

We place great importance on providing Members with opportunities to broaden their knowledge and experiences in securities regulation. In particular, we encourage our Members to participate in continuing education sessions. Management organizes presentations on various topics relevant to the Members' role within the Commission; this supplements the various education sessions offered by external parties.

Organizational Structure

THE COMMISSION

We are an independent, self-funded Crown corporation listed under Part IV of the *Public Service Labour Relations Act*. Our purpose is to administer the *New Brunswick Securities Act*. Our Members, acting as the board of directors, have the authority to carry out all responsibilities for the operation of the organization as set out in the legislation.

Our mandate is to protect investors from unfair, improper or fraudulent practices and foster fair, efficient capital markets.

The Members apply their expertise in the areas of management oversight, policy development and adjudication. The Chair is our Chief Executive Officer, while the Executive Director is our Chief Administrative Officer.

Management is accountable to the organization and also, in the case of the Chair, to the Government and Legislature. The Members are accountable to the Government, and by extension through the Legislature, to the public for the proper administration of the *Securities Act* and the effective governance of the Commission.

The Commission's mandate

Our mandate is to protect investors from unfair, improper or fraudulent practices and foster fair, efficient capital markets. In support of these objectives, we:

- educate investors and provide information on capital markets;
- act as a catalyst in the development of New Brunswick's capital markets;
- provide registration services for dealers and advisers;
- review issuers' prospectuses and other ongoing disclosure documents;
- consider applications for exemptions from specific regulatory requirements;
- oversee enforcement and regulatory activities of self-regulatory organizations;
- investigate complaints and prosecute violations of securities legislation;
- hold administrative and adjudicative hearings;
- formulate policy; and
- provide advice to government on matters within our regulatory mandate.

We are organized into five functional divisions. Each division has either a lead or contributory role in the accomplishment of our objectives. The divisions are:



Executive Management

The Executive Management division consists of the Executive Director and direct reports. This division exercises statutory regulatory authority and other responsibilities delegated by the Commission. It also provides direction to staff while ensuring cost-effective service delivery, efficient regulatory function, administrative support and streamlined management of the organization.

Communications and media relations activities, and management of the capital market development initiatives are found within the Executive Management team as well. The division also undertakes long term strategic planning for the Commission.

General Counsel and Secretary

The General Counsel and Secretary division acts as both our legal and policy branch. This team provides advice to Members and staff on corporate, operational, regulatory and adjudicative matters and acts as the regulatory policy coordination division. The General Counsel division also leads certain major regulatory policy projects.

The General Counsel, through its staff, is the Secretary of the Commission and is responsible for organizing our board meetings and administrative hearings and ensuring their efficient operation. This division is also responsible for developing and delivering our educational programs for the general public, investors and other stakeholders.

Corporate Finance

The Corporate Finance division reviews offering documents to ensure that they meet industry standards and are presented in clear and understandable language; monitors and reviews continuous disclosure documents; and provides recommendations on applications for discretionary relief from specific securities law requirements.

This team actively participates in regulatory policy initiatives affecting issuers, and provides accounting, auditing and budget expertise to the organization.


Market Regulation

The Market Regulation division acts as the gatekeeper, helping preserve the integrity of the capital markets by carefully reviewing applications from individuals and firms who want to deal or advise in the province's capital markets. This team approves applications that meet the prescribed standards for suitability, financial stability and competence.

The Market Regulation team lends structure to New Brunswick's capital markets by conducting compliance reviews and educating industry on compliance issues with securities law and industry standards. They also analyze and make recommendations on certain applications for exemption from the requirements of New Brunswick securities laws, and provide an oversight function to the securities industry's self-regulatory organizations.

Enforcement

The role of the Enforcement division is to protect New Brunswick's public interest and the integrity of its capital markets. This division responds to



investor complaints and inquiries, investigates and prosecutes violations of the *Securities Act*, and minimizes fraudulent activity against the investing public through proactive and vigorous enforcement of legislation.

The Enforcement division generates and evaluates information it receives on potential violations of the *Securities Act*, and works with staff from other divisions to advance public awareness about fraud.

Organizational chart

as at 31 March 2007



Government and Legislature



Message from the Executive Director



Our vision sees the New Brunswick Securities Commission as a respected leader in the regulation of capital markets because we are fair and balanced in our regulatory conduct, respectful and efficient in providing our services, and determined and innovative in achieving our goals. We have a top-notch team of qualified individuals focused on our mandate and our four strategic priorities to make this vision a reality.

Our General Counsel division, led by Manon Losier, spearheaded the extensive work on preparing our legislative amendments and rules development project. This group also provided the essential support needed for the effective operation of the Commission in its capacity as our board of directors and as an administrative tribunal. Staff in this division ensured our efforts on various Canadian Securities Administrators (CSA) projects were coordinated and they championed a number of educational initiatives directed towards investors, professionals and entrepreneurs. Of significance is our sponsoring the introduction of securities courses in the law schools at the University of New Brunswick and Université de Moncton.

Aside from ensuring our own finances are sound, our Corporate Finance division, under the control of Kevin Hoyt, reviewed more than 600 exemption applications and received more than 530 prospectus filings from issuers. The reviews carried out by staff in Corporate Finance help ensure that issuers are in compliance with the regulations and are providing proper information so that investors can make informed investment decisions. Staff developed a Reporting Issuers List for our website to help investors seeking information on a reporting issuer's status, particularly any default notices or cease-trade orders in place.

Staff reviewed the registration of more than 7,000 individuals and over 260 firms.

The Market Regulation division serves as the gatekeeper for registration of dealers and advisers. Under the guidance of Andrew Nicholson, staff in this division reviewed the registration of more than 7,000 individuals and over 260 firms. Staff also carried out reviews of market participants to ensure compliance with our requirements. Our overall approach is to help market participants be compliant and, as such, this group provided assistance with and feedback on meeting the legislative requirements.

Our Enforcement division, under the direction of Jake van der Laan, was fully engaged in pursuing improper and fraudulent activity directed towards New Brunswick investors. Many of the frauds they dealt with were Internet-based telephone solicitations. These frauds usually involved off-shore organizations and banking arrangements and required us to work with other jurisdictions. The efforts of staff in this division to pursue and publicize these cases helped a number of New Brunswickers avoid investing in fraudulent propositions.

The highlight of our capital market development efforts in the past year was our Fullsail Summit held in Moncton in January. Staff from across all divisions helped organize the event, which was a major undertaking. We wanted this conference to be different and action oriented. Delegates at the Summit identified and volunteered to pursue concrete solutions, rather than simply listen to speakers identify what needed to be done. Commitments were made to implement 24 out of 33 proposed recommendations over the next year.

The "Report on Performance" contains a broader overview of our accomplishments against each of our strategic priorities. It is the hard work and dedication of all of our staff, who work well as a team that has made this happen. You can see who these individuals are on our organizational chart. I would like to note the contribution of one individual, Allan Stevenson, our Compliance Officer, who retired in December. Allan, who was with the Commission from the start, had 32 years of public service. Allan had a wealth of knowledge on compliance matters and we were fortunate that, before he left, he was able to help train our new Compliance Officer.



Kenrick G. Hancox
Executive Director
New Brunswick Securities Commission

Report on Performance

Corporate Priority

OUR CORPORATE PRIORITY

Implement the infrastructure needed for the established corporate entity to excel as a Crown corporation and quasi-judicial tribunal.

Overview

The objectives under this priority include establishing the physical, policy and public profile of the Commission and implementing the regulatory framework to meet the needs of our capital markets.

Establishing the profile of the Commission

We continued to work closely with our sister regulators in the Canadian Securities Administrators (CSA) this past fiscal year. Much of this work related to the harmonization of the regulatory framework in Canada and we contributed to more than 30 different policy projects. In addition, we had representatives on a number of different committees, including investor education, enforcement, information technology and executive directors. Our Chair, who was the previous vice-chair of the CSA, sits on the Chairs Committee and is one of the longest serving Chairs of a securities regulator in the country. We are a small jurisdiction and we carefully chose the areas of our involvement to those where we can make a contribution.

Another major area of cooperation with our counterparts across the country, and indeed in other countries, is in enforcement. We continued to work closely with the enforcement staff of other jurisdictions on cases that had cross-jurisdictional implications. Fraud artists know no geographical boundaries and we want to ensure that jurisdictional complications do not stand in the way of the successful pursuit of justice.

The Commission held an increased number of administrative tribunal hearings on enforcement matters over the last twelve months. Many of these resulted in disciplinary action. As part of our communications strategy to raise awareness about investor fraud, we issued a press release on each case, summarizing the circumstance, the violations and the resulting action taken. This approach, combined with our television and newspaper campaign, helped reinforce that we are the place to call if an investor is suspicious or has concerns about an investment opportunity.

The fostering of New Brunswick's capital markets is an important part of our mandate. We worked with a broad range of stakeholders including academia, entrepreneurs, investors, industry, government, professional advisers and regulators on understanding the issues and complexities of the market in this province. In our role as a catalyst, we brought interested stakeholders together to not only identify issues, but more importantly, to develop solutions and to become engaged in their implementation. Our objective is to ensure securities regulation strikes the proper balance between a supportive business development culture and adequate investor protection. Our efforts in this area are more fully described in the section on "Our Capital Market Growth Priority."

We continued with initiatives to improve our organizational effectiveness. We updated our Governance Policy to ensure it reflected the latest practices. We

entered into a Memorandum of Understanding with the Department of Justice and Consumer Affairs to outline the responsibilities of each organization. We took the time for Members and management to assess our progress against our Strategic Business Plan, re-assess our desired priorities and evaluate the kinds of challenges we would face in the future. We are fortunate that we have well-qualified people on staff. Our challenge is to ensure that we maintain the kind of working environment that contributes to staff retention; to that end, we focused on professional development, succession planning and compensation review.

Regulatory framework

One of our biggest projects in this area involved developing amendments to the *Securities Act*. The changes fall into three categories: those that help streamline securities regulation across the country; those that improve investor protection; and those that enhance the Commission's ability to administer the legislation. The amendments will help eliminate regulatory barriers for those in the capital market, while improving protection for New Brunswick investors. They will help keep our securities laws current and up-to-date with those in other Canadian jurisdictions. They will achieve our objective for harmonizing regulatory requirements for securities across the country.

Most of the legislative changes deal with harmonizing our securities regulatory framework with our counterparts across Canada. Securities regulation is a provincial jurisdiction, but provincial and territorial regulators have been working on harmonizing regulatory requirements in Canada for a number of years. This initiative, known as the securities Passport system, creates a similar set of rules right across the country. It gives market participants a single point of entry into Canadian capital markets, allowing them to deal with a regulator in one jurisdiction instead of all of them,

thus making the system more efficient. As one of the country's principal regulators under the Passport system, we can act as a single entry point for market participants. This ongoing harmonization initiative rebuts the commonly-held myth that there are 13 different sets of disjointed securities laws in the country.

Fraud artists know no geographical boundaries and we want to ensure that jurisdictional complications do not stand in the way of the successful pursuit of justice.

New Brunswick investors will benefit from our enhanced enforcement powers. These changes will respond to issues that have been a major concern to investors. The changes will improve the ability for investors to get their money back in situations where their financial loss is a result of misrepresentation or fraudulent activity. The changes will also help remove obstacles to an investor's ability to sue an issuer if the investor relied on false information. In addition, we will have the ability to order that money obtained as a result of violating the *Securities Act* be turned over to us and, in some cases, an investor could be directly compensated for financial losses when it is clear that there was a violation of securities laws.

We continued to partner with our counterparts in the CSA to harmonize Canada's national regulatory framework. Our objective is to ensure that new

or revised rules reflect the needs of the capital markets, not only in New Brunswick, but across Canada.

The rule-making process provides stakeholders with an opportunity to comment on the substance of a regulatory proposal that will affect them. This is an important component of having a regulatory framework that balances the requirement for investor protection with the need for an environment that fosters capital market development in the province. All rules in development are posted on our website for a sixty-day comment period prior to adoption. In the past year, we actively encouraged New Brunswick stakeholders to take advantage of this opportunity to contribute to the drafting of regulations that will directly affect them.

Education Priority

OUR EDUCATION PRIORITY

Create an environment where investors and market participants are informed about their rights and responsibilities respecting the capital markets.

Overview

Our objective is to provide investors with impartial educational resources that they can use to make informed investment decisions. This goal applies to both today's and tomorrow's investors. We are striving to ensure that New Brunswickers gain the knowledge, skills and confidence they'll need to protect themselves from scams and unwise investments, and to make sound financial decisions.

We also provide other capital market participants, including industry professionals, with access to relevant information on securities law and New Brunswick's capital markets.

For investors

Investor index

In 2006, we worked with the CSA to develop and conduct an in-depth survey. The study looked at the attitudes and behaviours of Canadian and New Brunswick residents toward investments in general, and financial fraud. In addition to the national survey, 655 New Brunswick residents were interviewed.

The survey focused primarily on:

- understanding to what degree respondents invest their money and whether they have the necessary knowledge and skills to invest appropriately;
- benchmarking respondents' understanding of, and experience with, financial fraud; and
- benchmarking respondents' awareness of the Commission and their expectations of us.

The survey results showed that gaps exist between New Brunswick investors' attitudes and their actions, and also revealed a lack of awareness of the Commission. We are adjusting our educational and general awareness communications to address these issues.

Generally, the survey showed that residents of our province have the right attitudes about investing. However, they showed mixed results when it came to taking appropriate precautions in making investment decisions,

particularly as it relates to having a financial plan, independently researching investment opportunities, and reporting suspected fraud attempts. Although the study showed that New Brunswick residents felt just as likely to be approached or victimized by fraud, the rate of successful fraud attempts seemed to be much lower in New Brunswick than on a national level. The study revealed that New Brunswick residents believe that banning rule-breakers and educating investors should be the two highest priorities for regulators.

The full Investor Index survey is a useful tool to measure the success of our education initiatives. We plan to conduct the survey every two to three years to assess behavioural changes. Next year we intend to perform research on specific issues identified by the recent index. The information collected from these surveys will allow us to expand and develop education and awareness programs to increase investor knowledge and improve investment behaviour in identified areas.

CSA Triggering Events campaign

We worked as part of the CSA Investor Education committee on an integrated Triggering Events strategy. This strategy targeted information to specific audiences based on life events, rather than demographic profiles. Previous research shows that there are four triggering events in people's lives that prompt them to look for investment or financial information: getting married/co-habiting; raising a family; pre-retirement; and financial windfall.

The campaign, called "This is Your Life," used modified comic strips from the popular *For Better or For Worse* series to send investor education messages related to the triggering events. The campaign ran from January to November 2006, and included ads on the pre-retirement and financial windfall concepts; the ads ran in New Brunswick movie theatres in October.

Financial Fitness Challenge

The "Financial Fitness Challenge" contest ran for the month of April 2007. This CSA investor education initiative evolved from the previous "Test Your Financial IQ" contest. This year's web-based quiz targeted young people aged 15 to 21. In March, we sent posters and information sheets to approximately 200 education facilities and community centres in the province whose students fell into our targeted age group. The information and posters directed viewers to the website www.financialfitnesschallenge.ca where they were engaged with educational games, quiz, tips and interactive simulations that reflected the importance of saving and investing money for the future. The website also provided teachers with free resources that could be easily integrated into their current curriculum.



The strategic objectives of the Financial Fitness Challenge were to:

- capture the interest of Canadian youth aged 15 to 25, and in particular those aged 15 to 17;
- effectively communicate the importance of financial literacy; and
- promote youth engagement and active participation in financial matters.

Although there was a decrease in participation, there was an increase in students' interest in personal finance both before and after the quiz over last year:

	Before Quiz	After Quiz
Very interested	33% (26% in '06)	62% (57% in '06)
A little interested	53% (57% in '06)	36% (41% in '06)
Not at all interested	13% (17% in '06)	2% (3% in '06)

Investor Protection Awareness campaign

The Commission's "Invest in Knowing More" campaign was launched in the spring of 2006. This multi-year campaign promotes awareness of the Commission as the place to call if investors have concerns about a suspicious investment or an adviser.

The Investor Index suggested that only one in four New Brunswickers knows about the New Brunswick Securities Commission. We also want to increase the level of prudence and caution exercised by New Brunswickers when they make investments. In today's global and technologically enhanced investment environment, New Brunswick residents are increasingly exposed to overtures

for their money by people with whom they have no personal contact. Investment solicitations are being made by telephone, e-mail and the Internet and in most cases involve sending money out of the country. A potential investor who knows how to evaluate an investment opportunity and knows how to get information about the person who is doing the soliciting, is in a much better position to avoid a bad outcome.



**Face on,
everything looks fine...**

But consider all the angles.

While the majority of investments and professionals are legitimate, some are not. It is essential for investors to do their homework before handing over their money to anyone. Be concerned about the return of your money, not just the return on it.

Contact the New Brunswick Securities Commission if you:

- have been contacted by someone selling suspicious investments;
- have questions about someone offering a deal that sounds too good to be true; or
- wish to report unfair, improper or fraudulent investment practices.

Consider all the angles. Things may not always be as they appear.

NEW BRUNSWICK
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COMMISSION DES
VALEURS MOBILIÈRES
DU NOUVEAU-BRUNSWICK



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print and television media to deliver its message and is moving into its second year. We will focus more on enabling investors with these tools as we continue to build awareness.

Investor Watches

Along with our CSA counterparts, we developed Investor Watches to help the public understand the potential risks involved with certain investment products

and practices. These documents address the importance of understanding the risks involved as a key element to making informed investment decisions.

During the fiscal year, we issued the following Investor Watches along with other members of the CSA:

- Principal Protected Notes (PPNs);
- media advertisements promoting investment opportunities;
- e-mails touting micro-cap stocks/ pink sheets; and
- charitable donation arrangements (delivered in cooperation with the Canada Revenue Agency).

For capital markets

Capital Market Growth – Fullsail



In January 2007, we hosted the Fullsail Summit in Moncton, New Brunswick. An action-oriented conference, the Fullsail Summit was designed to inspire stakeholders to be a part of growing our provincial capital markets.

We are taking the lead on three recommendations related to education from the Fullsail Summit:

- **Prepare consulting, accounting and legal firms to work with entrepreneurs and equity capital** to address the need for technical learning opportunities for professionals and consultants who work with entrepreneurs;
- **Promote education and awareness about capital raising options for entrepreneurs and advising professions** to address the knowledge gap that exists among entrepreneurs and their advisers, including economic advising agencies, around equity and capital raising options; and
- **Launch education and awareness campaigns about all types of capital markets** to improve the overall general awareness of the equity capital market.

While each of these recommendations has the overall goal of increasing education and awareness of capital markets, each recommendation has a different focus. We have been working with external supporters to advance initiatives under each recommendation and will report on our accomplishments as part of the next Fullsail Summit in April 2008.

Working with education institutions

We have worked with the law schools at both the University of New Brunswick and the Université de Moncton to introduce a securities law course into their curriculum. Both institutions introduced the course in January 2007. The University of New Brunswick saw an enrolment of 30 students, while 16 students enrolled at the Université de Moncton. The University of New Brunswick will be re-offering the course in the fall of 2007, and the Université de Moncton will re-offer it in the winter of 2008. We provided funding of \$20,000 to each university to support the introduction of this initiative.

Capital Market Growth Priority

General awareness

Speaking engagements

We continue to deliver information about our mandate and securities in general to stakeholder groups, including lawyers, accountants, students, other regulators, and community volunteers and service organizations. We delivered a series of lunch-and-learn style presentations to more than two hundred lawyers, accountants, and other capital markets professionals. The presentations covered subjects such as the impact of the *Securities Act* and the Capital Pool Company program, as well as specific components of securities regulation.

We also spoke with members of the North American Securities Administrators Association (NASAA) about the Canadian Passport initiative. This system gives market participants a single point of entry into Canadian capital markets. We also spoke to 120 business and law students on topics such as ethics and the basics of securities regulation. Finally, we delivered a “train-the-trainer” session on Internet fraud through a program called The ABC’s of Fraud. The program is delivered by a group of community volunteers; it focuses strongly on educating seniors and educates listeners on how to recognize, report, and stop fraud.

Education website

This section of the website provides resources relevant to investors, professionals, and entrepreneurs. During the year, we undertook to overhaul the Commission’s website. Our new investor education section offers resources that teachers may incorporate into their classrooms. We will also highlight a broad range of topics, including the basics of investing, recognizing, avoiding, and reporting fraud, youth financial literacy, and seniors’ resources.

OUR CAPITAL MARKET GROWTH PRIORITY

Grow the capital markets in New Brunswick.

Overview

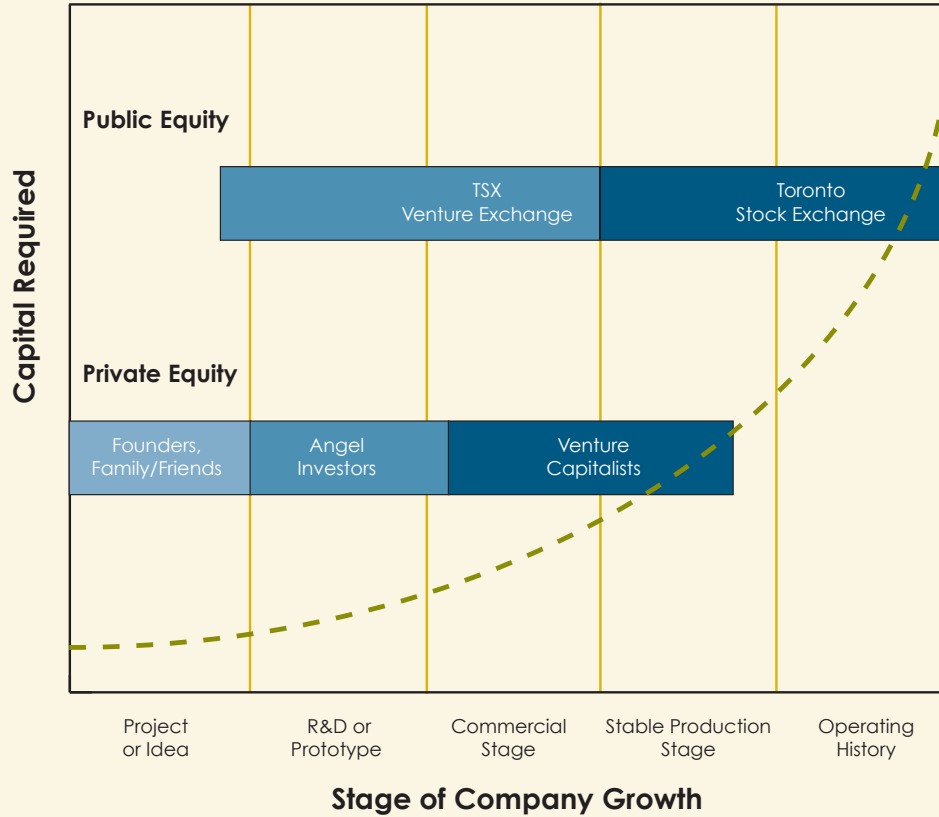
Our capital market development initiative seeks to develop a successful and consistent strategy for New Brunswick that will result in dynamic capital markets. We believe this will lead to economic independence and wealth for our province. Our task in this area has been and continues to be to provide leadership and act as a catalyst for change. We are supporting initiatives that increase equity capital opportunities and encourage the growth of entrepreneurship.

New Brunswick’s capital markets

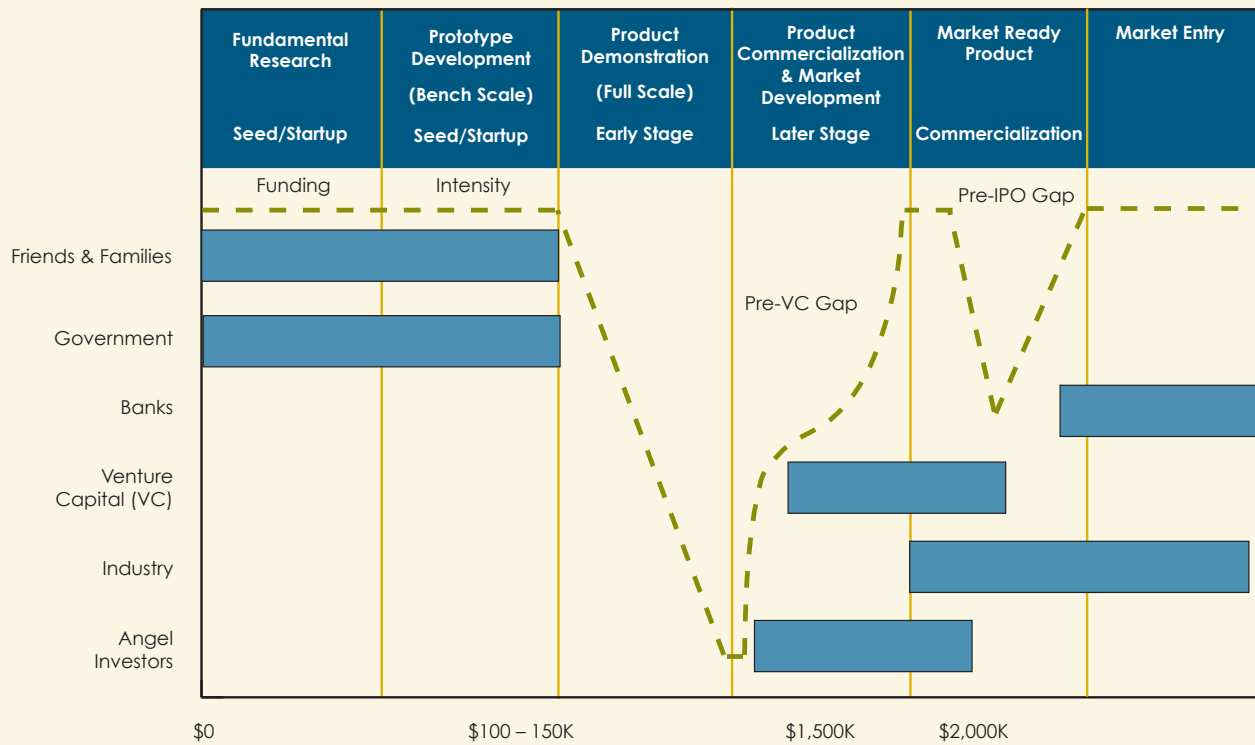
The current focus of our initiative is on developing the private and public equity markets. A company’s need for capital changes depending on its phase of growth (see Capital Continuum chart). The challenge for New Brunswick entrepreneurs is accessing various capital raising options suitable for their current developmental continuum. New Brunswick’s ability to close the Valley of Death funding gap (see Equity Funding Gap chart) will increase the opportunities for our entrepreneurs to prosper and grow.

This section summarizes the state of various stages of capital raising sources in New Brunswick’s capital markets.

Capital Continuum (TSX Venture Exchange)



Equity Funding Gap (Macdonald & Associates)



Angel investing

Angel investing typically involves private equity investments in the range of \$150,000 to \$1,500,000. Anecdotal evidence suggests that Angel investors exist in New Brunswick. As yet, there is no formal New Brunswick Angel network, although some New Brunswick Angels are now members of the newly-formed Atlantic First Angel Network. We worked with the National Angel Organization, Canada's voice of Angel investors, to understand the benefits of Angel investing and, in particular, acting and investing through an Angel network. Benefits for Angel investors include a better due diligence review, portfolio diversification and a wider group of mentors; all of which contribute greatly to de-risking their investments.

It is difficult to accurately state the size and amount of Angel investment in New Brunswick as certain trades by private issuers are not required to be reported.

Small Business Investor Tax Credit statistics

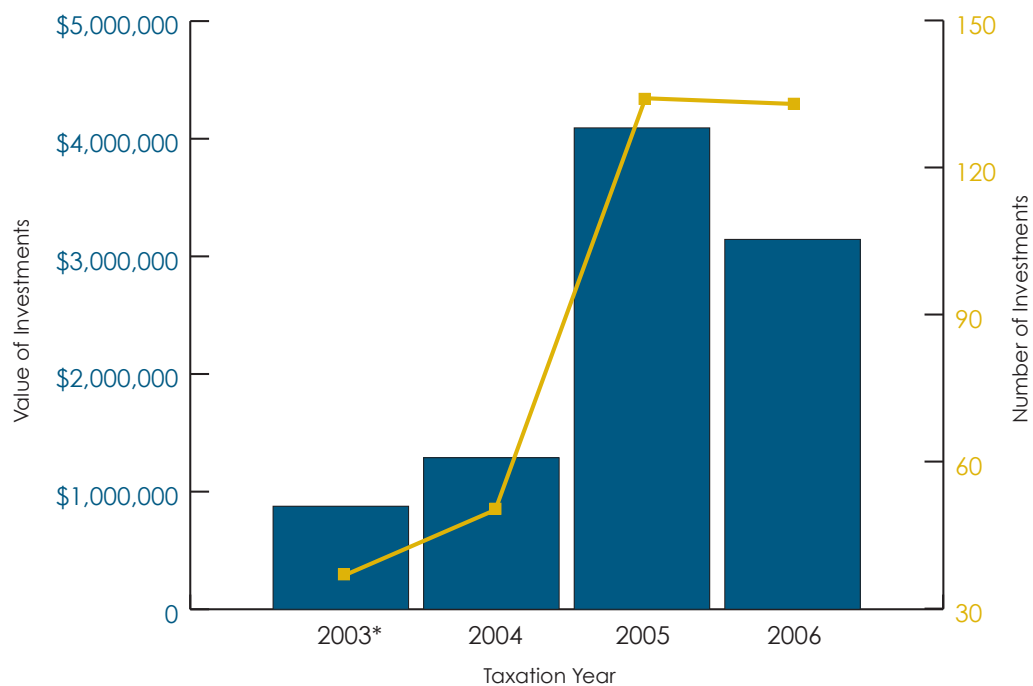
(Data provided by the New Brunswick Department of Finance)

Taxation Year	2003*	2004	2005	2006
Approved applications	6	11	22	24
Number of investments	37	50	134	133
Value of investments	\$876,000	\$1,288,438	\$4,092,330	\$3,144,219
Value of tax credit	\$262,800	\$386,532	\$1,227,700	\$943,266

*Program inception 1 August 2003

New Brunswick Small Business Investor Tax Credit

(Data provided by the New Brunswick Department of Finance)



To partially overcome this challenge, other jurisdictions such as British Columbia and Wisconsin use information from their early-stage investment tax credit programs as a proxy.

The province of New Brunswick introduced the Small Business Investor Tax Credit (SBITC) in 2003. This program provides a 30% tax credit to early-stage investors who invest in firms that are registered with the Department of Finance. There is a maximum credit of \$15,000 available per investor for this purpose. While this does not provide a complete picture of the province's Angel investment, it does provide a baseline from which to further assess the market size.

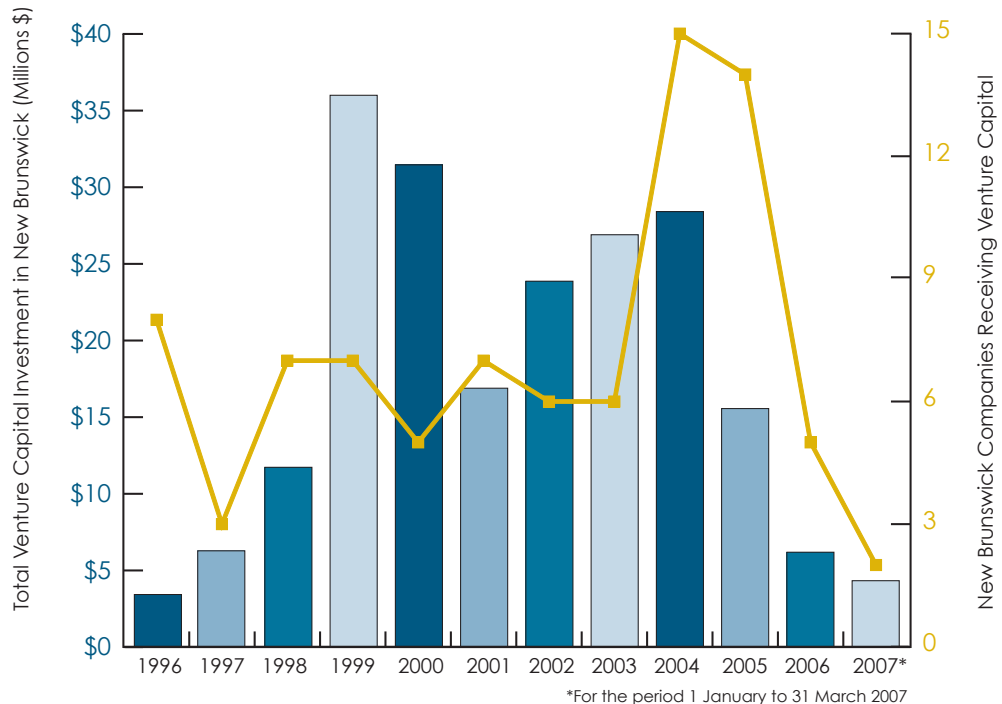
Since its inception, 63 applications for the SBITC have been approved with a resulting total investment of almost \$9.5 million. A total of 354 investments have been made, with the average investment being \$25,500. Apart from creating wealth and stimulating innovation, it is estimated that for every \$33,000 of early-stage investment, one job is created. Investment to date in early-stage companies that used the SBITC would suggest the possible creation of 285 positions of employment.

Venture capital

Venture capital investment in New Brunswick continues to be inconsistent and thus unpredictable. As demonstrated in the chart below, the province has experienced wide swings in investment dollars and the number of companies receiving investment over the past 11 years. Venture capital generally follows on from Angel investments and ranges in amounts in excess of \$1,500,000. There are few venture capital providers in New Brunswick; the majority of Canadian venture capital firms operate in the major population centres.

Venture Capital Investment in New Brunswick

(Data provided by Thompson Financial)



Venture Capital Investment in New Brunswick

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Invested (Millions \$)	\$3.43	\$6.28	\$11.73	\$36.00	\$31.46	\$16.89	\$23.87	\$26.90	\$28.41	\$15.56	\$6.19	\$4.33
Number of Companies	8	3	7	7	5	7	6	6	15	14	5	2
Number of Financings	8	3	7	7	6	7	6	7	15	16	5	2

*2007 is for the first quarter only

The table below puts New Brunswick's venture capital investment into a Canadian perspective. New Brunswick has been receiving a diminishing portion of Canada's total venture capital investment and this portion is not reflective of the size of New Brunswick's economic contribution to Canada's Gross Domestic Product (GDP).

Venture Capital Investment: New Brunswick vs. Canada (in \$1,000s)

	2004	2005	2006
Canada	\$1,762,523	\$1,828,938	\$1,693,000
New Brunswick	\$28,410	\$15,560	\$6,190
New Brunswick's % of Total Investment	1.61%	0.85%	0.37%
Provincial Venture Capital Ranking	4th	7th	8th

Note: New Brunswick's share of Canada's GDP is approximately 1.75%
(Data provided by Thompson Financial)

Exemptions

We have a system that allows certain types of issuers to solicit and distribute securities without the need for the full disclosure provided by a prospectus, and without the need for the participation of a registered dealer. These distributions are often referred to as "exempt distributions." Issuers can rely on several different capital raising exemptions under this system. The exemptions vary, depending on the type of securities issued, the issuer, and the investor buying the security.

We receive monthly reports on the investment activity conducted in relation to 10 of the exemptions. The reportable exemptions include distributions to accredited investors, friends, family, and those distributions that rely on an offering memorandum as a disclosure document. In 2006-07, firms reported that New Brunswick investors, including some New Brunswick pension funds, invested \$556 million relying on these exemptions. We determined that more than \$13 million of that amount was raised by New Brunswick-based corporations. The bulk of the money raised, approximately \$519 million, left the province and was invested in nationally-administered pooled funds.

Public equity

During 2006-07, no New Brunswick firms went public on either the Toronto Stock Exchange (TSX) or the junior TSX Venture Exchange which, when combined, list over 3,500 companies. The number of publicly-traded companies registered in the province remained at six. In an effort to develop the province's capital markets, the TSX Venture, in cooperation with the Commission, hosted additional information sessions about the Capital Pool Company Program in Edmundston and Bathurst.

Working to foster New Brunswick's capital markets

The last fiscal year saw great strides in our efforts to foster the capital markets. Below are a few of our initiatives and accomplishments.

Atlantic Angel conference

In April, we worked with the National Angel Organization and *propelsj*, an organization dedicated to encouraging entrepreneurship and innovation, to support and sponsor the first Angel conference in Canada held east of Montreal. The Atlantic Angel Conference, attended by 70 delegates from various stakeholder groups, introduced delegates to the benefits of Angel investing and working together in networks. The media coverage was supportive and an interest in Angel investing was sparked.

Wisconsin fact-finding mission

In June, we sent three senior representatives to visit the state of Wisconsin. Similar to our province in size and socio-economic status, Wisconsin is cited as a jurisdiction that has endured economic conditions similar to those in New Brunswick. However, over the past five years, Wisconsin has become a leading state in the development of entrepreneurship, Angel networks, innovation and in creating a tax environment that readily rewards early-stage investment.

Over a span of five days, our delegation visited numerous key individuals in government and private industry involved in Wisconsin's economic renewal. Discussions focused on the challenges, lessons learned and the processes that were put in place. The insights we gained from that visit were invaluable and were blended into our capital market development strategies.

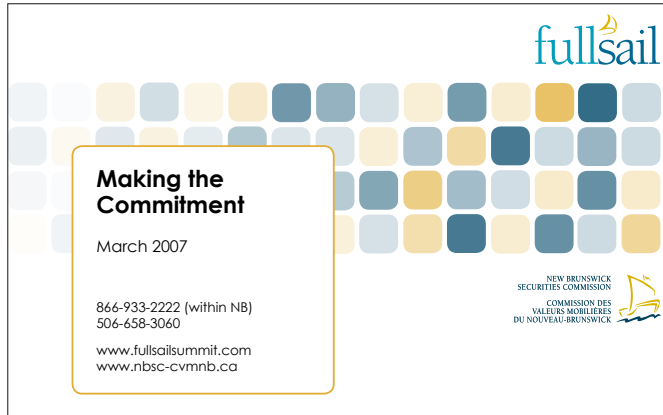
Funding our Future

In January, we released the *Funding our Future* report. This report was the culmination of many research hours, interviews with innumerable stakeholders, and internal discussions. It serves as a blueprint for advancing the province's capital markets. We realized that capital market development is complex and that siloed solutions have limited effect. It is clear that there is not one solution or organization that can address all the challenges. A holistic, integrative approach is needed. Our research showed that greater benefits can be achieved through the collaboration of all stakeholders, from entrepreneurs to investors, and all the peripheral groups associated with them. The report identified 33 recommendations that could be implemented within a year and an additional 44 for further consideration.



Fullsail Summit 2007

At the end of January, we hosted the Fullsail Summit in Moncton. Approximately 150 delegates representing various stakeholder groups attended the summit, and the event featured prominent speakers from local, national, and international academia, government and private sector. Fullsail sought to strengthen our entrepreneurial culture, enhance stakeholder connections, improve market knowledge and increase investments.



The summit was a unique, action-oriented event. We used the *Funding our Future* report as a foundation for discussion and action and challenged delegates to chart a course to take the recommendations from paper to reality. The summit concluded with individuals and supporters stepping forward to champion 24 of the 33 recommendations.

A follow-up report entitled *Making the Commitment* was released shortly after Fullsail. The report outlined the adopted recommendations and those individuals and organizations who agreed to champion and support the initiatives.



Best new initiative – Canadian Investment Award

In November, we received one of the highest accolades from the Canadian investment industry. We were nationally recognized by Canada's financial community with the Canadian Investment Award for Best New Initiative based on the work we had done and on what we continue to do to foster the capital markets. This was the first time such an award was received by any organization east of Montreal. It was also the first time since the event's inception that a securities regulator or government agency had received an award from the organizers.

Generating awareness

Throughout 2006-07, we actively pursued opportunities to generate awareness of our capital market initiative. We spoke at and attended conferences and professional luncheons and sponsored worthwhile endeavours to grow the province's capital markets. Our initiative received coverage in regional, provincial, and national media.

Investor Protection Priority

OUR INVESTOR PROTECTION PRIORITY

Protect the integrity of New Brunswick's capital markets through active compliance and vigorous enforcement measures.

Overview

Our objective is to have a visible compliance regime that ensures market participants are following the legislation. We do this primarily through registration and compliance reviews. We also have a vigorous enforcement system to protect investors from unfair, improper or fraudulent actions. This is done through investigations and enforcement actions.

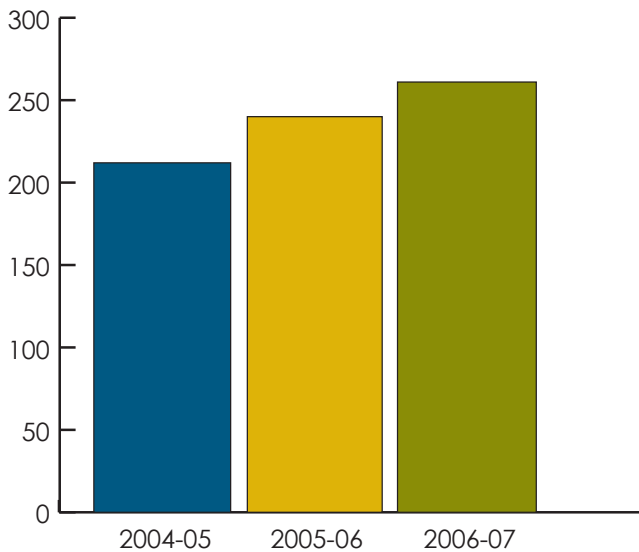
During the year, we were involved in a number of compliance and enforcement actions. Several hearings resulted in sanctions against individuals and corporate

entities. These sanctions included cease-trade orders, suspensions and bans from registration, and administrative penalties. In 2006-07, we ordered \$55,000 in administrative penalties and \$5,000 in costs. Administrative penalties are paid into a separately-maintained Market Enhancement Reserve. The *Securities Act* mandates that administrative penalties be used to enhance the capital markets in New Brunswick.

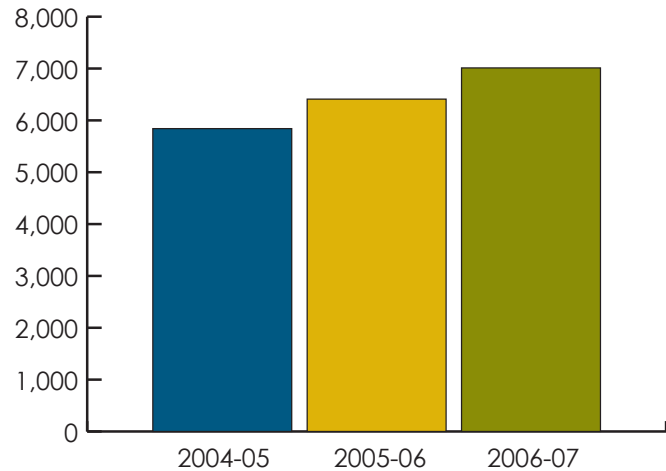
Registration

Registration is one of the fundamental pillars of securities regulation. Determining the suitability of those seeking registration is one of our key gatekeeper functions in protecting investors from unfair, improper or fraudulent practices. The registration process involves assessing an applicant's character, financial stability and qualifications to determine their suitability as a registrant. Individuals and firms that trade or advise in securities with New Brunswick investors, regardless of where the individual or firm resides, are required to register. We currently regulate registrants from Ireland, the United Kingdom, the United States, and the Yukon Territory and every province in Canada. Securities regulation does provide a limited exemption from the registration requirement for trades to certain qualified investors.

**New Brunswick Securities Commission
Registered Firms**



**New Brunswick Securities Commission
Registered Individuals**



Compliance reviews

We conducted a sweep of 14 mutual fund dealer branch offices located throughout New Brunswick. Our review focused on the "Know Your Client" and new account documentation obtained by the dealer to verify that the mutual funds purchased were appropriate for the investor. We produced individual reports for each dealer and an overall summary report for the industry as a whole. We issued specific remedial requirements to the dealers involved in the review, and in our overall report, we described recommended business practises for all mutual fund dealers.

In addition to these reviews, we conducted on-site compliance reviews of the three investment counsel and portfolio manager firms that have their head office in New Brunswick. We also conducted reviews on four investment dealer branch office locations.

Proceedings and hearings

Registration matters

The Executive Director gave two individuals an opportunity to be heard following staff's assessment of their suitability to be registered. In the matter of *Ulysse Kerry*, the Executive Director determined that the application was objectionable due in part to Mr. Kerry's failure to provide full and clear disclosure of all material information, and refused registration. In the matter of *Paul Maurice*, the Executive Director ordered that Mr. Maurice's registration be suspended due to his failure to meet the post-approval requirements of his self-regulatory organization. Mr. Maurice subsequently passed the required courses and his registration was reinstated.

Alain Brien

Mr. Brien is a Quebec registrant who had a number of New Brunswick clients. He was not registered in New Brunswick. During the course of our investigation, Mr. Brien made misrepresentations to an investigator. In April, the Commission approved a settlement agreement directing Mr. Brien to pay an administrative penalty of \$10,000 for presenting misleading or untrue information to the Commission and for trading in securities in New Brunswick without having been registered. The Commission also ordered that the exemptions available under New Brunswick securities law would not apply to Mr. Brien and banned him from trading in securities in New Brunswick for a period of 10 years.

Maitland Capital Ltd. et al.

Commission staff alleged that Maitland Capital Ltd. and several associated individuals solicited and sold shares in Maitland Capital Ltd. to more than 50 New Brunswick residents. None of the parties were registered to trade, nor had they filed a prospectus. Having issued temporary cease-trade orders in this matter in May, the Commission issued permanent cease-trade orders against Leonard Waddingham and Hanoch Ulfan, and extended temporary cease-trade orders against Maitland Capital Ltd., Al Grossman and Steve Lanys in May and June. In August, the determination of whether administrative penalties should be imposed was adjourned pending the resolution of criminal proceedings begun by staff of the Ontario Securities Commission.

Limelight Entertainment Inc. et al.

Commission staff alleged that Limelight Entertainment Inc. and several associated individuals solicited and sold shares in Limelight Entertainment Inc. to New Brunswick residents without being registered or filing a prospectus. In April, the Commission issued a temporary cease-trade order against Limelight Entertainment Inc. and a number of associated persons. In June, the temporary orders were made permanent, and that same month, the Commission also banned Carlos da Silva and David Campbell, principals of Limelight Entertainment Inc., from trading in securities in New Brunswick. After several adjournments, a hearing with respect to the imposition of administrative penalties is scheduled for June 2007.

First Global Ventures S.A. et al.

In May, the Commission issued a temporary cease-trade order against First Global Ventures S.A., and Al Grossman, further to Commission staff's allegation that these parties had solicited New Brunswick residents with respect to the purchase of shares in First Global Ventures S.A., a company incorporated in Panama. None of the respondents were registered to trade in securities nor had they filed a prospectus. In June, the Commission permanently banned the two parties from trading securities in New Brunswick. A hearing to determine whether administrative penalties should be imposed is scheduled for June 2007.

James K. Hanley

Mr. Hanley, a securities salesperson based in Saint John, New Brunswick, had, on several occasions, redeemed investments for two elderly clients who then wrote him cheques for reinvestment. These funds were then deposited to Mr. Hanley's personal account or an account established for his numbered company. Mr. Hanley provided misleading account statements and information to his clients. After we began our investigation, he also made misrepresentations to our investigators regarding the basis on which his clients had provided these funds to him. We began proceedings in October. In January, the Commission approved a settlement agreement banning Mr. Hanley from being registered to trade in or provide advice with respect to securities for 20 years. The Commission also prohibited him from taking advantage of any exemptions provided by the *Securities Act* for 20 years. As well, he was ordered to pay an administrative penalty of \$45,000 and \$5,000 for the costs of the investigation.

Jabez Financial Services Inc. et al.

In October, the Commission issued a temporary cease-trade order against Jabez Financial Services Inc., JFS Credit Union, JFS-INC.NET, Keith Haley, Normand Leblanc, and Quintin Sponagle directing them to cease trading in all securities. Jabez Financial Services was a Panama-based company and JFS Credit Union presented itself as based in Sweden. The other respondents were residents of New Brunswick and Nova Scotia. The respondents were promoting an Internet-based investment scheme offering returns from 2 to 10% per month. None of the respondents were registered or had filed a prospectus. Jabez Financial Services was not registered to sell securities in Panama either. In January, the cease-trade orders with respect to all respondents were made permanent.

Enforcement activity not involving proceedings or hearings

Commission staff do not commence proceedings in every case. Sometimes the commencement of proceedings is not in the best interest of investors, or the parties are all located outside Canada such that the commencement of proceedings in New Brunswick may not bear much fruit. In such cases, we may choose to work with parties to seek alternative solutions to violations of the *Securities Act*.

As an example, during the fiscal year, we worked with a small cooperative which had not complied with the terms of an exemption granted to it by the Administrator under the prior legislation to the *Securities Act*. Specifically, the cooperative had not prepared proper financial statements and provided these to its investors. The cooperative was in a precarious financial state and the

commencement of proceedings would have had a serious negative effect on it. We negotiated an arrangement with the cooperative by which proper financial statements were prepared and provided to investors, together with a right to rescind their investment after having reviewed the financial statements. This was done and the matter concluded.

In another case, a New Brunswick investor had provided \$35,000 to a New York based FOREX (Foreign Exchange) trader. The investor lost more than a third of this money within a matter of weeks. We investigated the matter and were able to convince the FOREX trader to return the full \$35,000 investment to the New Brunswick resident.

New Brunswick Securities Commission

Statistics at a Glance

	2006-07	2005-06	2004-05*
Enforcement Activity			
Complaints received	71	55	31
New investigations	29	29	19
Concluded investigations	22	24	11
Average length of investigation (in days)	160	155	124
Interim cease-trade orders	13	1	1
Permanent cease-trade orders	5	1	1
Registrants prohibited or limited from participating in market	2	1	0
Settlements approved	2	2	0
Hearing days	24	5	3
NBSC costs levied	\$5,000	\$7,750	\$2,000
NBSC costs recovered	0	\$7,750	\$2,000
Administrative penalties levied	\$55,000	\$72,719	\$64,000
Administrative penalties recovered	\$10,000	\$72,719	\$64,000
Corporate Finance Activity			
New Brunswick-based reporting issuers	6	8	6
Prospectus filings	532	493	357
Investment fund prospectus filings	213	195	143
Annual information forms	926	824	427
Exempt distribution reports	265	224	n/a
Rights offering circulars	11		
Exemption applications	604		
Market Regulation Activity			
New dealer and adviser firms	34	31	17
New individual registrant and non trading/non advising officer or director filings	4,711	3,246	2,389
Transfer of registration	308	220	220
Termination of registration	2,100	1,446	1,214
Submissions to change previously filed registration information	18,663	13,874	8,615

*2004-05 fiscal year was 1 July 2004 to 31 March 2005 (9 month period).

Management's Discussion and Analysis of Financial Position and Operating Results

Dated 11 May 2007

The following discussion and analysis provides a summary review of the operating results of the New Brunswick Securities Commission for the year ended 31 March 2007. This review should be read in conjunction with the financial statements and accompanying notes.

Readers should note that some assumptions, although reasonable at the date of publication, are not guarantees of future performance.

OVERVIEW

The Commission is a corporation without share capital. It was established through the *Securities Act* (New Brunswick) and began operations on 1 July 2004. The Commission functions as an independent regulatory agency and administrative tribunal, responsible for overseeing the securities industry in New Brunswick. As a provincial Crown corporation, the Commission is exempt from income taxes and the Harmonized Sales Tax. The Commission's operations are funded through fees paid by securities market participants.

The Commission maintains accounting and internal control systems to provide reasonable assurance that its financial information is complete, reliable and accurate, and that its assets are adequately protected. The Commission Members, in conjunction with the Audit Committee, have an oversight role regarding the integrity of the reported information.

The Commission budgets to generate a surplus with a planned distribution of surplus operating funds to the Government of New Brunswick. The surplus generated in the fiscal period 2006-07 exceeded the budgeted amount.

Selected Annual Information

	Budget 2006-07 (\$)	Actual 2006-07 (\$)	Actual 2005-06 (\$)
Revenue	9,047,875	10,210,198	9,216,445
Expense	3,806,770	3,797,266	2,677,072
Net income		6,412,932	6,539,373
Total assets		2,792,602	2,786,812
Total liabilities		590,574	783,285
Total funds' balance		2,202,028	2,003,527
Distributions to Government		6,214,431	5,912,969

REVENUES

Our revenues consist of:

- filing, registration and application fees paid by securities market participants;

- amounts collected from administrative penalties and settlements for breaches of the *Securities Act* as well as associated cost recoveries; and
- investment income and minor miscellaneous charges.

There were no changes to the fee schedule this year when compared to last year. Revenue increases from market participants during this year are a result of market activity and growth in the number of registrations. Almost all of our operational funding comes from fees paid by market participants. These fees amounted to approximately 97.4% of total revenue in the year (98.0% in the prior period) and relate primarily to capital raising activities and securities trading in New Brunswick. There are several groups that contribute significantly to the Commission's revenues. Fees paid by mutual funds to distribute their securities in New Brunswick were about \$4.1 million or 40% of revenue, up from \$3.8 million in the prior period. In addition, fees paid by the six largest Canadian banks for the registration renewal of their representatives and firms were about \$1.17 million or 11.5% of revenue, up from \$1.07 million in the prior period.

Securities distribution fees for 2006-07 are showing an approximate 8% increase from 2005-06. Financial filings for 2006-07 are showing a 17% increase from the prior year. This is due to a general growth in the volume of filings. Part of the revenue increase for the current fiscal year can be attributed to revised National Instrument 44-101 *Short Form Prospectus Distributions* (the Rule). On 30 December 2005, the Rule was amended to facilitate entry into the short form prospectus system. Issuers no longer had to meet as many qualifying requirements. As a result of these amendments, the number of short form prospectus filings increased to 256, compared to 183 from the previous fiscal year. Other associated filings, such as annual information forms and annual financial statements, also increased as a result of the changes.

Registration fees for 2006-07 are showing a 10% increase from 2005-06. This is primarily attributable to a commensurate growth in the number of registrants. Exemptions and orders revenue for 2006-07 is showing a 5% increase from the prior year.

Fee Revenue

Category	Description	2006-07 Amount (\$)	2006-07 % of Fee Total	2005-06 Amount (\$)
Distribution fees	Paid by securities issuers when filing distribution documents	4,785,850	48.1	4,441,950
Registration fees	Paid by individuals and firms to register with the Commission to sell or advise on securities	2,880,750	29.0	2,607,300
Financial filing fees	Paid by public companies when filing annual financial statements and annual information forms	1,956,475	19.7	1,672,374
Exemptions and orders	Paid by market participants primarily to request exemptions from <i>Securities Act</i> requirements	324,550	3.3	309,975

There is a significant increase in “Other” revenue during the current fiscal year. This revenue increase is primarily attributable to the Fullsail Summit that was held in Moncton on 28-30 January 2007 with an objective of growing New Brunswick’s capital markets. Total revenue of \$78,346 was received from sponsors and from conference registration fees.

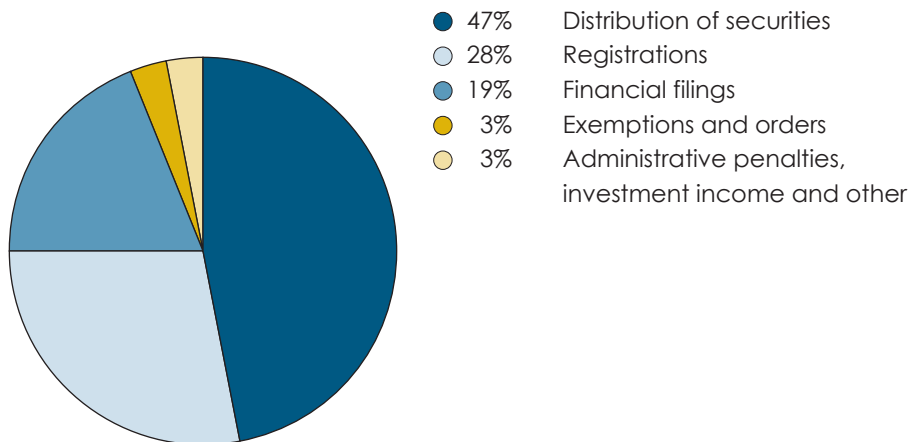
Enforcement revenues, comprised of receipts of administrative penalties, designated settlements, and administrative cost recoveries, are unpredictable. These revenues depend on the timing of enforcement actions completed during the year and on the Commission’s ability to collect assessed amounts. This area of revenue was down significantly during the year from \$80,469 in 2005-06 to \$10,000 in 2006-07. A penalty of \$50,000 arising from one enforcement hearing is not recognized as revenue as there is a reasonable probability that the amount is uncollectible. Receipts designated as cost recoveries are recognized as operating revenue.

Receipts from administrative penalties and settlements are for the benefit of the Market Enhancement Reserve. As required by the *Securities Act*, these funds are to be spent only on endeavours or activities that educate investors and enhance their knowledge about the operation of the securities market in New Brunswick.

The Commission does not budget an amount for enforcement revenue so as to avoid the appearance of impropriety. During the year 2006-07, there were disbursements of \$112,910 from the Market Enhancement Reserve.

In general, our portfolio generates modest returns. The Commission does not make speculative investments with its surplus funds and makes periodic and orderly distributions to the Government of New Brunswick. Consequently, investment returns are generated from the bank balance at prime less 2% as part of our banking agreement.

Revenue Analysis



OPERATING EXPENSES

The Commission takes seriously its responsibility to manage its expenses over the fiscal year. It does this by:

- preparing an annual budget and strategic plan that is approved by the Commission Members;
- translating the annual budget into monthly budgets;
- reporting actual versus budget amounts to management every month;
- providing a variance analysis each month to the Audit Committee or at Commission Member meetings each month (a written report is sent to Commission Members on those months where no meeting is held);
- preparing quarterly financial forecasts for management and the Commission Members;
- requiring Commission Member approval of significant expenses or contracts; and
- continually improving its processes.

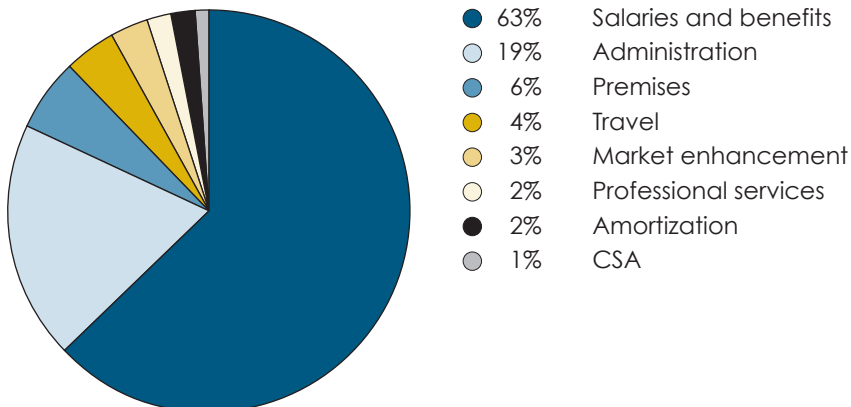
The Commission’s operating expenses during the year were \$3,797,266, compared to a budget of \$3,806,770, a difference of \$9,504. Several unbudgeted initiatives were approved by the Commission during the fiscal year as well, and are included in the expense total.

Expenses

Expense Category	Expenses (\$)	Budgeted Expenses (\$)	% of Total Expenses	% of Total Expenses Prior Period
Salaries and benefits	2,376,378	2,465,900	62.6	71.0
Administration	722,035	648,470	19.0	12.0
Market enhancement	112,910	75,000	3.0	-*
Professional services	91,045	60,000	2.4	3.2
Travel	134,460	169,700	3.5	5.0
Canadian Securities Administrators (CSA) initiatives	48,204	75,000	1.3	1.7
Premises	222,846	231,800	5.9	4.0
Amortization	89,388	80,900	2.3	3.1
Total	3,797,266	3,806,770	100.0	100.0

* See Schedule 2 of the Financial Statements.

Expense Analysis



The largest expense item, totaling \$2,376,378 or 62.6%, was salaries and benefits. As a percentage of total expense, this ratio is lower than for the prior year comparison, even though total salary and benefit costs went up \$475,180. The Commission had 27 staff on payroll at year-end, compared to the 22 that were on payroll one year before. It is expected that the Commission has generally finished ramping up its staff complement as a result of its July 2004 creation. For the first time in two years, a general 3.0% cost of living adjustment was applied to the Commission's salary scales on 1 July 2006.

Administration expenses were the second largest category for the Commission at \$722,035 or 19.0% of total expenses, an increase over the 12.0% that was generated in the prior year. These expenses pertain to information technology, training, communication, printing, advertising and other general office expense items. Expenses associated with the Fullsail Summit were the largest single expense item at \$225,885 and represented a new expense source.

This is the first year that the Commission has transferred funds from the Market Enhancement Reserve for eligible expenses that enhance the capital markets in New Brunswick. A \$20,000 contribution was provided to both the University of New Brunswick and the Université de Moncton to assist in the development of a securities law course. The \$72,910 remainder of the market enhancement expense was for a television campaign that aimed to increase the profile of the Commission while alerting the public to potential investment fraud.

\$40,000

Contribution made to UNB and UdeM to assist in the development of a securities law course.

Travel costs were \$134,460 or 3.5% of total expenses, a decrease from the 5.0% of the prior period. Despite a higher staff complement, the aggregate travel cost increase year over year was a minor \$504. Travel was primarily related to training initiatives and attendance at policy and other regulatory meetings of partners of the CSA.

Premise costs increased significantly to \$222,846. This represents 5.9% of total expenses, up from 4.0% of the prior period. This increase is attributable to the new office space that was acquired by the Commission in February 2006. This space was required in order to accommodate the increase in staff and to have appropriate meeting rooms and a Hearing Room for administrative tribunals.

Amortization expenses increased from \$82,802 to \$89,388 year over year. The largest depreciable asset for the Commission is its leasehold improvements, which is being amortized over 10 years and accounts for about 44% of the total expense. Furniture, information technology hardware, vehicle and information technology software assets follow in descending order to make up the remainder of the amortization expense.

Professional service expenses increased slightly from \$85,152 to \$91,045 year over year. Translation costs and a salary and benefit review undertaken by an external consultant were the two predominant items that accounted for the increase.

The remaining expense item is \$48,204, or 1.3% of total expenses for CSA initiatives. This amount is slightly higher than the \$44,835 expense incurred in 2005-06. These initiatives support Canada's national system of securities regulation through a cooperative approach with the Commission's provincial and territorial regulatory partners.

MARKET ENHANCEMENT RESERVE

The Market Enhancement Reserve represents externally restricted equity as its funding and purpose is defined by the *Securities Act*. The funds are to be used for endeavours or activities that enhance the capital markets in New Brunswick. The funds associated with the reserve are maintained in a separate bank account and generate their own bank interest. In 2006-07, administrative penalties totaling \$10,000 were assessed and collected, while the prior period's assessments and collections totaled \$72,719. A further \$45,000 administrative penalty was assessed in the year but is not reflected on the statements as there is a reasonable probability that the amount is uncollectible.

DISPOSITION OF SURPLUS OPERATING FUNDS

The Commission made total payments of \$6,214,431 to the Government of New Brunswick during the year. The payment amount is calculated annually and is included in the Commission's Business Plan. The total contribution included a budgeted amount of \$5,100,000 as well as an additional \$1,114,431. The \$1,114,431 represents the balance of the general surplus as at 31 March 2006. The contribution is payable each year providing that doing so does not impair the Commission's ability to pay its liabilities, meet its obligations as they become due or fulfill its contractual commitments. Since the Commission was established in July 2004, it has made contributions of \$15,314,595 to the Government of New Brunswick.

LIQUIDITY AND FINANCIAL POSITION

The Commission has sufficient liquidity to finance its operations and capital purchases. The net increase in cash prior to the disposition of surplus operating funds was \$6,297,782 during the fiscal year. Of that amount, \$6,214,431 was distributed to the Government of New Brunswick. The combined cash balance at year-end was \$2,299,050. This includes amounts from the Commission's two reserves.

\$6.2 million

Amount of excess revenue distributed to the Government of New Brunswick.

The Commission had established a Fee Stabilization Reserve in the prior year. Following an internal review, the maximum value of the reserve was increased from \$750,000 to \$1,000,000 during the fiscal period. Revenue generation remains a source of risk for the Commission as revenues are correlated to market activity and general economic conditions. The Fee Stabilization Reserve exists to aid the Commission to manage this risk. It allows the Commission to maintain an operating contingency to absorb revenue shortfalls or unexpected expenditures. The Commission takes revenue generated from the reserve into general operations. The reserve was fully-funded at year-end.

RISKS AND UNCERTAINTIES

Securities regulatory reform

We have been supporting the Government of New Brunswick's work to implement securities regulatory reforms outlined in the Provincial/Territorial Memorandum of Understanding Regarding Securities Regulation (MOU), signed on 30 September 2004 by most of Canada's provincial ministers responsible for securities regulation. The MOU proposes a single window of access to capital markets in participating jurisdictions and a review of regulatory fees. We adopted rules that support the first phase of the MOU effective 19 September 2005. The first phase materially affected the Commission's

responsibilities as the Commission became recognized as a principal jurisdiction under Multilateral Instrument 11-101, *Principal Regulator System*. This significantly increased its national role and responsibility for securities regulation.

95%

Amount of fee revenue collected through SEDAR and NRD.

Proposed National Instrument 11-102, *Passport System*, was published on 28 March 2007 by all provincial and territorial Canadian jurisdictions with the exception of Ontario. The purpose of the proposed instrument is to further enhance the Passport system, enabling statutory delegation that will confirm a market participant's right to access the capital markets in multiple jurisdictions by dealing only with its principal regulator and meeting the requirements of one set of harmonized laws.

There is significant ongoing effort associated with the MOU's implementation and, at a minimum, several rounds of legislative amendments are expected in order to highly harmonize securities legislation across the country. At the present time, the Commission has the requisite human resources to manage this initiative. A significant set of legislative amendments is expected to be granted Royal Assent in May 2007.

It is indeterminate at this point whether future initiatives, such as a fee review, will materially affect the Commission's revenues and expenses.

In addition to this initiative, there is continued effort underway by some jurisdictions to create a national securities regulator. Stated support for this initiative comes from the Government of Canada and Government of Ontario. The disposition of this initiative is indeterminate at this time, and its formation poses risk to the Commission.

National electronic filing systems

Under various agreements with the CSA, CDS Inc. (CDS) operates the following electronic systems:

- System for Electronic Document Analysis and Retrieval (SEDAR), an electronic system for securities market participants to file regulatory documents and pay fees;
- National Registration Database (NRD), an electronic system for registrants to register and pay fees; and
- System for Electronic Disclosure by Insiders (SEDI), an Internet-based system for insiders to report their trades.

Almost 95% of our fee revenue is collected through SEDAR and NRD. Should CDS become unable or unwilling to continue to operate these systems, the CSA would have to contract with another party. This represents a revenue and regulatory risk as the systems facilitate effective and efficient regulatory processes.

CRITICAL ACCOUNTING ESTIMATES

Management must make estimates and assumptions when preparing the financial statements. Management makes those assumptions based on experience and current conditions and believes that they are reasonable. However, actual results may differ from management's estimates. In our financial statements, management has estimated the portion of accounts receivable that the Commission will receive, the useful lives of our capital assets, and the value of employee leave liabilities.

Accounts receivable

We accrue amounts due when they meet generally accepted revenue recognition criteria. During the fiscal period 2006-07, a total of \$50,000 that was agreed to under a settlement agreement was not recognized as revenue as the respondent subsequently declared bankruptcy and the amount appears to be uncollectible.

Capital assets

We capitalize goods and services when their cost is greater than \$2,500 and their benefit extends beyond the current fiscal year. We amortize the cost of our capital assets over their expected useful lives. Our capital assets consist primarily of leasehold improvements, furniture and information technology. New information could lead us to reduce or eliminate an asset's value or expected useful life.

Employee liabilities

Our employees accrue vacation and other leave entitlements based on their years of service. We have estimated the value of employee leaves not yet taken based on our employee records and attributed benefit costs to those leaves based on our experience. The actual value of employee leaves taken will vary depending on their particular circumstances.

The most significant employee liability pertains to the Commission's retirement allowance benefit. This benefit is calculated for those employees with five or more years of service. The benefit is only payable if an employee retires when they terminate their employment with the Commission. It is difficult, therefore, to estimate this liability with precision. For the current period, we have changed our methodology for calculating this expense in two critical areas. The first is that we now apply a discount factor of 3% for each year that the eligible employee is below the minimum retirement age of 55.

The second area is that, unlike in prior periods, we do not impute a 15% related-benefit cost to this amount as it is probable that the employee will elect to receive this amount as a lump-sum payment.

\$4.29 million

Budgeted operating expenses for 2007-08.

Another area of significant estimate is for determining an accrual for an enhanced pension benefit for the Chief Executive Officer for the Commission. This benefit will be paid to this Officer upon retirement. The Commission

relies upon the expertise of the Office of Human Resources for the Government of New Brunswick to determine this amount.

OUTLOOK

Operating revenue is budgeted to be \$9.58 million for the 2007-08 fiscal year. This represents a decrease of about \$630,000, or 6.2%, from 2006-07 actual revenue of \$10.21 million. This decrease primarily reflects a conservative approach to revenue budgeting and a requirement to approve a budget in December, over three months before year-end. More than 45% of the Commission's revenue is received during this time period.

Operating expenses are budgeted to be \$4.29 million for the 2007-08 fiscal year. This represents an increase of \$0.49 million over 2006-07 actual expenses. The majority of this increase, about \$0.37 million, is attributable to salary and benefit increases. This reflects general salary increases, the implementation of a salary and benefit review and entering the year with a full complement of funded positions.

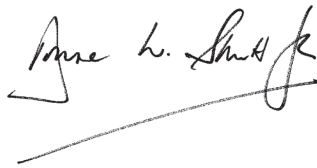
The budgeted subsequent surplus for 2007-08 is about \$225,000, after the budgeted contribution of \$5.1 million to the Government of New Brunswick and a \$38,500 allocation from the Market Enhancement Reserve.

Management's Responsibility for Financial Reporting

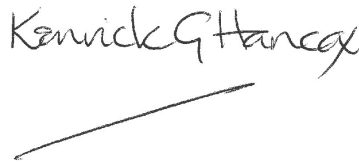
Management is responsible for the integrity of the financial statements and other information presented in the Annual Report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, applying best estimates and judgments based on currently available information.

The New Brunswick Securities Commission maintains an accounting system and related controls designed to provide the Commission with reasonable assurance that reliable financial information is available on a timely basis.

The Members of the Commission ensure that management fulfills its responsibility for financial information and internal control. The financial statements and Annual Report have been reviewed by the Audit Committee and approved by the Commission. The Provincial Auditor's Report outlines the scope of the Auditor's examination and opinion.



Donne W. Smith
Chair & Chief Executive Officer



Kenrick G. Hancox
Executive Director



Kevin Hoyt
Director, Corporate Finance & Chief Financial Officer

11 May 2007

Auditor's Report

OFFICE OF THE BUREAU DE
AUDITOR GENERAL VÉRIFICATEUR GÉNÉRAL



AUDITOR'S REPORT

The Chair and Members
New Brunswick Securities Commission

I have audited the balance sheet of the New Brunswick Securities Commission as at 31 March 2007 and the statements of income, fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Commission'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 Commission as at 31 March 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink, appearing to read "Michael Ferguson".

Michael Ferguson, CA
Auditor General

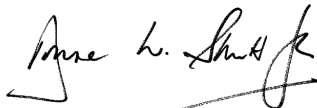
Fredericton, N.B.
11 May 2007

**NEW BRUNSWICK SECURITIES COMMISSION
BALANCE SHEET
AS AT 31 MARCH 2007**

	2007	2006
ASSETS		
Current assets		
Cash (Note 3)	\$ 1,258,300	\$ 1,326,603
Accounts receivable	48,990	120,919
Prepaid expenses	38,078	10,051
	<u>1,345,368</u>	<u>1,457,573</u>
Investments held for designated purposes (Note 3)	1,040,750	889,096
Capital assets (Note 5)	406,484	440,143
	<u>\$ 2,792,602</u>	<u>\$ 2,786,812</u>
LIABILITIES AND FUND BALANCES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 197,086	\$ 417,852
Accrued salaries and benefits	82,382	72,484
Accrued vacation liabilities	36,757	31,986
	<u>316,225</u>	<u>522,322</u>
Accrued benefit liabilities (Note 8)	274,349	260,963
Total liabilities	<u>590,574</u>	<u>783,285</u>
Fund balances		
General	1,161,278	1,114,431
Fee stabilization reserve (Note 4)	1,000,000	750,000
Market enhancement reserve (Note 4)	40,750	139,096
	<u>2,202,028</u>	<u>2,003,527</u>
	<u>\$ 2,792,602</u>	<u>\$ 2,786,812</u>

The accompanying notes and schedules are part of these financial statements.

Approved by the Commission:



Chair



Member

**NEW BRUNSWICK SECURITIES COMMISSION
STATEMENT OF INCOME
FOR THE YEAR ENDED 31 MARCH 2007**

	2007	2006
REVENUE		
Fees		
Distribution of securities	\$ 4,785,850	\$ 4,441,950
Registrations	2,880,750	2,607,300
Financial filings	1,956,475	1,672,374
Exemptions and orders	324,550	309,975
Other	119,756	22,772
Administrative penalties and settlements	10,000	72,719
Enforcement cost recoveries	-	7,750
Investment income	132,817	81,605
	<u>10,210,198</u>	<u>9,216,445</u>
EXPENSES		
Salaries and benefits	2,376,378	1,901,198
Administration (Schedule 1)	722,035	322,556
Market enhancement (Schedule 2)	112,910	-
Professional services	91,045	85,152
Travel	134,460	133,956
Canadian Securities Administrators initiatives	48,204	44,835
Premises	222,846	106,573
Amortization	89,388	82,802
	<u>3,797,266</u>	<u>2,677,072</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 6,412,932</u>	<u>\$ 6,539,373</u>

**NEW BRUNSWICK SECURITIES COMMISSION
STATEMENT OF FUND BALANCES
FOR THE YEAR ENDED 31 MARCH 2007**

	General	Fee Stabilization Reserve	Market Enhancement Reserve	Total
Balance, 31 March 2006	\$ 1,114,431	\$ 750,000	\$ 139,096	\$ 2,003,527
Excess of revenue over expenses	6,412,932	-	-	6,412,932
Disposition of surplus operating funds (Note 6)	(6,214,431)	-	-	(6,214,431)
Investment income reallocation	(4,564)	-	4,564	-
Allocation to (from) reserves (Note 4)	(147,090)	250,000	(102,910)	-
Balance, 31 March 2007	<u>\$ 1,161,278</u>	<u>\$ 1,000,000</u>	<u>\$ 40,750</u>	<u>\$ 2,202,028</u>

**NEW BRUNSWICK SECURITIES COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2007**

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 6,412,932	\$ 6,539,373
Adjustment for amortization – capital assets	89,388	82,802
	<u>6,502,320</u>	<u>6,622,175</u>
Changes in non-cash working capital		
Accounts receivable	71,929	(105,652)
Prepaid expenses	(28,027)	(2,400)
Accounts payable and accrued liabilities	(220,766)	291,204
Accrued salaries and benefits	9,898	25,402
Accrued vacation liabilities	4,771	2,051
Accrued benefit liabilities	13,386	19,716
	<u>6,353,511</u>	<u>6,852,496</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Disposition of surplus operating funds	(6,214,431)	(5,912,969)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	(55,729)	(468,509)
	<u>83,351</u>	<u>471,018</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>83,351</u>	<u>471,018</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,215,699</u>	<u>1,744,681</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,299,050</u>	<u>\$ 2,215,699</u>
Represented by:		
Cash	\$ 1,258,300	\$ 1,326,603
Investments held for designated purposes	<u>1,040,750</u>	<u>889,096</u>
	<u>\$ 2,299,050</u>	<u>\$ 2,215,699</u>

NEW BRUNSWICK SECURITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007

1. Nature of the Corporation

The New Brunswick Securities Commission is a Provincial Corporation operating under the *Securities Act* (New Brunswick) established on 1 July 2004. The business of the Commission is the regulation of the New Brunswick capital markets, including the administration of the *Securities Act*, the Securities Regulation and the New Brunswick Securities Commission rules.

The purpose of the Commission is to foster fair and efficient capital markets in New Brunswick and confidence in those markets, and to provide protection to investors from unfair, improper or fraudulent practices.

As a Crown corporation, the Commission is exempt from income taxes.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The accounting policies of significance to the Commission are as follows:

(a) Revenue recognition

Fees are recognized when earned, which is normally upon receipt.

Recovery of the costs of investigations and administrative penalty revenue are recognized upon the date of decision unless management determines there is no reasonable assurance as to ultimate collection, in which case recovery is recognized when cash is received.

Investment income is recorded on the accrual basis.

(b) Capital assets

Capital assets are recorded at cost and amortized using the straight line method starting in the year of acquisition over their estimated useful lives as follows:

Office furniture and equipment: 4 years
Computers and electronic equipment: 3 years
Software: 4 years
Automobile: 4 years
Leasehold improvements: over term of lease

**NEW BRUNSWICK SECURITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007**

2. Significant accounting policies – continued

(c) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

(d) Restricted cash

Consistent with subsection 25(4) of the *Securities Act*, revenue received by the Commission from administrative penalties shall not be used for the normal operating expenditures of the Commission and must only be used for endeavours or activities that, in the opinion of the Commission, enhance the capital markets in New Brunswick.

(e) Employee benefit plan

The Commission provides pension benefits to its full-time employees through participation in the Public Service Superannuation Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the Commission has insufficient information to apply defined benefit accounting to this pension plan. Pension costs included in these financial statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

(f) Financial instruments

The Commission's financial instruments consist of cash and short-term deposits, accounts receivable, restricted short-term deposits, and accrued liabilities. It is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values.

3. Cash and investments held for designated purposes

The Commission maintains two separate bank accounts. The first is comprised of the operating account and those monies attributable to the fee stabilization reserve. The second account is maintained for the market enhancement reserve. Under the terms of the Commission's banking agreement, both accounts earn interest at prime less 2% calculated daily.

**NEW BRUNSWICK SECURITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007**

4. Reserves

Fee Stabilization Reserve

The Commission has established a reserve consistent with subsection 25(6) of the *Securities Act* to finance extraordinary expenses for isolated and unanticipated purposes that are regulatory in nature, and for changes in market activity that have an effect on revenue. The reserve is funded through charges to retained earnings. The maximum value of the reserve has been set at \$1,000,000.

Market Enhancement Reserve

The Commission collects administrative penalties under section 186 of the *Securities Act*. Consistent with subsection 25(4) of the *Securities Act*, these amounts are not used for the normal operating expenditures of the Commission. Instead, they are used for endeavours or activities that enhance the capital markets in New Brunswick. Market enhancement reserve funds are maintained separate from the normal operating funds of the Commission and generate their own investment revenue.

5. Capital assets

			2007	2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office furniture and equipment	\$ 84,932	\$ 48,602	\$ 36,330	\$ 45,358
Computers and electronic equipment	60,325	36,537	23,788	29,221
Software	11,780	5,945	5,835	–
Automobile	28,198	21,149	7,049	14,099
Leasehold improvements	390,517	78,103	312,414	351,465
Capital assets in progress	21,068	–	21,068	–
	<u>\$ 596,820</u>	<u>\$ 190,336</u>	<u>\$ 406,484</u>	<u>\$ 440,143</u>

Capital assets in progress are comprised of development costs for a new website, and an uninstalled computer server.

**NEW BRUNSWICK SECURITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007**

6. Disposition of surplus operating funds

The disposition of surplus operating funds consists of payments to the Consolidated Fund of the Province of New Brunswick subject to the approval of the Board of Management and consistent with subsection 25(5) of the *Securities Act*.

7. Commitments and contingencies

Details of commitments to organizations outside the Commission and contingencies from guarantees and legal actions are set out below. Any losses arising from the settlement of contingencies are treated as expenses in the year of settlement.

(a) Commitments

Commitments arising from contractual obligations associated primarily with the lease of the premises and minor rental of office equipment at 31 March 2007 amounted to \$1,994,564. The Commission entered into a ten year lease for office space effective 15 February 2006. Under the terms of its lease agreements, the Commission will be required to make the following annual lease payments:

2007-08	\$ 220,896
2008-09	218,496
2009-10	218,496
2010-11	220,567
2011-12	230,919
Thereafter	885,190
Total	<u>\$ 1,994,564</u>

(b) Legal Actions

The Commission is involved in various legal proceedings arising from its regulatory activities. Management considers the chance of liability under these legal proceedings not to be determinable and, accordingly, an estimate of any contingent loss cannot be made. The Commission is not aware of any legal proceedings against it at the date of these financial statements.

**NEW BRUNSWICK SECURITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007**

8. Accrued benefit liabilities

The Commission has a retirement allowance program for employees with five or more years of continuous employment. This is available on retirement, death or lay-off. Each employee is entitled to receive five days of pay for each year of service up to a maximum of 125 days, plus an additional 20% of accumulated sick leave. In total, this benefit cannot exceed 166 days. The employee's rate of pay is used to calculate the allowance.

This benefit is calculated on those employees with five or more years of service and is represented at the aggregate amount with the application of a 3% discount factor for each year that the eligible employee is below the earliest possible retirement age of 55.

This method of estimating the benefit represents a change from that performed in prior periods. This change in estimation reduced the accrued liability by a total of \$50,044 at 31 March 2007.

In addition, the Chief Executive Officer receives a supplemental pension benefit whereby supplemental pensionable service of one year (or part year) for each year of service as Chief Executive Officer to a maximum of five years is provided. This benefit is fully funded by the Commission.

9. Related party transactions

The Department of Justice and Consumer Affairs, a related party to the Commission, provides certain services in the normal course of operations that are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Information technology services were provided such as data storage, data back-up, data protection and support for the Commission. During the year, the Commission finalized an agreement whereby the Department of Justice and Consumer Affairs also provided support for the policy and regulatory responsibilities of the Commission. The Commission expended \$135,290 (\$63,004 in 2006) during the reporting period on these services. As of 31 March 2007, an accounts payable of \$30,644 (\$24,188 in 2006) was owed to the Department of Justice and Consumer Affairs and is subject to normal terms. This amount is included in accounts payable and accrued liabilities.

The Translation Bureau for the Government of New Brunswick also provides translation services to the Commission that are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Total expenditures during the period were \$39,707 (\$48,888 in 2006). As of 31 March 2007 an accounts payable of \$2,200 (\$10,410 in 2006) was owed to the Translation Bureau for the Government of New Brunswick and is subject to normal terms. This amount is included in accounts payable and accrued liabilities.

**NEW BRUNSWICK SECURITIES COMMISSION
SCHEDULES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007**

	2007	2006
SCHEDULE 1		
ADMINISTRATION		
Fostering capital markets (Fullsail Summit)	\$ 225,885	\$ -
Investor protection and education	85,823	31,193
Members and staff development	101,689	57,176
Payment to Department of Justice and Consumer Affairs under Agreement	50,000	-
Information technology	110,298	74,476
Other administration	148,340	159,711
	<u>\$ 722,035</u>	<u>\$ 322,556</u>
 SCHEDULE 2		
MARKET ENHANCEMENT		
Television campaign	\$ 72,910	\$ -*
Contribution for development of securities law course		
Université de Moncton	20,000	-
University of New Brunswick	20,000	-
	<u>\$ 112,910</u>	<u>\$ -</u>

*As a result of enforcement activity associated with the Securities Branch of the Department of Justice and Consumer Affairs, the predecessor organization for the Commission, certain voluntary payments were made to the Public Legal Education and Information Service of New Brunswick (PLEIS). Prior to 1 July 2004, those payments were made with the acknowledgement that they were to foster the mandate of PLEIS as it relates to financial markets. The Commission, as a result of its relationship and arrangements with PLEIS, had a significant ability to influence expenditures and those expenditures had a similar purpose as to those from the market enhancement reserve. During the 2005-06 fiscal year, we incurred \$101,977 of expenditures.

Glossary of Terms

Angel investor

An individual, usually a successful entrepreneur, who typically invests in early-stage companies. Angels are traditionally affluent and, in addition to taking a personal stake in the success of the venture, they also provide mentoring and corporate guidance. Angels participate in the growth of a company through acquiring an equity stake for their investment.

CSA (Canadian Securities Administrators)

The council of the securities regulators of Canada's provinces and territories that coordinates and harmonizes regulation for the Canadian capital markets.

Capital markets

These markets bring together the providers and users of capital, the financial products, like stocks (equity capital) and bonds (debt capital) that make the transfer of capital possible, and the people and organizations that support the process.

Compliance review

A review of a market participant's records to ensure that the firm or individual is in compliance with all obligations under the New Brunswick *Securities Act*.

Continuous disclosure

The legally-required information filed by reporting issuers about the company and its business.

Debt capital

Loans derived from traditional institutions such as banks and, in some cases, investment firms.

Equity capital

Usually takes the form of common and preferred shares, with each share representing part ownership in the business. Shareholders' claims on the business are represented by the value of the business after all outstanding debt has been repaid. Providers of equity capital include friends, family, business associates, Angels, venture capitalists, and sidecar funds.

Exemption

An exemption allows a market participant to be exempt from certain requirements of securities regulations.

NRD (National Registration Database)

A national web-based system that permits individuals to file applications for registration electronically.

Passport

A national securities system that has created a similar set of rules across the country, giving market participants a single point of entry into the Canadian capital markets.

Private equity

Takes the form of privately-held shares. Unlike publicly-traded shares, they are usually held for long periods of time and the price of purchase or sale is determined through personal negotiation.

Prospectus

A document that describes, in detail, material information about an issuer when it is offering securities to the public.

Public equity

Equity capital invested in public issuers traded on a stock exchange such as the Toronto Stock Exchange.

SEDAR (System for Electronic Document Analysis and Retrieval)

The electronic system for the filing and public dissemination of documents of reporting issuers in Canada.

SEDI (System for Electronic Disclosure by Insiders)

The electronic system that facilitates the filing and public dissemination of "insider reports".

Sidecar financing

Provides capital that "rides" or invests alongside an Angel group. Traditionally, sidecar funds co-invest with Angels after the Angels have conducted the due diligence. Once Angels have agreed to invest, the sidecar, matching or co-investment fund then follows and accepts the same terms and conditions. Sidecars may provide matching or provide a fraction of the funds invested by the Angels.

Valley of Death

An area of corporate financial need ranging from approximately \$150,000 to \$1,500,000 where traditional lenders are few.

Venture capital

Funds made available for early-stage firms and small businesses with exceptional growth potential. Managerial and technical expertise is often also provided. Also called risk capital.

Available Publications

Below is a list of publications offered by the New Brunswick Securities Commission. These are available for download at www.nbsc-cvmnb.ca, or by calling us at 1-866-933-2222.

CAPITAL MARKET DEVELOPMENT

- Making the Commitment – Fullsail initiative
- Funding our Future: Fostering capital markets in New Brunswick – Fullsail initiative
- So You Want to be an Angel? A guide to Angel investing in Atlantic Canada
- A Guide to Capital Raising Exemptions
- TSX Venture Capital Pool Company Program (CPC Program)

INVESTING

- The Basics of Investing
- Choosing a Financial Adviser
- Mutual Funds – What you need to know
- The Prospectus – Being informed is being protected
- Tips for Investors
- Investing and the Internet
- When your Broker Calls, Take Notes!
- Investment Planning Worksheet

CORPORATE REPORTS

- 2006-2007 Annual Report
- 2005-2006 Annual Report
- 2004-2005 Annual Report