

NEW BRUNSWICK
SECURITIES COMMISSION

COMMISSION DES
VALEURS MOBILIÈRES
DU NOUVEAU-BRUNSWICK



Annual Report

1 April 2005 – 31 March 2006

NEW BRUNSWICK
SECURITIES COMMISSION

COMMISSION DES
VALEURS MOBILIÈRES
DU NOUVEAU-BRUNSWICK



Transmittal Letter

September 2006

The Honourable Bruce Fitch

Minister of Justice and Consumer Affairs
Province of New Brunswick

Dear Minister Fitch:

I am pleased to submit the New Brunswick Securities Commission's Annual Report for the fiscal year 1 April 2005 to 31 March 2006 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, appearing to read "Donne W. Smith". The signature is written in a cursive style with a long horizontal stroke extending from the bottom of the signature.

Donne W. Smith

Chair and Chief Executive Officer
New Brunswick Securities Commission

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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; and
- □ Foster fair, efficient capital markets and confidence in them.

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

NEW BRUNSWICK
SECURITIES COMMISSION

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On behalf of the Members of the New Brunswick Securities Commission, I take pleasure in presenting the Commission's 2005-2006 Annual Report, covering another year of operations. The Report summarizes the many initiatives which the Commission undertook during the year as it endeavoured to achieve its vision, mission, mandate and priorities.

Last year's Report covered the transition to, and creation of, the new regulatory agency following its establishment on 1 July 2004. This year, we reviewed and confirmed the strategic directions established during our start-up year. Our priority areas remained the same - corporate, education, capital market growth and investor protection. The Commission's achievements in these areas are described in this Report.

This year we completed our first accountability cycle resulting in the submission to the Legislative Assembly of our Annual Report for Fiscal Year 2004/05 and our first appearance before the Legislature's Standing Committee on Crown Corporations.

The Commission Members exercised strong leadership by actively providing corporate oversight, policy direction and by performing quasi-judicial responsibilities. We reviewed our plan of organization and adjusted it to better reflect our requirements for professional and management expertise. The Commission's Governance Policy – fundamental to a regulatory agency charged with ensuring disclosure and transparency in the public financial markets – was enhanced by the appointment of a Lead Member.

Throughout the year, the Commission benefited from a growing awareness in New Brunswick and amongst our regulatory partners about the existence and role of our new agency. This was especially true of our leadership in fostering capital markets following the commencement of our capital market initiatives. Nationally, our regulatory partners recognized our expertise when they agreed in 2005 that the Commission become a principal regulator for national issuer, registration and exemption filings. This was a very significant accomplishment for a small commission, in existence for less than two years.

There were discussions this year about the most effective form of national regulation which included proposals for a single national regulator. The Crawford Report, commissioned by the Ontario Ministry of Finance, highlighted the importance of vigilance and effort – regardless of the regulatory model - to ensure Canada's financial markets are the most effectively and efficiently managed and regulated in the world.

I am pleased that this year the Commission took a more active role to reform Canada's national regulatory system. The Canadian Securities Administrators (CSA) at the instigation of the Council of the Ministers Responsible for Securities Regulation are carrying forward one of the most significant initiatives in recent memory to reform Canada's regulatory system. The Principal Regulator System or "Passport" rule adopted last year was the first of what are expected to be many similar initiatives. These will involve substantial amendments to the *Securities Act* and rules. They will, in the end, enhance our seamless national regulatory system run by the provinces and territories. In my view, this is a model that serves New Brunswick and Canada well.

This Annual Report reflects the activities of Commission Members and staff as they work diligently to create a nationally respected regulatory agency. Much remains to be done in order to achieve all our strategic objectives. However, it is clear that our reputation as an innovative and proactive regulatory agency is growing and this is due to the culture of teamwork and leadership which the Commission Members and staff advance and support.

As Chair and Chief Executive Officer, I take pride in the accomplishments which this Report details. I extend my thanks to Members and staff who demonstrated their ongoing commitment to our objectives and the people of New Brunswick throughout the year.

Donne W. Smith

Chair and Chief Executive Officer

New Brunswick Securities Commission



THE COMMISSION

“The Commission took a more active role to reform Canada’s national regulatory system.”

Members

The Commission is comprised of one full-time Member, the Chair, who is also the Chief Executive Officer, and five part-time independent Members, one of whom fulfills the role of Lead Member. All Members are appointed by the Lieutenant-Governor in-Council.

The Members of the Commission are:



(From the left)

- Anne W. La Forest of Fredericton
- Hugh J. Flemming, Q.C. of Rothesay
- Donne W. Smith, Chair and Chief Executive Officer, of St. Andrews
- David T. Hashey, Q.C., Lead Member, of Fredericton
- Paulette Robe of Tracadie-Sheila
- William D. Aust of Riverview



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

During the fiscal year 2005-2006, Members of the Commission met nine times as a board of directors, including one meeting to review the three-year Strategic Business Plan.

Responsibilities

The Chair is:

- responsible for administering the *Securities Act* and for the overall performance and management of the Commission. □
He reports to the Minister of Justice, as the Minister responsible for securities regulation. He presides over the Commission □
when it acts as a board of directors.

Members of the Commission:

- regulate the capital markets in New Brunswick by making rules and policies that govern the conduct of securities market □
participants, such as dealers, advisors and their employees. The Members meet regularly in their role as policy-makers. □
As part of this function, Members recommend changes to the *Securities Act* and General Regulation, as needed;
- act as a quasi-judicial tribunal by holding hearings and making decisions as set out in our legislation. In their role as □
adjudicators, Members adjudicate enforcement proceedings, consider applications for exemptive relief from the □
requirements of the legislation and hear appeals from decisions of the Executive Director; and
- act as the Commission's board of directors responsible for overseeing the management of the Commission's business, □
including the yearly review of the Commission's strategic business plan and operating budget.

Corporate Governance

The Commission has a Governance Policy to provide the framework for practical and effective management and decision-making. We amended this policy during the year in an ongoing effort to maintain high standards of governance practices. The full text of the policy is found on our website at www.nbsc-cvmnb.ca.

The Chair, who is also the Commission's Chief Executive Officer, is considered to be "non-independent" from management, as defined in the *Canadian Corporate Governance Guidelines for Reporting Issuers*. To maintain full independence in our processes, we created the position of Lead Member to preside at regularly scheduled meetings of the independent Members, in the absence of the Chair or management. In addition, the Lead Member can preside and act as Chair in the absence or inability of the Chair to act at any meeting of the Commission. The Lead Member is appointed for a one-year term, which can be renewed once. David Hashey, QC, was appointed as Lead Member on 30 January 2006.

Committees

The Commission has two standing committees to assist with its functions: the Audit Committee and the Human Resources and Governance Committee. The size of each Committee is determined by the Commission as appropriate to its mandate. Each committee is currently comprised of four Members. The committee chair and voting Members of each Committee are independent. The Chair of the Commission is an *ex officio* and non-voting Member of each standing committee.

The committee Members designate an independent Member to act as committee chair. Members of a committee are appointed or reappointed at the first meeting of the Commission following the end of the fiscal year.

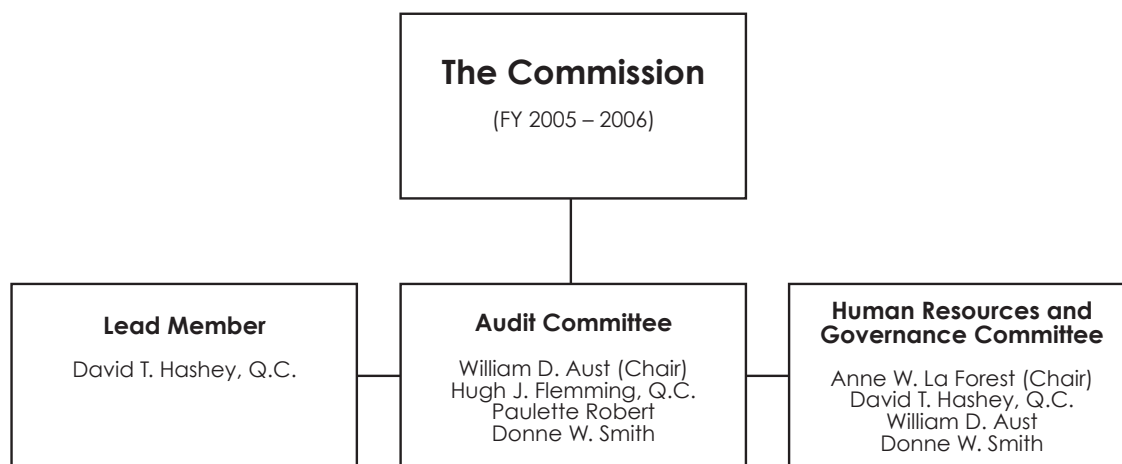
Audit Committee

This committee assists the Commission with the oversight of the quality and integrity of internal controls, management information systems, financial information and risk management. Members of the Audit Committee are required to be financially literate and sufficiently versed in financial matters to understand the Commission's accounting practices and policies and the principles involved in preparing the financial statements. The Members are: William D. Aust (Chair), Hugh J. Flemming, Paulette Robert and Donne W. Smith (*ex officio*). During fiscal year 2005-2006, Members of this committee met 8 times.

The Auditor General of New Brunswick is the independent auditor and audits the Commission's 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; that senior officers create a culture of integrity throughout the organization; and that appropriate succession planning is in place, including procedures for the selection, training and monitoring of senior management. This Committee oversees the Commission's governance procedures, including the performance assessment processes for the Commission, its committees, Members and staff. The Members are: Anne La Forest (Chair), David T. Hashey, William D. Aust and Donne W. Smith (*ex officio*). During fiscal year 2005-2006, Members of this committee met 8 times.



Education

The Commission encourages its Members to participate in outside continuing education sessions. Management also organizes presentations on various topics of interest to Members which are offered as part of the regular Commission meetings.

A MESSAGE FROM THE EXECUTIVE DIRECTOR

NEW BRUNSWICK
SECURITIES COMMISSION

COMMISSION DES
VALEURS MOBILIÈRES
DU NOUVEAU-BRUNSWICK



The Commission has just completed its second eventful and exciting year of operations. Our efforts focused on the four priorities identified in our Strategic Business Plan. The "Report on Performance" contains an overview of our accomplishments.

The Commission's Strategic Business Plan states how we will conduct our business and fulfil our role as set out in the *Securities Act*. The strategic direction described in the plan identifies our vision, mission, mandate and values. The Commission identified four strategic priorities as being critical to meeting its mission and fulfilling its vision.

The Strategic Business Plan looks ahead to a rolling three-year planning horizon. In the fall of 2004, the Commission shaped its strategic direction and priorities for 2005 – 2008. Last year, members and staff reviewed the plan and confirmed the direction and priorities for the period 2006 – 2009.

Our primary focus is to see that the unique circumstances of New Brunswick's capital markets are properly addressed. We have put significant effort into implementing a regulatory framework for New Brunswick that is compatible nationally. We continue to work cooperatively with our provincial and territorial counterparts on securities-related issues. These include investor protection and education initiatives as well as initiatives to streamline and harmonize the regulatory framework across the country. We are active members on a number of the Canadian Securities Administrators project teams working towards further consistency and harmonization. In addition, we are active, in a similar vein, with our counterparts in the North American Securities Administrators Association.

We have grown in number, expertise and experience. We have attracted very competent and capable staff to fill our identified vacancies. This team has enabled us to take on the initiatives needed to meet our mandate and fulfil our responsibilities as a principal regulator in Canada. Our staff have worked hard and I am grateful for their efforts.

We are New Brunswick's securities regulator. We are striving to regulate our capital markets through fairness, efficiency, innovation and respect.



Kenrick G. Hancox

Executive Director

New Brunswick Securities Commission

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*. The Commission 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.

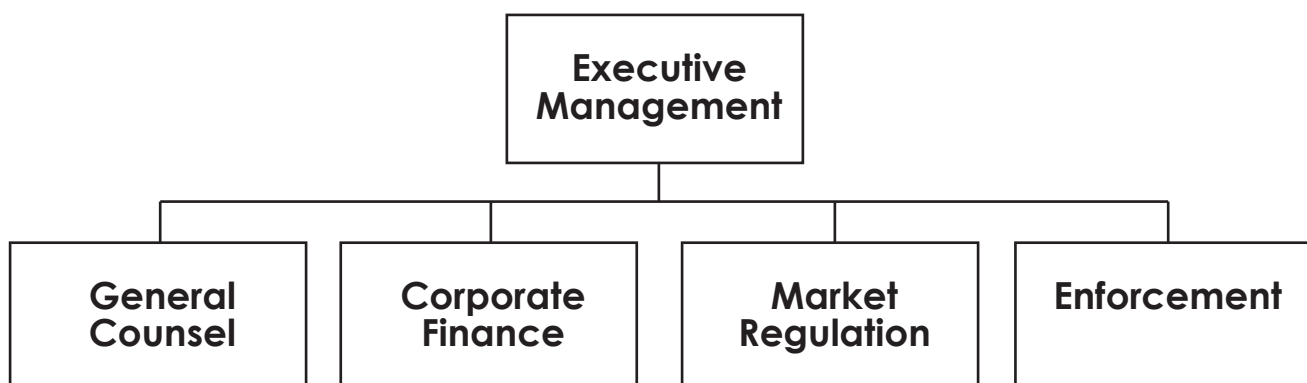
The Members are responsible for management oversight, policy development and adjudication. The Chair is also the Commission's chief executive officer, while the Executive Director is the chief administrative officer.

Management is accountable to the Commission 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 *Act* and the effective governance of the Commission.

The Commission performs the following functions to support its mandate:

- educates investors and informs users of capital;
- provides registration services for dealers and advisers;
- reviews issuers' prospectuses and other ongoing disclosure documents;
- considers applications for exemptions from specific regulatory requirements;
- oversees enforcement and regulatory activities of self-regulatory organizations;
- investigates complaints and prosecutes violations of securities legislation;
- holds administrative and adjudicative hearings;
- formulates policy;
- provides advice to government on matters within the Commission's 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 Division

- Consists of the Executive Director and direct reports;
- Exercises statutory regulatory authority and other responsibilities delegated by the Commission;
- Ensures cost-effective service delivery, efficient regulatory function, administrative support, and streamlined management of the Commission;
- Provides direction to staff;
- Provides communications and media relations for the Commission;
- Manages capital market development initiatives;
- Undertakes long term strategic planning.

General Counsel Division

- Acts as both the legal and policy branch of the Commission;
- Acts as Secretary to the Commission;
- Provides legal advice to Members and staff of the Commission on corporate, operational and regulatory matters;
- Acts as the regulatory policy coordination division of the Commission and leads certain regulatory policy projects;
- Is responsible for the organization and efficient operation of the Commission's board meetings and administrative hearings;
- Is responsible for the development and delivery of the Commission's educational programs for the general public, investors and other stakeholders.

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;
- Provides recommendations to the Commission on applications for discretionary relief from specific securities law requirements;
- Actively participates on regulatory policy initiatives affecting issuers;
- Provides accounting, auditing and budget expertise to the Commission.

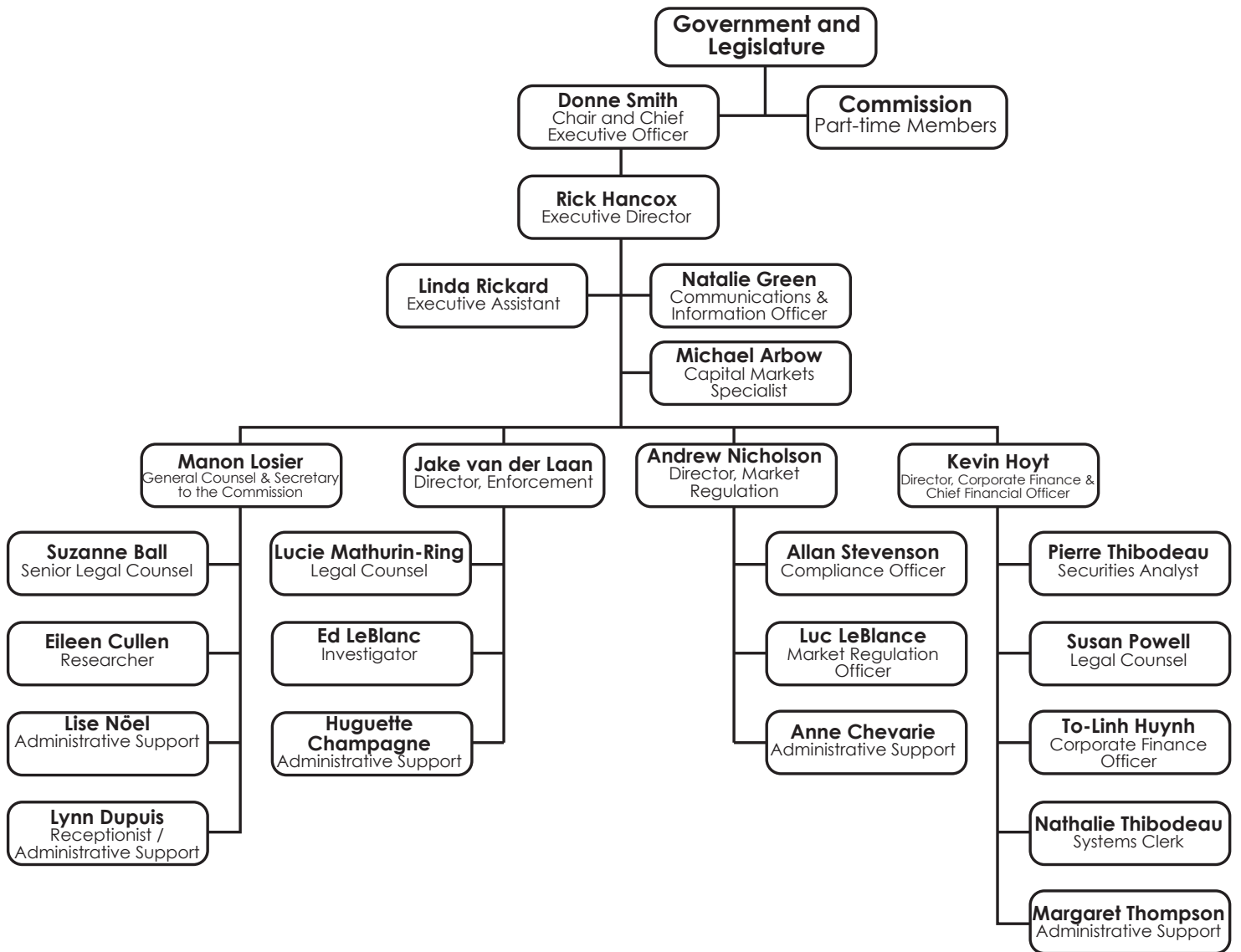
Market Regulation Division

- Approves applications for registration based on qualifications and suitability for individuals and firms to deal or advise in the market;
- Conducts compliance reviews of registrants and market participants;
- Educates industry on compliance requirements for securities law and industry standards;
- Provides oversight to the securities industry's self regulatory organizations.

Enforcement Division

- Protects the public interest and the integrity of capital markets;
- Responds to investor complaints and inquiries;
- Investigates and prosecutes violations of the *Securities Act*;
- Minimizes fraudulent activity against the investing public through proactive and vigorous enforcement of legislation;
- Provides investor alerts as part of the Commission's education initiatives.

ORGANIZATIONAL STRUCTURE
(31 March 2006)





The Commission's Strategic Business Plan identified strategic priorities in four areas - corporate development, education, capital market growth, and investor protection. Our accomplishments in each of these areas are described below.

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 included establishing the physical, policy and public profile of the Commission and implementing the regulatory framework to meet the needs of the capital market.

Establishing the Profile of the Commission

In 2005, New Brunswick became one of eight jurisdictions across the country to be identified as a principal regulator. This means that the Commission is qualified to act as the lead or principal regulator for national issuer filings, registration, prospectus review and continuous disclosure requirements under the Canadian Securities Administrators (CSA) Principal Regulator System (also referred to as the "Passport" rule). Becoming a principal regulator is a significant milestone for our organization in just our second year of operation. It is a reflection of the confidence other regulators and market participants have in the expertise of our staff.

The Commission held a number of administrative tribunal hearings over the last twelve months. We developed a comprehensive set of hearing guidelines to assist our Members with the hearing process. These were designed as a complete resource to bring consistency to our procedures as a quasi-judicial tribunal.

We continued to reach new administrative and operational milestones. We updated our Governance Policy and drafted a Memorandum of Understanding between the Commission and the Department of Justice to outline the responsibilities of each organization. We re-examined our Strategic Business Plan to ensure it still reflected our desired priorities. We successfully recruited well-qualified people to fill our remaining vacancies. We also implemented additional administrative and financial systems to improve the effectiveness of our operations. In February, we moved into new premises to accommodate the needs of our staff and operations.

Regulatory Framework

In 2005, we continued the development of New Brunswick's new comprehensive regulatory framework for securities. In doing so, we worked closely with our counterparts in the CSA 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 proposed are posted on our website for a sixty-day comment period prior to adoption. We encourage stakeholders to take advantage of this opportunity to contribute to the drafting of regulations that will directly affect them.

We worked with our counterparts in the CSA to harmonize Canada's national regulatory framework. We proposed a series of amendments to the *Securities Act* to Government that, if proclaimed, will assist with the implementation of the Principal Regulator System; enhance investor protection; improve inter-jurisdictional harmonization; and improve our ability to administer the legislation. While the *Securities Act* was adopted in 2004, we must work to ensure it remains responsive to current regulatory demands.

Our Education Priority

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

Overview

Our objective was to provide investors with information needed to make informed investment decisions and to make market participants aware of the requirements of the new legislation.

CSA Triggering Events Campaign

We worked as part of the CSA Investor Education committee on an integrated Triggering Events Strategy for 2006. This strategy targets information to specific audiences based on life events, rather than targeting information to groups based on a demographic profile. Research has shown that there are four particular triggering events in people's lives that

“There was a 46% increase in participation among eligible New Brunswick youth.”

prompt them to look for information about investments and financial security. These are: Getting Married/Co-habitation; Raising a Family; Pre-retirement; and Financial Windfall.

This initiative uses modified comic strips from “For Better or Worse” to portray investor education messaging related to the triggering events. All four triggering components are located on the website www.thisisyourlife.ca. “Getting Married” and “Raising a Family” components of the strategy were launched in early 2006. We distributed over 500 investor information kits to interested “brides-to-be” at four wedding shows in the province. The “Pre-retirement” and “Financial Windfall” sections are scheduled to have the comic strips playing in movie theatres across the nation in the Fall of 2006.



CSA Test Your Financial IQ Contest

Once again, we ran the “Test Your Financial IQ” contest in February in conjunction with the CSA. This contest is a web-based quiz geared towards raising financial awareness in students aged 15-21. We sent information on the contest to teachers and students in high schools and other education facilities in the province. There was a 46% increase in participation among eligible New Brunswick youth.

TYFIQ Contest	2004/05	2005/06
Number of NB contestants	819	1199
% of eligible NB students	1.9%	1.7%
% of national participation	4.2%	5.5%



Investor Protection Awareness Campaign



We developed an investor protection awareness campaign called “Invest in Knowing More – Call 1 866-933-2222” for launch in the Spring of 2006. The campaign is designed to promote the Commission as the place to call if investors have concerns or are suspicious about an investment opportunity they have been offered.

General Awareness

We are taking advantage of other opportunities to work with stakeholder groups to deliver information about the Commission and securities in general.

These have included a:

- series of luncheon meetings in Saint John, Moncton and Fredericton for interested stakeholders to generate interest in the TSX Venture Exchange Capital Pool Company Program and capital-raising exemptions;
- presentation to the New Brunswick Association of Chiefs of Police in Fredericton to make them aware of our role in investigating securities fraud and enforcing the legislation;
- professional development session for the New Brunswick Institute of Chartered Accountants in Fredericton;
- presentation to the Certified General Accountants fall conference in Saint John; and
- presentation to the Atlantic Association of Community Business Development Corporations Annual General Meeting in St. Andrews, New Brunswick.

Working with Educational Institutions

We have been working with various educational institutions to introduce securities-related courses into their curriculum. These include:

- a securities law course to be introduced in the Law School of the University of New Brunswick in January 2007;
- a securities law course to be introduced in the Law School of the Université de Moncton in January 2007; and



- an investment course to be reactivated as part of the business programme at the New Brunswick Community College, Woodstock campus.

Our Capital Market Growth Priority

- **Grow the capital markets in New Brunswick**

Overview

Our objective in this area has been to provide leadership by supporting and sponsoring initiatives that increase capital opportunities and enable capital markets to flourish.

The fostering of New Brunswick's capital market is an important part of our mandate. This requires the involvement of a broad range of stakeholders including academia, entrepreneurs, investors, industry, government, professional advisors and regulators. Our objective is to ensure regulation strikes the proper balance between a supportive business development culture and adequate investor protections. As well, we see our role as a catalyst, bringing interested stakeholders together to not only identify issues, but more importantly, to develop solutions and to become engaged in their implementation.

Capital Market Development Project

Our approach to the capital market development challenge started with research. Our first step was a scan of capital market development initiatives around the world. We contacted other Canadian jurisdictions, as well as different agencies in the United States, Europe, and Australia. In addition, we did a preliminary analysis of New Brunswick's capital markets, including publicly-traded and venture capital.

Our research findings were consolidated into a discussion paper called "Fostering New Brunswick's Capital Market". This paper provided the foundation for a series of province-wide stakeholder roundtable consultations on capital market growth which started in January.

Stakeholder Roundtables

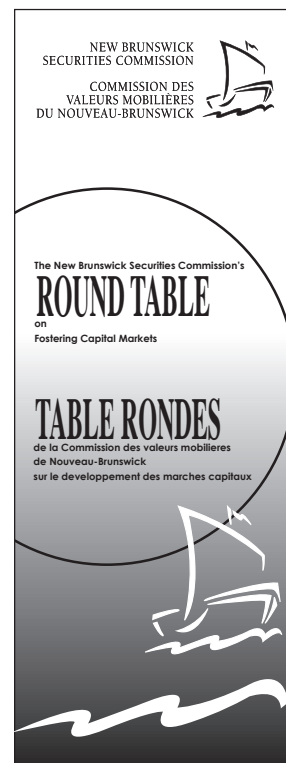
We invited a broad range of stakeholders to provide their insight at a series of roundtables on capital market development. Participants were asked to identify issues in capital market development, and to propose solutions and potential champions to lead to their implementation.

Each session brought an interesting and useful perspective

to the issues. All information relating to the roundtable sessions was posted on our website. We are making plans to host a capital market development summit in the fall of 2006. At that time the Commission's overall strategy will be fine-tuned.

Roundtable Locations and Dates

St. Andrews	18 January, 2006
Saint John	20 January, 2006
Moncton	31 January, 2006
Fredericton	3 February, 2006
Tracadie	27 February, 2006
Bathurst	28 February, 2006
Miramichi	1 March, 2006
Edmunston	29 March, 2006
Woodstock	30 March, 2006



“We see our role as a catalyst, bringing interested stakeholders together to not only identify issues, but more importantly, to develop solutions and to become engaged in their implementation.”

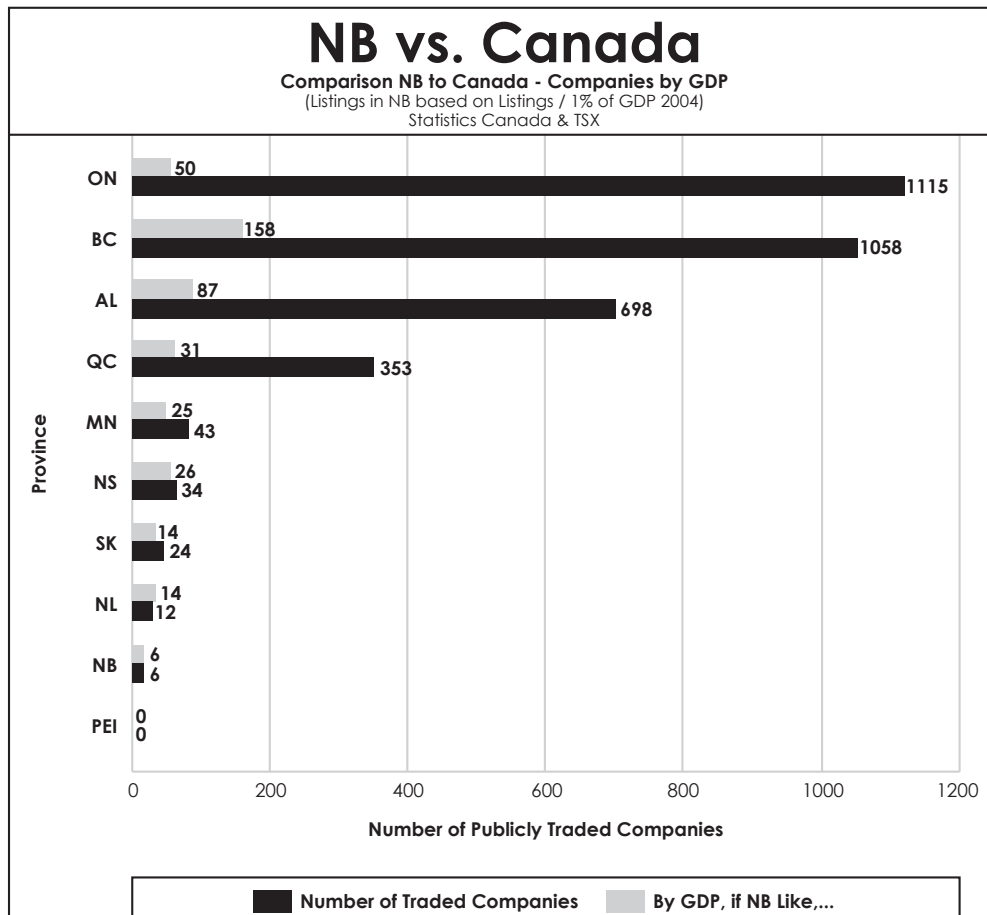
New Brunswick's Capital Markets

Much like other provinces in Canada, New Brunswick has a well-developed and mature capital market for debt. Unfortunately, the same cannot be said for the province's equity market. We are focussing on the equity capital market.

Equity capital can be broken down into two main categories: public and private equity. Public equity is represented by shares or stocks in a company that are usually held by individuals, institutions like pension funds or other companies and are traded on a public forum like a stock exchange. Alternatively, private equity usually represents the interest of a limited number of individuals or investors in a company. Unlike publicly-traded shares, privately held shares are customarily held for long periods of time and determining a price to buy and sell is more a matter of personal negotiation.

The most recognized public equity market for New Brunswickers is the Toronto Stock Exchange (TSX) and to a lesser extent the TSX Venture Exchange (TSXV): home to start-up and smaller companies. New Brunswick has six firms publicly traded on the TSX exchanges. New Brunswick ranks ninth among the provinces for number of listings.

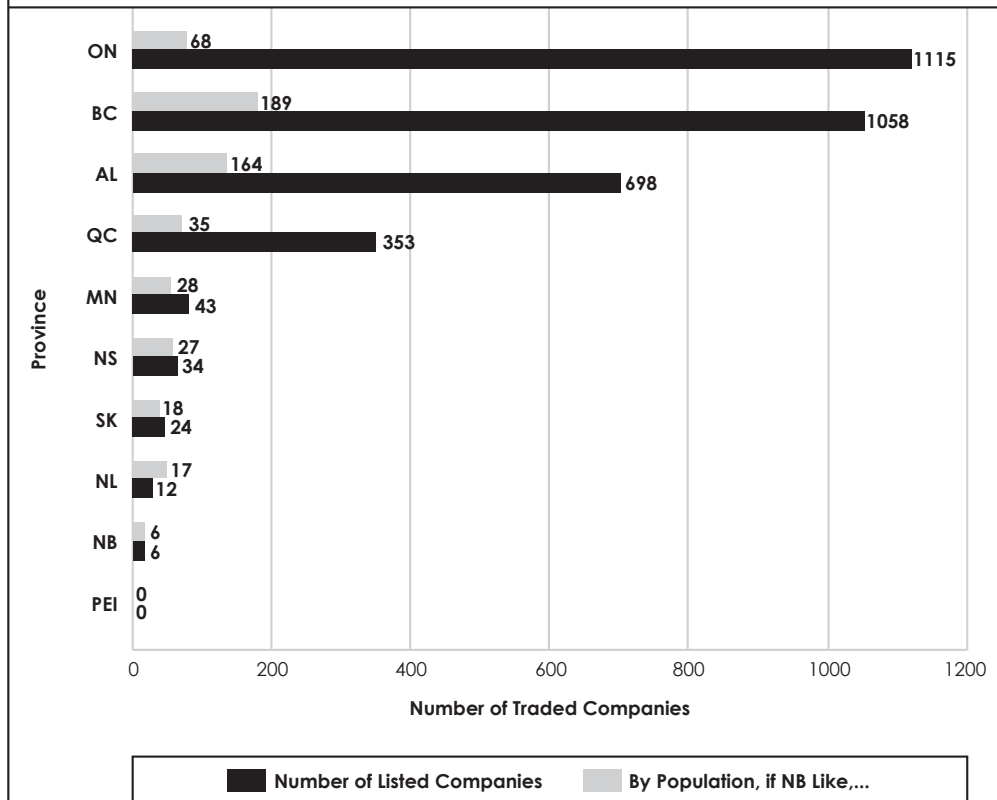
The following graphs illustrate the comparisons. The graphs depicting the status of publicly-traded companies also indicate how New Brunswick might compare to other jurisdictions if it were to have a similar number of publicly-trade companies based on Gross Domestic Product (GDP) or population. (If New Brunswick were able to emulate the listing levels in similar size provinces, the number of listed companies would increase two to four fold.)

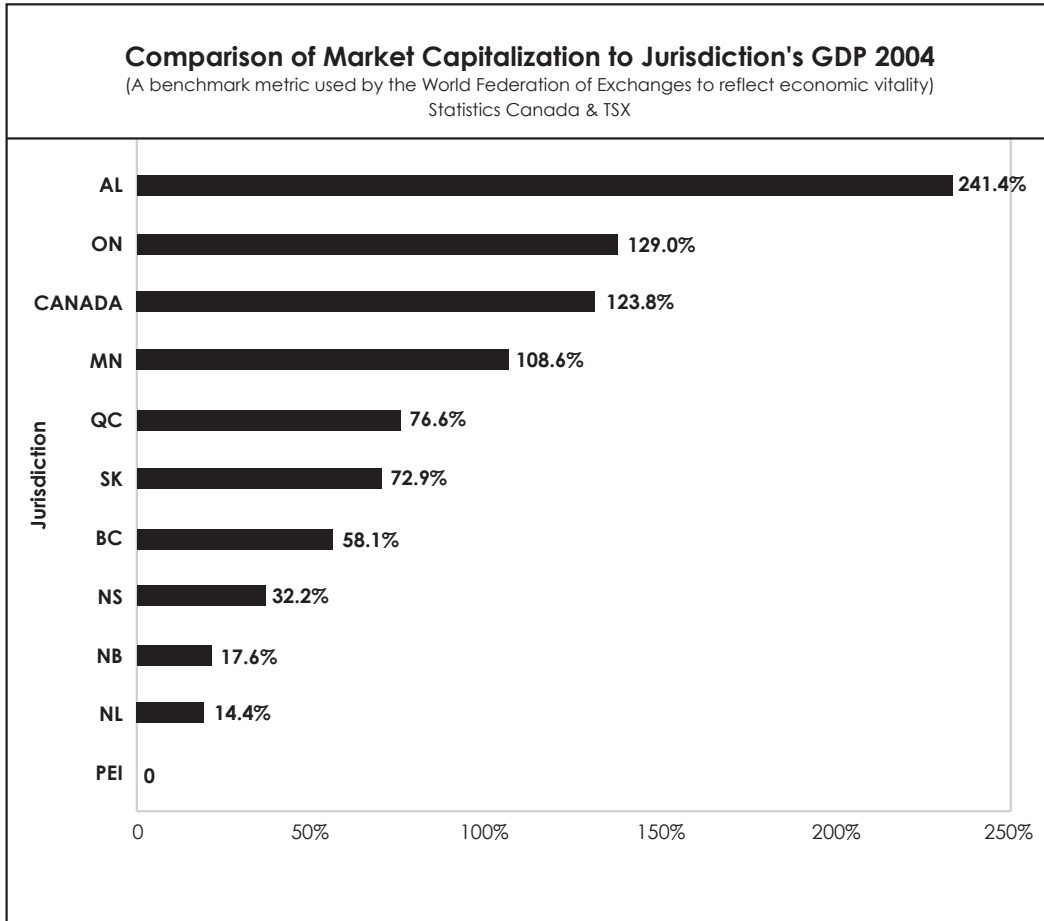




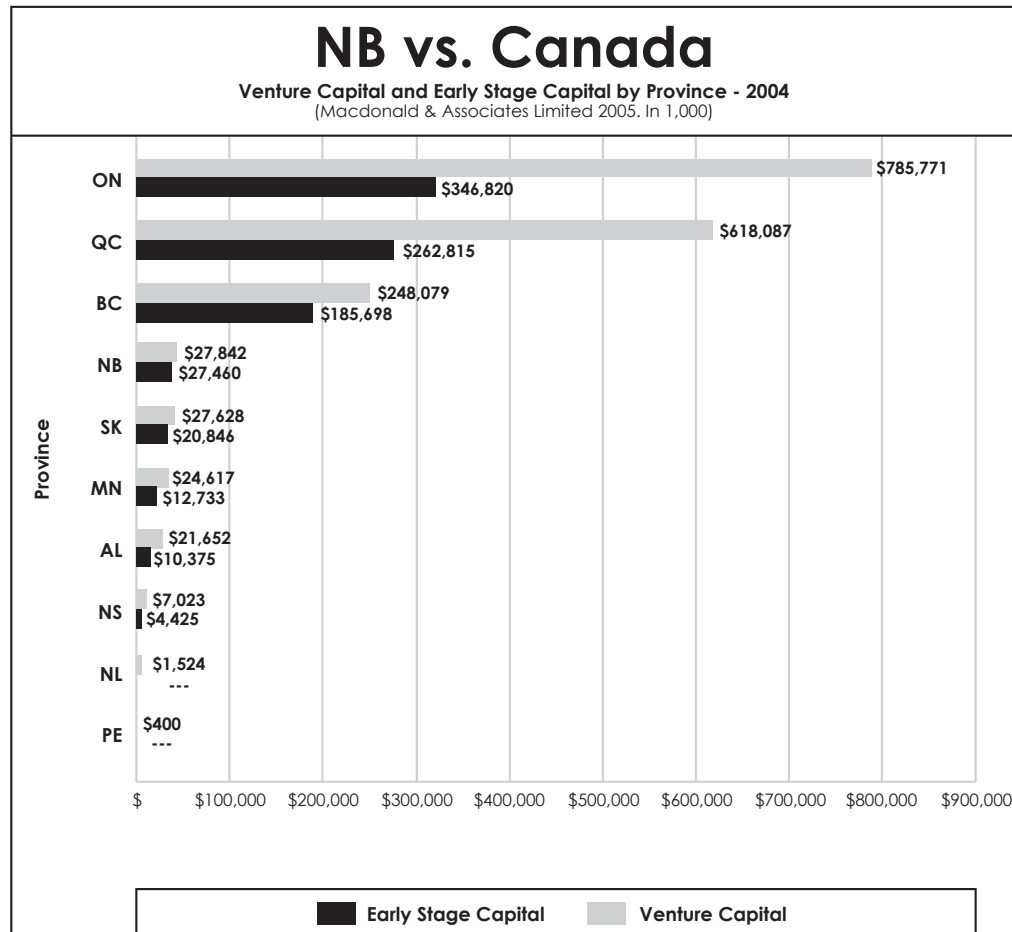
NB vs. Canada

Comparison NB to Canada - Publicly Traded Companies by Population
(Listings in NB based on Listings / 100,000 Population)
Statistics Canada & TSX



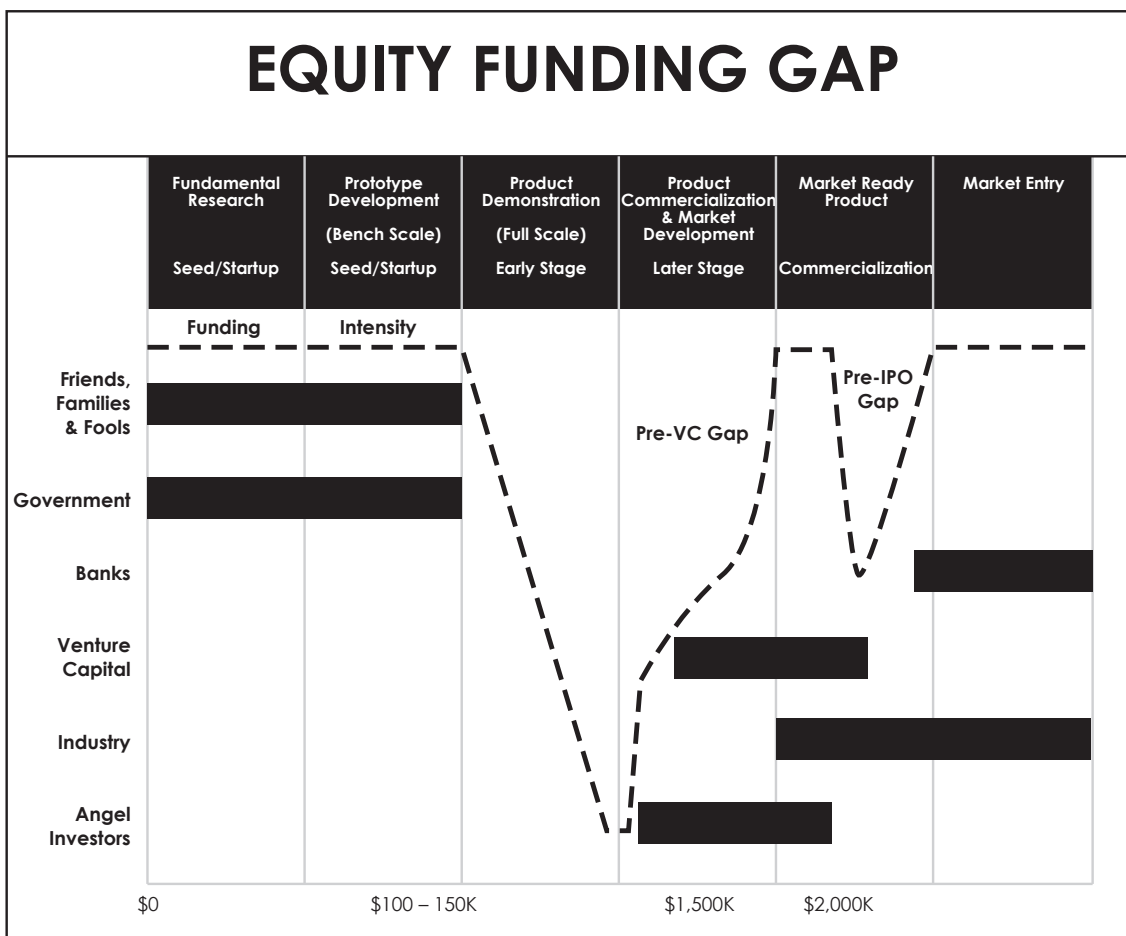


The World Federation of Exchanges, an agency that represents the world's stock exchanges, uses total equity market capitalization (number of outstanding shares times the price of those shares) versus GDP as an indicator of economic vitality. New Brunswick rates eighth in Canada using this measure. However, 85% of the province's market capitalization is represented by one company. Putting New Brunswick's percentage ratio of 17.6% in perspective, it is comparable to Turkey's 17.8%.



A business may acquire private equity investment from friends and family, an individual or group of individuals seeking investment opportunities (sometimes referred to as angels) and possibly even a venture capital firm. Venture capital represents a specialized form of private equity, characterized chiefly by high-risk investment in new or young companies. New Brunswick ranks fourth in Canada for venture capital investment, although it is concentrated in a small number of companies. With the exception of venture capital, the size of the private equity market is harder to quantify but it is understood to be small, fragmented and difficult to access.

EQUITY FUNDING GAP

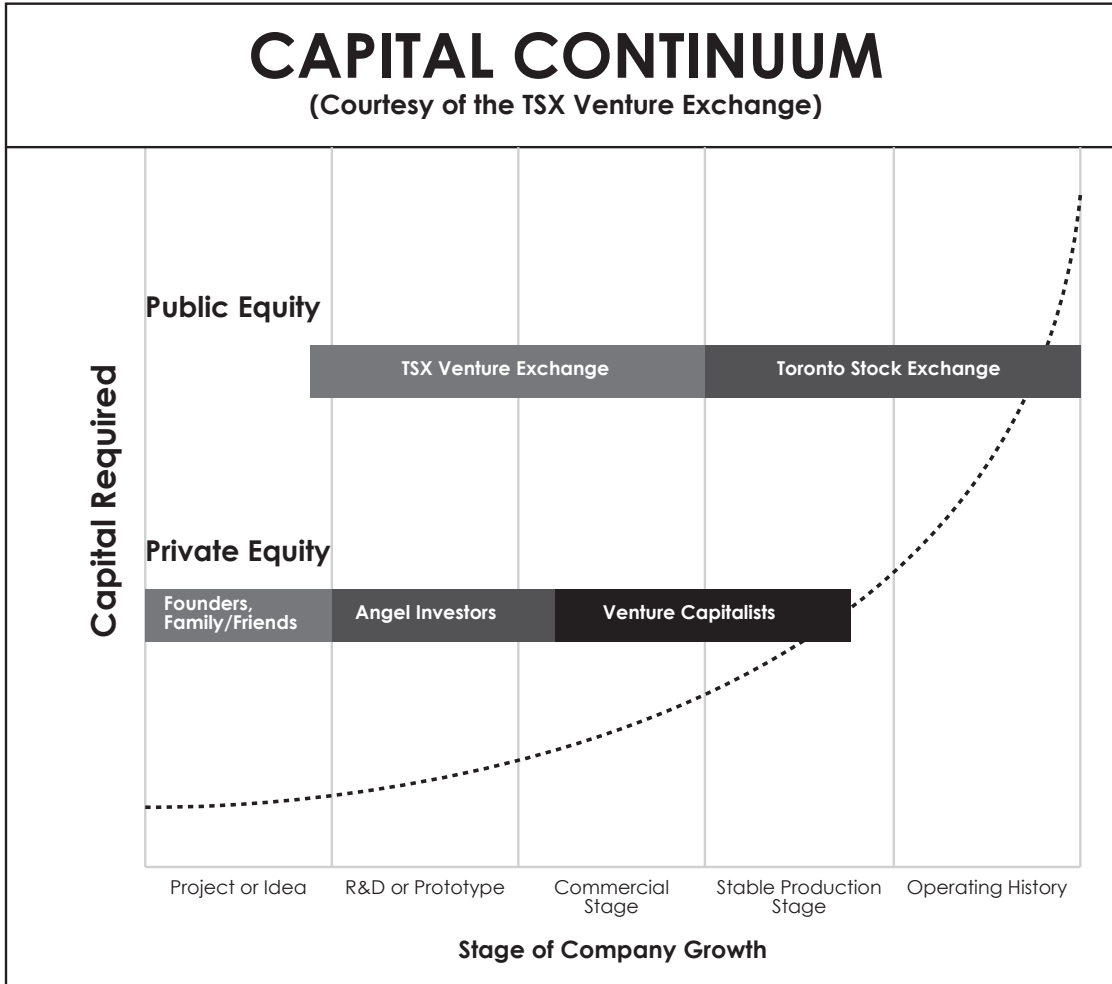


To better understand New Brunswick's capital markets, we looked to the existing providers of capital, where they participate in a company's evolution and the approximate dollar value of their investment. There is a large dip in funding sources between \$200,000 and \$1.5 million. This dip is not exclusive to New Brunswick. In fact, most jurisdictions in North America face a similar problem, namely, the need for capital to take a company past the start up or prototype stage to commercialization. This dip is often described as "The Valley of Death". The Valley of Death earns its name and infamous reputation from the fact that many firms try to move out of the start-up stage but few make it to commercialization. The more effective a jurisdiction is at reducing the impact of the Valley of Death, the greater the likelihood of economic growth and development. The next graph illustrates the capital funding continuum.



Capital Pool Company Program

In June, we sponsored the "Access to Success" breakfast in Saint John. The TSX Venture Exchange presented the Capital Pool Company Program (CPC) to gauge interest for this program in New Brunswick. The CPC program provides an alternative procedure for equity financing for entrepreneurial companies looking to grow their company to the next stage. The response was very positive. The TSX Venture submitted its application to introduce this program and we took steps to put the necessary regulatory policies and agreements in place. In November, less than five months later, the Commission Chair and the TSX Venture Senior Vice-President officially launched the program at luncheon events in Fredericton and Moncton. Each location was well attended with over 120 participants each. A number of organizations have since approached the TSX Venture for further details.



Angel Networks

We worked with the National Angel Organization and PropelSJ to host a conference in the spring of 2006 for angel investors. Angel investors are private investors and they are another source of equity financing for entrepreneurs. Our roundtable stakeholders identified this conference as another useful initiative to help foster the capital markets. This marks the first conference east of Montreal for the National Angel Organization.

Interaction with Government Departments and Agencies

We held discussions with Department of Finance staff on the Small Business Investment Tax Credit to identify opportunities to promote the program and get ideas for improving it. Stakeholders have identified this as another important initiative. We also met with officials from Business New Brunswick, the New Brunswick Innovation Foundation, the New Brunswick Investment Management Corporation and the Atlantic Canada Opportunities Agency to exchange information and ideas on our respective mandates and explore how our agencies can interact on fostering capital markets.

Our Investor Protection Priority

- **Protect capital market integrity through active compliance and vigorous enforcement measures.**

Overview

During the year, we were involved in a number of compliance and enforcement actions. A number of hearings resulted in sanctions against dealers and individuals. These included cease trade orders, suspension of registration, and administrative penalties. In 2005-2006, the Commission ordered \$72,719 in administrative penalties. These proceeds go to a separately maintained Market Enhancement Reserve. The *Securities Act* mandates that these funds be used to enhance the capital market in New Brunswick.

Scholarship Plan Dealers

We held a review with senior representatives of all six Scholarship Plan Dealers that operate in the province. We had an opportunity to identify our expectations, to review our requirements and to review the common deficiencies. We also heard about the issues facing these dealers and undertook to review certain aspects of our regulations to see what changes could be made to suit their unique circumstances.

Investor Alerts

We issued an investor alert warning investors to be aware of opportunistic investment scams in the wake of the widespread devastation caused by hurricane Katrina in Louisiana, Mississippi, Alabama and Florida. This was done in cooperation with the North American Securities Administrators Association (NASAA). Investors were cautioned about investing in any scheme that presents itself as an opportunity resulting from the fallout of the tragedy or crisis. Investors were advised to watch out for oil-and-gas scams given the prospect of higher prices following Katrina's destructive path through the Gulf of Mexico oil fields and refineries.

Portus Alternative Asset Management Inc.

We continued our investigation into Portus Alternative Asset Management Inc. and its owner and managing director, Mr. Boaz Manor, in conjunction with other Canadian regulators. The Ontario Securities Commission has commenced court proceedings against Manor and other principals and this case has been referred to the RCMP. Portus has been placed in bankruptcy and the Receiver is assembling assets so that investors can be reimbursed at least some of their money. All existing dealers who had representatives selling or referring Portus in this province have agreed to reimburse fees to investors. We continue to investigate the role of wholesalers and are gathering information with respect to the activities of non-registrants and dually-licensed insurance salespersons.

Fundy Minerals Ltd.

The Commission ordered Fundy Minerals Ltd. to pay an administrative penalty of \$5,000 and an additional \$2,750 in costs after Fundy was found to be in violation of the *Securities Act* as a result of its trading securities without the benefit of a registration exemption. Fundy Minerals Ltd. is a New Brunswick-based resource company involved in the exploration and development of gold, silver, copper and base metals in the province and outside New Brunswick.

Vincent Lacroix

The Executive Director of the Commission suspended the registration of Vincent Lacroix who was registered as a compliance officer with Tandem Wealth Management Inc.



This action followed a similar action by the Autorité des marchés financiers where they determined that Lacroix no longer had the integrity required to act as a security adviser for the Norbourg family of funds under the Québec *Securities Act*.

OptionsXpress Inc.

The Commission, in conjunction with other Canadian securities regulators, approved a settlement agreement with OptionsXpress Inc. OptionsXpress is an Internet-based securities firm in Chicago, Illinois. OptionsXpress permitted Canadians to open internet trading accounts to trade securities in the United States. A review by Canadian regulators revealed that OptionsXpress had been trading in Canada without being registered in any Canadian jurisdiction. The settlement agreement required OptionsXpress to pay a total of \$550,000. The penalty was allocated across the jurisdictions based on account distribution and trade volume. New Brunswick's portion of this penalty was \$4,499. This settlement highlighted another example of effective cooperation among provincial securities regulators. The coordinated settlement process avoided the unnecessary expense and procedural complexity of 10 settlement agreements with 10 regulators. This approach helps reduce the regulatory burden on the marketplace.

Investors Group Financial Services Inc.

The Commission ordered Investors Group Financial Services Inc. (IGFS) to pay an administrative penalty of \$63,220 plus \$5,000 in costs for allowing one of its predecessor companies to engage in registerable activities in New Brunswick without being registered, as required by the *Securities Act*. IGFS is a Canada-wide financial services firm with business as a manager and distributor of mutual funds. IGFS consented to a settlement agreement. An investigation determined that IGFS employed 17 non-resident salespersons who were not registered in New Brunswick, but who had traded on behalf of 54 New Brunswick residents during a period of one to nine years. Anyone trading in securities or acting in the furtherance of a trade in the province must be registered with the Commission unless exempted.

Alain Brien

In March 2006, the Commission issued a Notice of Hearing and Statement of Allegations against Alain Brien. Proceedings into this matter continued into the 2006-2007 fiscal year and resulted in a settlement agreement that ordered Alain 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, in violation of the *Securities Act*. The Commission also ordered that the exemptions contained in the New Brunswick securities laws do not apply to Brien, and he is prevented from trading in securities in New Brunswick for a period of 10 years. Brien worked for Investors Group Financial Services Inc. in Québec at the time of the infraction. An investigation identified that Brien traded on behalf of 16 New Brunswick residents between November 2003 and March 2005. None of these investors has reported financial harm while working with the respondent, but Brien misled investigators about his business dealings in New Brunswick. Anyone trading in securities or acting in the furtherance of a trade in the province must be registered with the Commission, and it is an offence to make misleading or untrue statements to the Commission.

Maitland Capital Ltd.

In March 2006, the Commission issued a temporary cease-trade order against Maitland Capital Ltd. The investigation continued into the 2006-2007 fiscal year and resulted in an order directing Maitland Capital Ltd., its officers, directors, employees and agents to cease trading in the securities of Maitland Capital Ltd. Specific individuals associated with this case were also ordered to cease trading in all securities. The individuals named were Al Grossman, Hanoch Ulfan, Steve Lanys, Jack Travin, Leonard Waddingham, Saul Messinger, and Kim Wadhvani. The order was issued following an investigation into the activities of Maitland Capital Ltd. The investigation revealed that Maitland Capital Ltd. made prohibited guarantees and other misleading representations to investors in order to entice them to invest. In addition, they were trading in securities without having been registered to sell securities or having filed a prospectus, in violation of the *Securities Act*. It appears that investors were led to believe that they were investing in an Alberta oil and gas exploration company called Maitland Energy Inc. Maitland Energy Inc. is a different corporation, unrelated to Maitland Capital Ltd. Further hearings are scheduled. Securities regulators in Alberta, Saskatchewan, Manitoba and Ontario took similar action against the respondents.

COMMISSION STATISTICS AT A GLANCE

Enforcement Activity

	2005-2006	2004-2005
Complaints received	29	19
Concluded investigations	24	11
Average length of investigation (in days)	155	124
Investigations added to the general file	26	12
Cease-trade orders (interim and permanent)	2	2
Settlements	2	0
Hearings	5	3
NBSC Costs levied	\$7,750	\$2,000
NBSC Costs recovered	\$7,750	\$2,000
Administrative Penalties levied	\$72,719	\$64,000
Administrative Penalties recovered	\$72,719	\$64,000

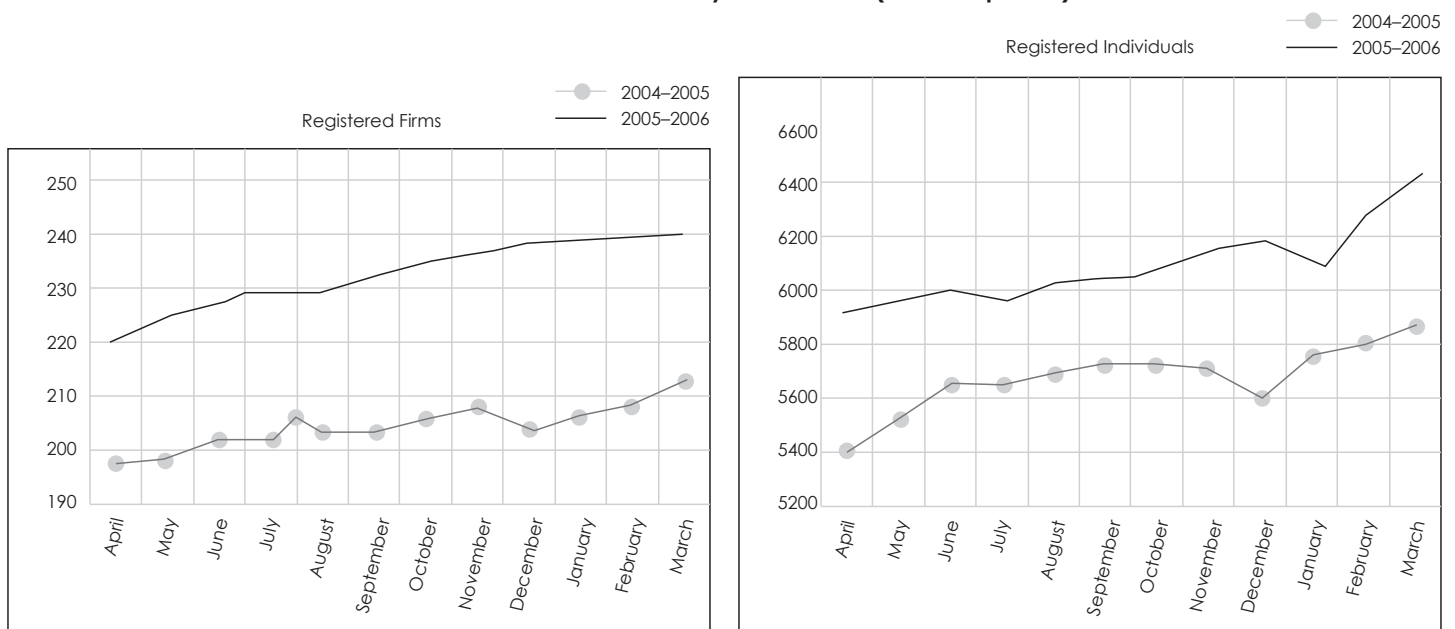
Corporate Finance Activity

	2005-2006	2004-2005
NB-based reporting issuers	8	6
Prospectus Filings	493	357
Mutual Fund Prospectus Filings	195	143
Annual Information Forms	824	427
Exempt Distribution Reports	224	n/a

Market Regulation Activity

	2005-2006	2004-2005
New Dealer & Adviser firm applications	31	17
New individual registrant and non-trading/non-advising officer or director filings	3,246	2,389
Transfer of registration	220	220
Termination of individuals	1,446	1,214
Submissions to change previously filed registration information	13,874	8,615

*2004 – 2005 Fiscal was 01 July to 31 March (9 month period)





Financial Position and Operating Results for the Fiscal Year Ended March 31, 2006

This discussion and analysis provides a summary review of the New Brunswick Securities Commission's operating results for the year ended 31 March 2006. This review should be read in conjunction with the financial statements and accompanying notes.

Although comparative financial information has been provided, the prior fiscal period was only for a nine-month period, as the Commission was established on 1 July 2004. Direct comparisons between the fiscal periods are not meaningful.

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 commenced 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. 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 exceeded the budgeted amount.

Selected annual information

	Budget 2005-06	Actual 2005-06	Actual 2004-05 (9 Months)
Revenue □	\$7,863,500 □	\$9,216,445 □	\$6,270,406
Expense □	\$2,659,000 □	\$2,677,072 □	\$1,706,088
Net income □□		\$6,539,373 □	\$4,564,318
Total assets □□		\$2,786,812 □	\$1,822,035
Total liabilities □□		\$783,285 □	\$444,912
Total funds' balance □□		\$2,003,527 □	\$1,377,123
Distributions to Government □□		\$5,912,969 □	\$3,187,195

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.

Almost all of our operational funding comes from fees paid by market participants. This was about 98.0% of total revenue in the year (98.4% in the prior period) and relates primarily to capital raising activities and securities trading in New Brunswick. There are several significant fee contributory groups. Fees paid by mutual funds to distribute their securities in New Brunswick were about \$3.8 million or 41% of revenue. In addition, fees paid by the six largest Canadian banks for the registration renewal of their representatives and firms were about \$1.07 million or 12% of revenue.

Securities distribution fees for 2005 – 2006 are showing a 53% increase from the nine-month period ending 31 March 2005. This increase is primarily attributable to the timing of these filings. There is significant revenue in the first fiscal quarter, primarily associated with mutual funds, that is not included in the prior period comparison.

Registration fees for 2005 – 2006 are showing a 17% increase. This is primarily attributable to a commensurate growth in the number of registrants and to a lesser extent to the truncated comparison period.

Financial filings for 2005 – 2006 are showing an 83% increase from the nine-month period ending 31 March 2005. This is due to a general growth to the volume of filings as well as the significant number of first quarter filings that would not show up in the prior period comparison.

Exemptions and orders revenue for 2005 – 2006 is showing a 124% increase from the nine-month period ending 31 March 2005. This is primarily due to the Commission establishing a fuller breadth of securities regulation comparable to the rest of the CSA members. With greater regulation comes a greater request for exemptive relief. The absence of one quarter of applications from the prior period is also a factor.

Category	Description	Amount \$	% of Fee Total
Distribution Fees	Fees Paid by securities issuers when filing distribution documents	4,441,950	49.4
Registration Fees	Fees Paid by individuals and firms to register with the Commission to sell or advise on securities	2,607,300	28.9
Financial Filing Fees	Fees Paid by public companies when filing annual financial statements and annual information forms	1,672,374	18.5
Exemptions and Orders	Fees Paid by market participants primarily to request exemptions from <i>Securities Act</i> requirements	309,975	3.4

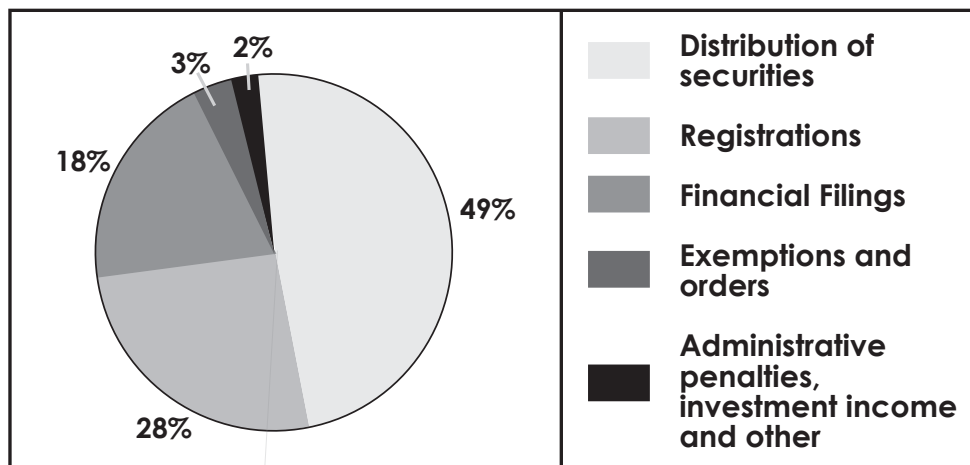


Enforcement revenues, comprised of receipts of administrative penalties, designated settlements, and administrative cost recoveries are unpredictable. These revenues depend on the timing of enforcement actions completed during the year and on the Commission's ability to collect assessed amounts. However, the Commission has collected all assessed amounts to date. 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. They are to be spent only on endeavours or activities that enhance the capital market in New Brunswick, as required by the *Securities Act*.

The Commission does not budget an amount for enforcement revenue so as to avoid an appearance of impropriety. As at the year-end, there were no disbursements 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.



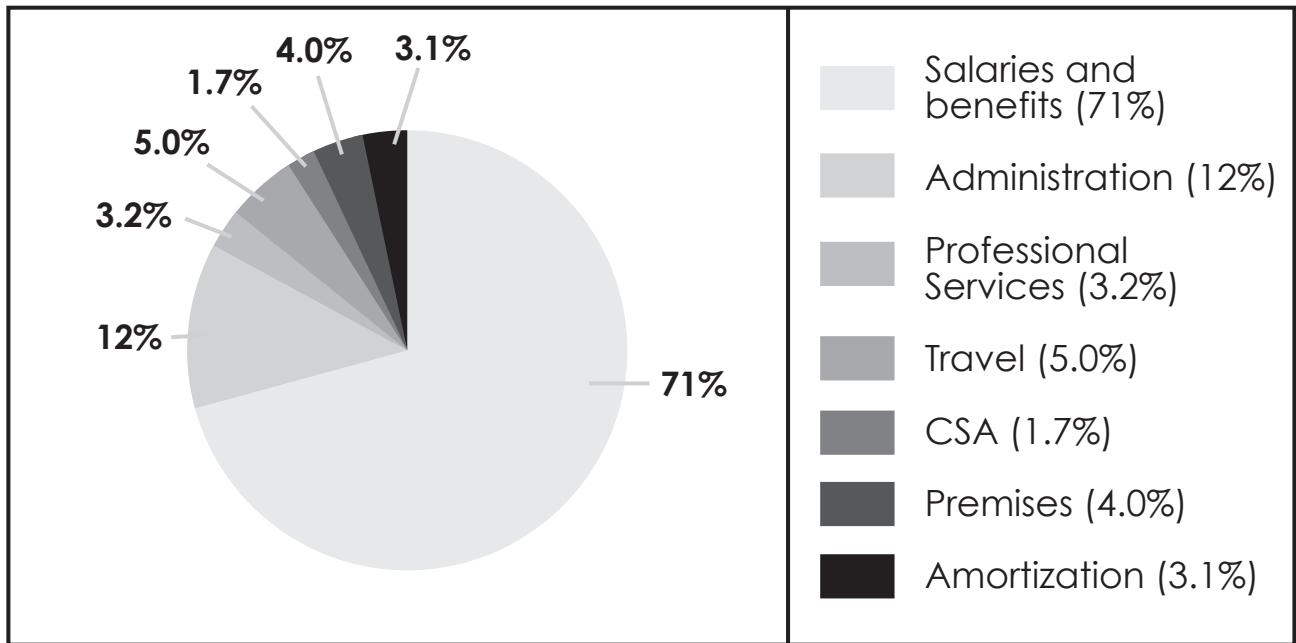
Operating Expenses

The Commission takes its responsibility seriously 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;
- reporting actual versus budget amounts to management every month and to the Commission Members at every Commission meeting;
- preparing quarterly financial forecasts for management and the Commission;
- requiring Commission approval of significant expenses or contracts;
- continually improving its processes.

The Commission's operating expenses during the year were \$2,677,072, compared to a budget of \$2,659,000, a difference of \$18,072. The slight overage was driven by several unbudgeted expenses that were approved by the Commission prior to expenditure.

Expense Category	Expenses (\$)	Budgeted Expenses (\$)	% of Total Expenses	% of Total Expenses Prior Period
Salaries and Benefits	1,901,198	1,812,800	71.0	70.3
Administration	322,556	389,800	12.0	12.8
Professional Services	85,152	105,000	3.2	6.6
Travel	133,956	120,200	5.0	4.3
CSA Initiatives	44,835	80,000	1.7	2.5
Premises	106,573	135,200	4.0	2.4
Amortization	82,802	16,000	3.1	1.1
Total	2,677,072	2,659,000	100.0	100.0





The largest expense item, totalling \$1,901,198 or 71.0% was salaries and benefits. As a percentage of total expense, this ratio was similar to the prior period but was 58.5% higher than the prior period in terms of dollar amount. This was due to two primary factors:

- The prior period was only for a nine-month period;
- The Commission experienced significant personnel growth as it filled vacant positions.

The Commission had 22 staff on payroll at year-end, compared to the 16 that were on payroll one year before. As well, only about half of these 16 persons were on payroll for the whole fiscal period. Employees did not receive cost of living adjustments during the reporting period but did receive performance increments where applicable.

Administration expenses were the second largest category for the Commission at \$322,556 or 12.0% of total expenses, a slight percentage reduction from the 12.8% of the prior period. These expenses pertain to information technology, communication, printing, advertising and other general office expense items.

Travel costs were \$133,956 or 5.0% of total expenses, an increase from 4.3% of the prior period. Travel cost increases were influenced by larger staff numbers and a greater percentage of professional staff employed with the Commission as compared to total staff. Travel was primarily related to training initiatives and attendance at Canadian Securities Administrators functions.

Premise costs increased significantly to \$106,573. This represents 4.0% of total expenses, up from 2.4% of the prior period. This increase was influenced by two factors. The Commission required additional temporary office space during the reporting period and the Commission relocated in February to new premises with the signing of a ten year lease.

In large part because of the new office space, the Commission completed significant leasehold improvements that totalled \$390,517. A portion of this improvement was amortized in the reporting period consistent with Commission policy. Furniture and computer equipment was also added with the increase in staff and totalled \$77,992. This was also partially amortized. This increased the Commission's amortization expense from \$18,146 in 2004 – 2005 to \$82,802 in 2005 – 2006.

Professional service expenses decreased from \$112,263 in 2004 – 2005 to \$85,152 in 2005 – 2006.

These expenses relate primarily to consulting, legal, translation and transcription costs. The decrease is primarily attributable to high start-up human resource consulting charges in the first year of operation.

The remaining expense item is \$44,835, or 1.7% of total expenses for Canadian Securities Administrators initiatives. This amount is slightly higher than the \$43,160 expense incurred in 2004-05. These initiatives advance securities regulation in Canada through a cooperative approach amongst the provincial and territorial securities regulators.

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. \$72,719 of administrative penalties were assessed and collected in 2005-06 while \$64,000 was assessed and collected in the prior period. \$75,000 has been budgeted from the reserve in 2006-07 for eligible purposes.

The Commission had an ability to influence voluntary payments that arose from enforcement activity from the predecessor organization and that were paid to the Public Legal Education and Information Service of New Brunswick (PLEIS). These funds were expended for purposes similar to those described for the Market Enhancement Reserve. During 2005-06, \$101,977 of expenditures were incurred by those PLEIS funds. Those expenditures have exhausted the funds held by PLEIS and no additional funds are expected to be allocated by the Commission.

Disposition of Surplus Operating Funds

The Commission made total payments of \$5,912,969 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 \$812,969. The \$812,969 represents the balance of the general surplus as at 31 March 2005. The contribution is payable each year providing that doing so does not impair the Commission's ability to pay its liabilities, to meet its obligations as they become due or to fulfill its contractual commitments.

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 \$6,383,987 during the fiscal year. \$5,912,969 of that amount was distributed to the Government of New Brunswick. The combined cash balance at year-end was \$2,215,699. This includes amounts from the Commission's two reserves.

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 \$500,000 to \$750,000 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 manages this risk by allowing 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 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.

There is significant on-going 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.

It is indeterminate at this point whether future initiatives, such as 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 final paper from the Crawford panel, *Blueprint for a Canadian Securities Commission*, was released on 7 June 2006. The panel was established by the Government of Ontario and recommended a single securities regulator. It also recommended a model whereby various jurisdictions could opt-in to the "Canadian" regulator while other jurisdictions could maintain their existing structures. This incremental formation introduces additional risk to the Commission. The disposition of this initiative is also indeterminate at this time.

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 is an electronic system for securities market participants to file regulatory documents and pay fees;
- National Registration Database (NRD is an electronic system for registrants to register and pay fees;
- System for Electronic Disclosure by Insiders is 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.



Outlook

Operating revenue is budgeted to be \$9.05 million for the 2006 – 2007 fiscal year. This represents a decrease of about \$170,000, or 1.8%, from 2005 – 2006 actual revenue of \$9.22 million reflecting a general expectation of current levels of market activity persisting in the 2006 – 2007 fiscal year.

Operating expenses are budgeted to be \$3.81 million for the 2006 – 2007 fiscal year. This represents an increase of \$1.13 million over 2005 – 2006 actual expenses. Approximately \$575,000 of this increase is attributable to staff salary and benefit increases driven, in part, by the addition of seven new staff. Consequently, staff travel, training and professional membership costs are expected to increase by about \$90,000. The new office lease and related amortizations are expected to increase costs by about \$120,000. Advertising and promotion costs are expected to increase by about \$150,000 while Market Enhancement Reserve activities are expected to be \$75,000. The rest of the budgeted increase, about \$120,000, pertains to a variety of smaller miscellaneous increases such as for information technology costs, Canadian Securities Administrators fees, professional and legal services fees and insurance costs.

The budgeted subsequent surplus for 2006 – 2007 is about \$215,000, after the budgeted contribution of \$5.1 million to the Government of New Brunswick and a \$75,000 allocation from the Market Enhancement Reserve.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

NEW BRUNSWICK
SECURITIES COMMISSION

COMMISSION DES
VALEURS MOBILIÈRES
DU NOUVEAU-BRUNSWICK



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.

A handwritten signature in black ink, appearing to read "Donne W. Smith".

Donne W. Smith
Chair and Chief Executive Officer

A handwritten signature in black ink, appearing to read "Kenrick G. Hancox".

Kenrick G. Hancox
Executive Director

September 2006

Audited Financial Statements



31 March 2006



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 2006 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 2006 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.
23 May 2006

**NEW BRUNSWICK SECURITIES COMMISSION
BALANCE SHEET
31 MARCH 2006**

	2006	2005
ASSETS		
Current assets		
Cash (Note 3)	\$ 1,326,603	\$ 1,180,527
Accounts Receivable	120,919	15,267
Prepaid Expenses	10,051	7,651
	<u>1,457,573</u>	<u>1,203,445</u>
Investments held for designated purposes (Note 3)	889,096	564,154
Capital assets (Note 5)	440,143	54,436
	<u>\$ 2,786,812</u>	<u>\$ 1,822,035</u>
LIABILITIES AND FUND BALANCES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 417,852	\$ 126,648
Accrued salaries and benefits	72,484	47,082
Accrued vacation liabilities	31,986	29,935
	<u>522,322</u>	<u>203,665</u>
Accrued benefit liabilities (Note 8)	260,963	241,247
Total liabilities	<u>783,285</u>	<u>444,912</u>
Fund balances		
General	1,114,431	812,969
Fee stabilization reserve (Note 4)	750,000	500,000
Market enhancement reserve (Note 4)	139,096	64,154
	<u>2,003,527</u>	<u>1,377,123</u>
	<u>\$ 2,786,812</u>	<u>\$ 1,822,035</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 2006**

	2006	(9 Months) 2005
REVENUE		
Fees		
Distribution of securities	\$ 4,441,950	\$ 2,897,791
Registrations	2,607,300	2,220,400
Financial filings	1,672,374	913,548
Exemptions and orders	309,975	138,475
Other	22,772	652
Administrative penalties and settlements	72,719	64,000
Enforcement cost recoveries	7,750	2,000
Investment income	81,605	33,540
	<u>9,216,445</u>	<u>6,270,406</u>
EXPENSES		
Salaries and benefits	1,901,198	1,199,704
Administration	322,556	218,318
Professional services	85,152	112,263
Travel	133,956	73,021
Canadian Securities Administrators initiatives	44,835	43,160
Premises	106,573	41,476
Amortization	82,802	18,146
	<u>2,677,072</u>	<u>1,706,088</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 6,539,373</u>	<u>\$ 4,564,318</u>

**NEW BRUNSWICK SECURITIES COMMISSION
STATEMENT OF FUND BALANCES
FOR THE YEAR ENDED 31 MARCH 2006**

	General	Fee Stabilization Reserve	Market Enhancement Reserve	Total
Balance, 31 March 31 2005 (9 Months)	\$ 812,969	\$ 500,000	\$ 64,154	\$ 1,377,123
Excess of revenues over expenses	6,539,373	-	-	6,539,373
Disposition of surplus operating funds (Note 6)	(5,912,969)	-	-	(5,912,969)
Investment income reallocation	(2,223)	-	2,223	-
Allocation to reserves (Note 4)	(322,719)	250,000	72,719	-
Expense reallocation	-	-	-	-
Balance, 31 March 2006	<u>\$ 1,114,431</u>	<u>\$ 750,000</u>	<u>\$ 139,096</u>	<u>\$ 2,003,527</u>

**NEW BRUNSWICK SECURITIES COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2006**

	2006	(9 Months) 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 6,539,373	\$ 4,564,318
Adjustment for amortization - capital assets	82,802	18,146
	<u>6,622,175</u>	<u>4,582,464</u>
Changes in non-cash working capital		
Accounts receivable	(105,652)	(15,267)
Prepaid expenses	(2,400)	(7,651)
Accounts payable and accrued liabilities	291,204	126,648
Accrued salaries and benefits	25,402	47,082
Accrued vacation liabilities	2,051	29,935
Accrued benefit liabilities	19,716	241,247
	<u>6,852,496</u>	<u>5,004,458</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Disposition of surplus operating funds	(5,912,969)	(3,187,195)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	(468,509)	(72,582)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>471,018</u>	<u>1,744,681</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,744,681	-
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,215,699</u>	<u>\$ 1,744,681</u>
Represented by:		
Cash	\$ 1,326,603	\$ 1,180,527
Investments held for designated purposes	889,096	564,154
	<u>\$ 2,215,699</u>	<u>\$ 1,744,681</u>

**NEW BRUNSWICK SECURITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
31 MARCH 2006**

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 market, including the administration of the Act, the Securities Regulation and the New Brunswick Securities Commission rules.

The mission of the Commission is to foster a fair and efficient capital market in New Brunswick and confidence in that market. In carrying out its mission, the Commission strives to balance the needs of investors for adequate protection with the needs of industry to access capital necessary for continued economic growth.

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 revenues 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 - four years
Computers and electronic equipment - three years
Automobile - four years
Leasehold improvements - over term of lease

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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 s. 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 market 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.

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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 \$750,000.

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 market in New Brunswick. Market enhancement reserve funds are maintained separate from the normal operating funds of the Commission and generate their own investment revenue.

Public Legal Education and Information Service

As a result of enforcement activity associated with the Securities Branch of the Department of Justice, the predecessor organization for the Commission, certain voluntary payments were made to the Public Legal Education and Information Service of New Brunswick (PLEIS). These 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, has a significant ability to influence expenditures and those expenditures would have a similar purpose as to those from the market enhancement reserve. During the fiscal year \$101,977 of eligible expenditures were incurred. As at 31 March 2006 the balance of available funds held by PLEIS was \$0. Of the Commission's accounts receivable balance, \$43,457 represents a receivable from PLEIS resulting from payments made on PLEIS' behalf by the Commission that were subsequently invoiced to PLEIS. The Commission does not anticipate any further financial relationship with PLEIS.

5. Capital assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office furniture and equipment	\$ 76,727	\$ 31,369	\$ 45,358	\$ 30,561
Computers and electronic equipment	45,649	16,428	29,221	2,727
Automobile	28,198	14,099	14,099	21,148
Leasehold improvements	390,517	39,052	351,465	-
	\$ 541,091	\$ 100,948	\$ 440,143	\$ 54,436

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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

Set out below are details of commitments to organizations outside the Commission and contingencies from guarantees and legal actions. 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 2006 amounted to \$2,204,048. 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:

2006-07	\$	209,484
2007-08		220,896
2008-09		218,496
2009-10		218,496
2010-11		220,567
Thereafter		1,116,109
Total	\$	<u>2,204,048</u>

The Department of Supply and Services subsidized the Commission's lease costs by \$34,833 in 2005-06. This is a result of leasing arrangements that existed prior to the establishment of the Commission and no subsidy is expected in subsequent fiscal years.

(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.

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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 one hundred and twenty-five days, plus an additional twenty percent of accumulated sick leave. In total, this benefit can not exceed one hundred and sixty-six 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 without the application of a discount factor.

9. Related party transaction

The Department of Justice, a related party to the Commission, provides certain services on a cost-recovery basis to the Commission. These services are primarily of an information technology nature such as providing the data storage, back-up, data protection and support for the Commission. The Commission expended \$63,004 during the reporting period on this service.

The Translation Bureau for the Government of New Brunswick also provides translation services to the Commission on a cost-recovery basis. Total expenditures during the period were \$48,888.

GLOSSARY OF TERMS

Angel investors

An individual who provides capital to one or more startup companies. The individual is usually affluent and has a personal stake in the success of the venture. Such investments are characterized by high levels of risk and a potentially large return on investment.

Capital market

This market brings together all the providers and users of capital, all the financial products, like stocks and bonds that make the transfer of capital possible and the people and organizations that support the process.

Compliance review

A review of an investment firm's records to ensure that the firm is in compliance with all registration and filing obligations the firm is subject to under the *Securities Act*.

Continuous disclosure

The legally required public disclosure by issuers of their financial statements and new releases.

Debt market

The market for trading of debt instruments such as bonds and debentures.

Equity market

Common and Preferred shares in public and privately held companies.

Exemption

A term used to describe a condition that allows an issuer, dealer or advisor to be excluded from compliance with a registration or filing requirement.

NRD

(National Registration Database) A web-based system that permits mutual fund salespersons and investment advisors to file applications for registration electronically.

Private equity

Equity securities of companies that are not listed on a public exchange. Transfer of private equity is strictly regulated; therefore, any investor looking to sell his/her stake in a private company has to find a buyer in the absence of a marketplace.

Prospectus

A legal document that describes in detail the security being offered for sale to the public.

Public equity

Equity capital invested in a public companies traded on a national stock exchange.

SEDAR

(System for Electronic Document Analysis and Retrieval) The electronic filing system for the disclosure of documents of public companies and mutual funds across Canada.

SEDI

(System for Electronic Disclosure by Insiders) The electronic filing system that facilitates the filing and public dissemination of "insider reports".

Valley of death

An area of corporate financial need ranging from approximately \$200,000 to 1.5 million 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 are often also provided. also called risk capital.

LIST OF AVAILABLE PUBLICATIONS

NEW BRUNSWICK
SECURITIES COMMISSION

COMMISSION DES
VALEURS MOBILIÈRES
DU NOUVEAU-BRUNSWICK



Tips for Investors

Choosing your Financial Advisor

The Basics of Investing

Investment Planning Worksheet

Characteristics of Various Types of Securities

Mutual Funds – What you Need to Know

The Prospectus – Being informed is Being Protected

Protecting your Finances – How to avoid investment frauds
and scams

Investing and the Internet – Be Alert to Signs of Fraud

A Guide to Capital Raising Exemptions in New Brunswick

