



New Brunswick Securities Commission

2007-2008
Annual Report

**Dynamic and confident
capital markets for
New Brunswick**

NEW BRUNSWICK
SECURITIES COMMISSION

COMMISSION DES
VALEURS MOBILIÈRES
DU NOUVEAU-BRUNSWICK



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ANNUAL REPORT 2007-2008

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COVER PHOTO: *Marissa Rignanesi*

Transmittal Letter

August 2008

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 to the Legislative Assembly of New Brunswick the New Brunswick Securities Commission's annual report for the fiscal year 1 April 2007 to 31 March 2008. This report outlines the Commission's vision, mandate and values. The report also provides the Commission's financial statements, pertinent statistics and our report on performance regarding our strategic priorities.

Respectfully submitted,



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



On behalf of the Members of the New Brunswick Securities Commission I am pleased to present the Commission's annual report for 2007-08, our fourth since

our agency was established. I take great pride in describing the important work of the Commission this year and, more particularly, our achievements, earned through the diligent work of staff and Members, all of whom are guided by our vision, mandate and strategic priorities.

Letter from the Chair and Chief Executive Officer

This has been a year of achievement, challenge and change. This report highlights the many successes of the Commission in meeting its four strategic priorities: investor protection; capital market growth; education; and corporate excellence. The year continued to be one of challenge as we worked to achieve our priorities in an environment of global economic uncertainty and regulatory change. Change, indeed, is never ending for a regulator of capital markets and this year was no exception. But first, our achievements.

With a strong team of professionals supported by visionary Commission Members, we broke new ground as we carried out our statutory obligations to protect investors and the integrity of New Brunswick's capital markets while growing those markets and strengthening our entrepreneurial culture. Our Fullsail initiative proceeded apace as its broad range of champions worked with great commitment to facilitate change. Fullsail Summit 2008 again reflected a spirit of entrepreneurial renewal. We added an educational component to our capital markets endeavours, called *Learning the Ropes* – a new brand to join our Fullsail initiative. Along with our stakeholders such as the New Brunswick Innovation Foundation and the Wallace McCain Institute for Business Leadership, we made significant strides towards meeting our capital market objectives.

Our enforcement activities were aggressive and visible throughout the year and this report outlines our efforts to safeguard New Brunswick investors and our markets. We complemented these efforts with a media campaign involving television, radio and newspaper ads created specifically for New Brunswick. Investor and other surveys provide evidence that New Brunswickers are becoming more aware of investment fraud and the role the New Brunswick Securities Commission plays in protecting them.

This year also saw the implementation, in all jurisdictions except Ontario, of phase two of the Passport system of securities regulation. After much effort on the part of staff and with support from the Council of Ministers Responsible for Securities Regulation, this revolutionary system, once fully effective in 2009, will enable most capital market participants to access markets in multiple jurisdictions using one law and one regulator when filing prospectus and disclosure documents, exemption applications and registration documents. Passport is unique and demonstrates once again what can be accomplished within the Canadian securities regulatory system when all jurisdictions work together for the betterment of Canadian investors and markets.

Another notable achievement was the Commission's acceptance into the Council of Securities Regulators of the Americas (COSRA). Membership in this international organization – which spans North, Central and South America – extends our international enforcement and regulatory reach. This is of particular importance when we seek to protect New Brunswickers from international scams and frauds which know no boundaries. COSRA membership is recognition of our ability to protect our investors while also assisting other member states in protecting theirs.

While 2007-08 was a year of achievement, it was also one of challenge. Commission Members remain strong supporters of the Canadian securities regulatory system as managed by the Canadian Securities Administrators. The ongoing single centralized regulator debate continued to challenge our focus on occasion, but we responded forcefully and positively as required. Our communications efforts – be they television ads, newspaper and magazine stories and articles, or radio spots – are slowly achieving a degree of market penetration and name recognition, but more effort is required. We finalized a comprehensive and aggressive communications strategy to which additional resources and energies will be dedicated next fiscal year.

We continue to recognize the fundamental importance of engaging all our stakeholders in our efforts to protect investors and grow our capital markets. We have been successful in some areas but we know that a concerted effort must be undertaken to ensure all stakeholders – including government and the securities industry, as well as investors – recognize the importance of our mandate.

This was also a year of change for the Commission and its staff. We saw for the first time amendments to the *Securities Act* which incorporated legislative tools implementing Passport. These amendments were nearly as substantial as the original *Act* and a second round of amendments continuing the national reform process was passed by the Legislature in early 2008.

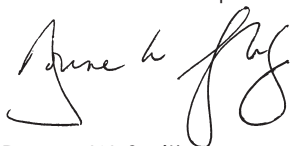
We understand the challenges that New Brunswickers face regarding investor protection and capital market development and we implemented organizational changes to better respond to those challenges. We created a new Education and Market Development division to focus in one place all our efforts in the areas of communication, capital market development and education. As a consequence, two of our divisions – Corporate Finance and Market Regulation – will merge into a new Regulatory Affairs division later in 2008. Our staffing complement modestly increased to meet these challenges but I am very pleased that we continue to be able to remit to the Consolidated Revenue Fund the budgeted surpluses for use by government and New Brunswick taxpayers.

We made total payment of \$6,261,278 to the Government of New Brunswick during the year. The payment amount is calculated annually and is included in our Strategic Business Plan. The total contribution included a budgeted amount of \$5,100,000 as well as an additional surplus of \$1,161,278. Since we were established in July 2004, we have made contributions of \$21,575,873 to the Government.

This year we experienced the challenge of succession planning at the board level for the first time when the terms of two founding Members came to an end and a new class of Member was created. I take this opportunity to thank retiring Members, Paulette Robert and William Aust, for their contributions. I also welcome Kenneth Savage and Céline Trifts to the Commission. They have already demonstrated a strong commitment to the Commission's vision and mandate. In addition, we added two Supplementary Members, James Lockyer and Robert Shannon, whose expertise will enable us to better meet our tribunal responsibilities.

Our Members continue to exert visionary leadership by providing corporate oversight, setting our policy direction and carrying out increasing quasi-judicial responsibilities. The Commission is a leader in creating an effective corporate governance environment, fundamental to a regulatory agency tasked with ensuring the transparency of capital markets. To reflect this vision this report includes an expanded section on governance.

We accomplished a great deal in 2007-08 and I am proud of our collective efforts. I extend my sincere thanks to Members and staff who continue to demonstrate a passionate commitment to their collective responsibilities and the people of New Brunswick.

A handwritten signature in black ink, appearing to read "Donne W. Smith". The signature is fluid and cursive, with the first name "Donne" being more prominent than the last name "Smith".

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

Our Strategic Direction

Our Vision

- Dynamic and confident capital markets for New Brunswick.

Our Mandate

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

Our Values

Excellence

- As a regulatory leader in New Brunswick, we adhere to best practices and high standards;

Service

- We provide efficient, timely and responsive services to our stakeholders;

Integrity

- We are fair, ethical and accountable for all our actions; and

Commitment to our people

- To ensure excellence, we invest in our people to develop expertise, leadership and effective teamwork.

Our Strategic Priorities

Our Investor Protection Priority

- To protect capital market integrity through active compliance and vigorous enforcement measures.

Our Capital Market Growth Priority

- To create economic wealth and independence for New Brunswick through capital market development.

Our Education Priority

- To be a reputable source for investor and capital market education and information.

Our Corporate Excellence Priority

- To ensure we have the infrastructure in place to excel as a Crown corporation and quasi-judicial tribunal.

The Commission

The New Brunswick Securities

Commission consists of Members and operational staff. Members act as our board of directors, set policy and recommend changes to the *Securities Act*.

The Chair, a full-time Member, acts as our Chief Executive Officer and is responsible for the overall operation of the organization. Members are appointed by the Lieutenant-Governor in Council for terms not exceeding five years, and they may be re-appointed. Supplementary Members are appointed by the Lieutenant-Governor in Council for terms not exceeding three years, and may also be re-appointed.

MEMBERS



Donne W. Smith

BA, LLB

Chair and Chief Executive Officer

Residence: St. Andrews

At the time of his appointment, Mr. Smith had 20 years of experience in securities law. Previously, he was 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 is a former vice-chair of the Canadian Securities Administrators.

Appointed: 1 July 2004

Term expires: 30 June 2009

Committees:

- Human Resources and Governance
(*ex officio*, non-voting)
- Audit (*ex officio*, non-voting)

Professional and industry

experience:

- Securities law
- Administrative law
- Tribunal member

Education:

- BA, Mount Allison University
- LLB, University of New Brunswick



David T. Hashey

Q.C.

BA, LLB

Residence: Fredericton

Mr. Hashey is the Lead Member of the Commission and is a Member of the Audit Committee. Mr. Hashey is a partner with the Fredericton law offices of Cox and Palmer. His main areas of practice include commercial litigation, health insurance and administrative law. He served as Chair of the Investment Dealer's Association disciplinary tribunal and has represented clients before other professional disciplinary bodies. 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 is also a past President of the Law Society of New Brunswick and a past President of the Federation of Law Societies of Canada.

Appointed: 1 July 2004

Term expires: 30 June 2008

Committees:

- Audit

Professional and industry

experience:

- Commercial law
- Litigation law
- Tribunal member

Education:

- BA, University of New Brunswick
- LLB, University of New Brunswick

Hugh J. Flemming

Q.C.

BA, LLB

Residence: Rothesay

Mr. Flemming is Chair 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 a member of the board of directors of the Saint John Port Corporation and is currently the owner and operator of Caldwell Transport Ltd.

Appointed: 1 July 2004

Term expires: 30 June 2008

Committees:

- Audit (Chair)

Professional and industry experience:

- Corporate and commercial law
- Business/finance
- Management

Education:

- BA, University of New Brunswick
- LLB, University of New Brunswick



Anne La Forest

BA, LLB, LLM

Residence: 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, has been a member of the Nova Scotia Human Rights Tribunal and is a Fellow of the Cambridge Commonwealth Society. She is currently a member of the Patented Medicines Prices Review Board and the Board of Governors of the National Judicial Institute.

Appointed: 1 July 2004

Term expires: 30 June 2008

Committees:

- Human Resources and Governance (Chair)

Professional and industry experience:

- Securities law
- Administrative law
- Tribunal member

Education:

- LLB, University of New Brunswick
- LLM, Cambridge University (Emmanuel College)





Kenneth Savage

CA, CFP

Residence: Fredericton

Mr. Savage is a Chartered Accountant and a Certified Financial Planner. He was a partner in KPMG and served on a number of the firm's internal committees. He was in public practice for over 40 years before retiring in 2005. Mr. Savage currently is Comptroller of a corporation in the construction industry of which he is also a director and shareholder. He served as Treasurer of the Fredericton Chamber of Commerce, and was a member of the board of directors of Via Rail Canada Inc. where he served as Chair of the Audit and Risk Committee and as a member of the Planning and Finance Committee and the Investment Committee. He is a member of the New Brunswick Institute of Chartered Accountants, the Canadian Institute of Chartered Accountants and the Financial Planners Standards Council.

Appointed: 16 August 2007

Term expires: 30 June 2010

Committees:

- Audit
- Human Resources and Governance

Professional and industry experience:

- Financial
- Accounting
- Auditing
- Business Advisory
- Governance

Education:

- CA, New Brunswick Institute of Chartered Accountants
- CFP



Céline Trifts

BSc, MBA

Residence: Bass River

Ms. Trifts is a pharmacist and the manager of a Medical Specialist Office. She is a past President of the New Brunswick Branch of the Canadian Society of Hospital Pharmacists and was a member of the Task Force on Standards for Hospital Pharmacy Practice and the Task Force for Membership Structure for the Canadian Society of Hospital Pharmacists. Ms. Trifts is a former lecturer in the Pharmacy Technician program at the Memramcook Institute. She is currently a Commissioner and a member of the executive of the Kent Regional Planning Commission, and a member of the board of directors of the Rexton Area Health Care Foundation.

Appointed: 16 August 2007

Term expires: 30 June 2009

Committees:

- Human Resources and Governance

Professional and industry experience:

- Business
- Education
- Management

Education:

- BSc (Pharmacy), Dalhousie University
- MBA, Université de Moncton
- Certificate in Health Services Management, the Canadian Hospital Association

SUPPLEMENTARY MEMBERS

James E. Lockyer

Q.C.

BA, LLB, LLM, DEA

Residence: Moncton

Mr. Lockyer is a law professor and former Dean of Law at the Faculté de droit of the Université de Moncton. He is a past President of the Law Society of New Brunswick and served as New Brunswick Attorney General and Minister of Justice as well as a member of the Transportation Appeal Tribunal of Canada. Active in community affairs, Mr. Lockyer is a former Chair of the Board of the Greater Moncton YMCA and a former Vice-president of the Muriel McQueen Fergusson Foundation. Mr. Lockyer was a member of the Canadian Armed Forces Reserve. He is also a member of the Board of Directors and Executive of the Moncton Flight College and of the Law Society of New Brunswick. Professor Lockyer was recently named recipient of the American College of Trial Lawyers "Award of Merit" for his work with students in the field of trial and appellate advocacy.

Robert Shannon

CA

Residence: Douglas

Mr. Shannon is a partner in the accounting firm of Shannon and Buffet. He has practiced for over 35 years specializing in accounting, auditing and taxation, first with the office of the Auditor General and later with a private accounting firm. Mr. Shannon is a former Chair of the New Brunswick Farm Products Commission and a former member of the New Brunswick Board of Commissioners of Public Utilities and the Motor Carrier Board. He is a member of the New Brunswick Institute of Chartered Accountants and serves on several of its committees.

Appointed: 15 November 2007

Term expires: 31 October 2010

Professional and industry

experience:

- Administrative law
- Tribunal member

Education:

- BA, Mount Allison University
- LLB, University of New Brunswick
- LLM, London School of Economics and Political Science
- DEA, Université de Paris 1 (Panthéon Sorbonne)

Appointed: 15 November 2007

Term expires: 31 October 2010

Professional and industry

experience:

- Accounting
- Administrative law
- Tribunal member

Education:

- Diploma of Technology in Business Administration, Saint John Institute of Technology
- CA, New Brunswick Institute of Chartered Accountants

Corporate governance

We are committed to the pursuit of the highest standards of corporate governance. Our governance policy allows for practical, effective management and oversight. The full text of our governance policy is found on our website at www.nbsc-cvmnb.ca.

COMMISSION'S GOVERNANCE PRACTICES

Role of Commission Members

As directors of the Commission, Members are responsible for overseeing the management of the business and affairs of the Commission, including approval of the Commission's annual strategic business plan and annual budget. As well, Members review resource allocation, risk management, financial reporting policies and the effectiveness of internal controls and management information systems.

As policy-makers, the Members meet to consider regulatory initiatives and determine regulatory priorities, review and approve policies and rules, and recommend changes for the proper administration of the *Securities Act* and the *General Regulation* made under the *Act*. The Members' policy-making functions also include oversight of our adjudicative procedures.



Left to right: Anne La Forest, Kenneth Savage, Céline Trifts, Donne W. Smith, Hugh J. Flemming, David T. Hashey

Members accomplish their oversight and policy-making functions through regular meetings. This year, Members held nine regular meetings and two special meetings. The details of Members' attendance are included in the attendance chart found in this section of the annual report.

In their role as adjudicators, Members serve on panels that hear enforcement proceedings, consider applications for exemptions from the requirements of the legislation and hear appeals from decisions of the Executive Director. This year, our panels heard nine enforcement matters over 16 hearing days. Some of these enforcement proceedings are still ongoing. Panels consisting of two Members also met 55 times over the fiscal period to consider applications for exemptive relief.

Role of Supplementary Members

Legislative amendments approved in 2007 created the role of Supplementary Members to assist Members serving on adjudicative panels that conduct hearings and make decisions as an administrative tribunal. Supplementary Members' duties also involve hearing and reviewing the evidence, drafting decisions and, when required, chairing the panels.

Role of the Chair

The Chair, also the 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 Members when they act as our board of directors.

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

Composition of the Commission and the nomination process

Although Members are appointed by Order-in-Council, our governance policy provides that they play an active role in selecting candidates to be recommended to the Minister responsible for securities regulation. Our Memorandum of Understanding with the Department of Justice and Consumer Affairs confirms Members' involvement in the nomination process.

As part of the yearly review of our governance practices, we evaluate the Members' effectiveness to ensure the number of Members is sufficient. We have determined that the maximum number of Members (six) set by the *Securities Act* remains appropriate.

An organizational profile, contained in our governance policy, reflects our need for appropriate skills and expertise among our Members, along with a reasonable geographical and linguistic representation that reflects the bilingual nature and requirements of the province.

The Human Resources and Governance Committee reviews the organizational profile on a regular basis to assess the strengths of our current Members against the profile. This allows us to prepare for the expiry of the terms of our Members. In August 2007, two Members were appointed following an extensive nomination process. The Human Resources and Governance Committee also conducted a Members' nomination process in anticipation of the 30 June 2008 expiry of the terms of three of our Members.

Independence of the Commission as a board of directors

In 2008, we set out standards for determining the independence of Members acting as a board of directors. These standards can be found in our governance policy. With the exception of the Chair, who is also the Chief Executive Officer, all Members are considered to be independent.

As part of every Commission meeting, the Chair meets in private with the independent Members and this part of the meeting is followed by an *in camera* meeting of only the independent Members, chaired by the Lead Member.

Role of the Lead Member

Our governance policy provides that independent Members must designate one of the Members as the Lead Member. The Lead Member is responsible for ensuring that Members function independently of management. David Hashey was first appointed as Lead Member in 2006 and his term was renewed in 2007. There are currently no limits to the renewal

Corporate governance

of the term of the Lead Member. The details of the responsibilities of the Lead Member are set out in our governance policy.

Chair and Members' Attendance – 2007-08						
Member	Commission meetings	Special meetings including strategic planning	Audit Committee meetings	Human Resources and Governance Committee meetings	Enforcement hearings*	Hearings on exemption requests
	(10)	(2)	(6)	(14)	(16)	(55)
Donne W. Smith	9	1	6	14	8	42
David Hashey	9	2	4	9	12	9
William Aust	3	1	2	4**	1	6
Hugh J. Flemming	10	2	6	2	16	25
Anne La Forest	10	1	1	12**	3	13
Kenneth Savage	7	1	4	6	3	7
Paulette Robert	3	1	2	-	-	1
Céline Trifts	7	1	1	6	2	8

Note: The terms of Mr. Aust and Ms. Robert expired on 15 August 2007; those of Mr. Savage and Ms. Trifts began on 16 August 2007.

* These numbers do not include hearings on requests for investigative orders and time spent on pre-hearing meetings and post hearing deliberations.

** Mr. Aust and Ms. La Forest absented themselves from two meetings, in both cases to avoid a conflict of interest.

COMMITTEES

The Commission has two standing committees, the Audit Committee and the Human Resources and Governance Committee. Their terms of reference and our Bylaw N° 1 *General Business Affairs*, establish the qualifications, appointment and removal of Members as well as the committee structure and operation. Each committee must meet a minimum of four times per year. Committee Members are independent, except for the Chair of the Commission who sits *ex officio*, but does not vote.

The concept of independence requires that a Member must not have a direct or indirect association with the Commission that, in our opinion, could reasonably interfere with the exercise of their independent judgment. Each committee holds private sessions with the Chair, as well as *in camera* sessions at which only independent committee Members are present.

Committee Members are expected to confirm prior to accepting their appointment that they have the time, experience and education to serve on a committee and that their ability to participate is not compromised by service on other external boards or committees.

The governance policy sets out general operating principles for committees, including their composition and terms.

Audit Committee

The Audit Committee has Terms of Reference which detail its responsibilities for financial reporting and public disclosure, internal controls, audits and risk management, and describe the role of Committee Chair.

In addition to the standards set out for membership on all committees, Members of the Audit Committee are required to be financially literate, which includes the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the issues that might be raised by our financial statements. All Audit Committee Members have attested to their financial literacy.

Committee Members follow an annual work plan agenda that is developed in consultation with management and is responsive to our organization's needs for the year.

In addition to the annual review of its mandate, this year the Audit Committee approved a risk management policy, oversaw a successful audit, reviewed our internal controls, and conducted monthly reviews of our financial statements and quarterly reviews of the forecasts and of Members' expenses.

Human Resources and Governance Committee

The Human Resources and Governance Committee has terms of reference which detail its responsibilities for compensation, nomination of senior management, nomination of Members and Supplementary Members, and assessment of the organizational structure and performance, human resources policies, and procedures and governance.

The Human Resources and Governance Committee conducted the annual review of its mandate, the governance policy and the human resources policies this year. It also conducted the annual assessment of the performance and effectiveness of the Commission, our committees, individual Members and our Chair. The committee updated the staff succession plan and identified the skill sets required for appointment of Members and Supplementary Members.

MEMBERS' REMUNERATION AND EXPENSES

Summary for part-time Members

Bylaw N° 1, *General Business Affairs* provides that Members receive an annual retainer of \$10,000 and a service fee of \$350 for participation in Commission and committee meetings and on Hearing Panels. In addition, the Lead Member and committee chairs receive an annual retainer of \$2,000.

The Members' expenses related to travel, meals and education, as well as hotel and parking for attending conferences or Commission hearings and/or meetings, are included below.

Member	Appointed	Term end	Retainer (\$)	Service fee (\$)	Total remuneration (\$)	Expenses (\$)
William Aust	1 July 2004	15 August 2007	4,565	8,750	13,315	4,367
Hugh J. Flemming	1 July 2004	30 June 2008	11,033	30,800	41,833	2,269
David Hashey	1 July 2004	30 June 2008	12,000	23,800	35,800	4,973
Anne La Forest	1 July 2004	30 June 2008	12,000	19,950	31,950	7,460*
Paulette Robert	1 July 2004	15 August 2007	3,804	5,600	9,404	2,929
Kenneth Savage	16 August 2007	30 June 2010	6,168	14,000	20,168	3,719
Céline Trifts	16 August 2007	30 June 2009	6,168	12,250	18,418	3,524

* Includes additional education expenses.

Corporate governance

Summary for the Chair of the Commission

Bylaw N° 1, *General Business Affairs* provides that the Chair receives an annual basic salary which is not to exceed \$160,000 and employment benefits which currently include health, dental and life insurance, bonuses, pension, vacation leave, parking and the use of a vehicle. The Chair's annual basic salary is currently set at \$158,414. Upon retirement, the Chair will become eligible for a supplemental pension and a retirement allowance.

The Chair's expenses include the operating costs of a vehicle, travel, meals, education, as well as hotel and parking for attending conferences or Commission hearings and/or meetings, and were in the amount of \$23,283 for the year.

Summary for Supplementary Members

Bylaw N° 1, *General Business Affairs* provides that Supplementary Members receive an annual retainer of \$5,000 and a service fee of \$350. The Supplementary Members' expenses related to travel, meals, education, as well as hotel and parking for attending orientation and education sessions, are also included in the table below.

Supplementary Member ¹	Appointed	Term end	Retainer (\$)	Service (\$)	Total remuneration (\$)	Expenses (\$)
James Lockyer	15 November 2007	31 October 2010	1,874	350	2,224	295
Robert Shannon	15 November 2007	31 October 2010	1,874	700	2,574	655

¹ Paul Duffie was appointed as Supplementary Member on 15 November 2007 for a term of three years but resigned on 20 January 2008. No remuneration was paid to Mr. Duffie.

² The service fee for the Supplementary Members relates to participation in orientation and education sessions.

ORIENTATION PROGRAM FOR MEMBERS AND SUPPLEMENTARY MEMBERS

New Members undergo mandatory, extensive orientation. The comprehensive orientation program provides Members with an overview of the Canadian and New Brunswick securities regulatory landscape, our operations, financial affairs, legal framework, governance practices and our role as a quasi-judiciary tribunal. Members also receive a comprehensive binder on our operations and training is presented in half-day modules to provide flexibility. The program provides Members with an opportunity to meet senior management, tour our offices and be briefed on our human resource and financial policies and rule-making authority. In addition, our Division Heads provide an overview of their division's operations.

New Supplementary Members are required to participate in an orientation program before participating in Commission hearings. Since the Supplementary Members only participate in Commission hearings, the day-long program is focused on introducing them to hearing enforcement matters and our role as a tribunal, along with the basics of securities law and administrative law. A briefing of our legal framework, compliance and enforcement functions is included. A tour of our offices also gives Supplementary Members an opportunity to meet senior management and staff.

CONTINUING EDUCATION PROGRAM FOR MEMBERS AND SUPPLEMENTARY MEMBERS

We believe, as a leader in corporate governance, we must perform to the highest standards. These include a continuing education plan that identifies ongoing training and skills development for our Members and Supplementary Members.

We believe, as a leader in corporate governance, we must perform to the highest standards.

The program consists of a combination of common training sessions and additional individual training. The common sessions have included workshops on such topics as

decision writing, administrative penalties and settlements, and accounting fraud. In addition, most Commission meetings have presentations on securities law topics that have an educational component to them. We review the training program annually to set the topics for the coming year.

As part of the Members' annual self-evaluation and interview with the Chair, each Member is asked to identify those skill and knowledge areas in which they would like to receive additional training. We maintain a list of training opportunities and each Member is asked to consider it. An annual allotment to fund these initiatives is established for each Member.

ASSESSMENT OF THE COMMISSION, COMMITTEES AND MEMBERS

The Human Resources and Governance Committee is responsible for developing and overseeing the process for the evaluation of the Commission, our committees and Members. In 2007, Members completed a self-assessment questionnaire in addition to a questionnaire on the performance of the Commission, its committees and Members.

The results of the questionnaires regarding Commission performance, committees and Members were sent in confidence to the Chair of the Committee who assembled a report that was discussed at an *in camera* session of the Committee and then of the Commission. The Chair of the Commission then prepared a report with recommendations for management.

The results of the self-assessment questionnaire were sent in confidence to the Chair of the Commission who then met individually with each of the Members.

CODE OF CONDUCT FOR MEMBERS AND MEASURES TO PROMOTE AN ETHICAL BUSINESS CULTURE

Our governance policy states that the highest ethical standards are expected of our Members, Supplementary Members, senior management and staff. We have adopted a code

The highest ethical standards are expected of our Members, Supplementary Members, senior management and staff.

of conduct for Members which stipulates that Members must not act in a manner that might result in the loss of public confidence in the integrity of the Commission. The code includes provisions designed to minimize the possibility of bias and conflict of interest. Senior management and staff are also

Corporate governance

expected to comply with the *Employee Code of Conduct* and the *General Regulation*. These codes and the *General Regulation* ensure a process for disclosing real or potential conflicts of interest and a system for detecting and mitigating unethical activities by Members, Supplementary Members, senior management or staff.

CONFLICT OF INTEREST

Our Members and staff are regularly exposed to confidential information. Both are also subject to rigorous conflict of interest disclosures which include the disclosure of securities holdings along with the reporting of any changes in holdings as well as the immediate reporting of conflicts or perceived conflicts that may influence decisions. Our governance policy also stipulates that the highest ethical standards are expected of our Members. Members must not have any known direct or indirect personal, business or financial activities or relationships that conflict or appear to conflict with their official duties and responsibilities which provide them with an advantage that is not available to members of the public. There are conflict of interest provisions contained in the *General Regulation* that also apply to Members. The procedures for reporting conflicts of interest that arise are covered in the *General Regulation*.

Organizational structure

We are an independent, self-funded Crown corporation listed under Part IV of the *Public Service Labour Relations Act*. We are responsible for administering and enforcing the New Brunswick *Securities Act* and performing the duties assigned to us under the Act. We are a two-tiered “body corporate”, comprised of a quasi-judicial tribunal of six Members and a second operational tier of permanent specialized staff. 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.

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 legislative mandate, as defined in Section 2 of the *Securities Act*, is to provide protection to investors from unfair, improper or fraudulent practices and foster fair, efficient capital markets and confidence in those markets.

We perform the following functions as part of our mandate:

Enforcement – we ensure that those who violate securities legislation are held accountable and we protect investors and capital markets through deterrence.

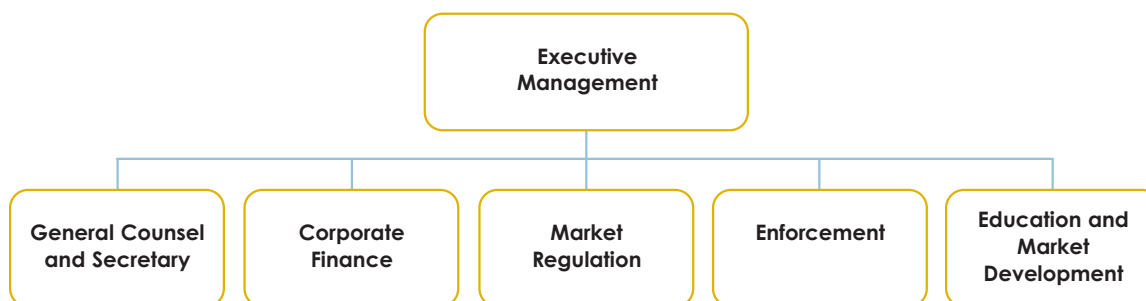
Regulatory compliance – we ensure participants in the securities marketplace meet the regulatory requirements.

Rule-making – we establish the rules that govern the securities market and investment activities.

Education – we provide access to appropriate information to help investors know how to make informed investment decisions and to help market participants understand how to access and operate in New Brunswick's capital markets.

Capital markets development – we foster development and growth of capital markets to encourage capital investments in New Brunswick companies and entrepreneurs and contribute to the economic well-being of New Brunswick.

We are organized into six 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 provides direction to staff while ensuring cost-effective service delivery, efficient regulatory function, administrative support and streamlined management of the organization. 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.

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 a gatekeeper, helping preserve the integrity of the capital markets by 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. The team also analyzes and makes recommendations on certain applications for exemption from the requirements of New Brunswick securities laws, and provides an oversight function to the securities industry's self-regulatory organizations.

Enforcement

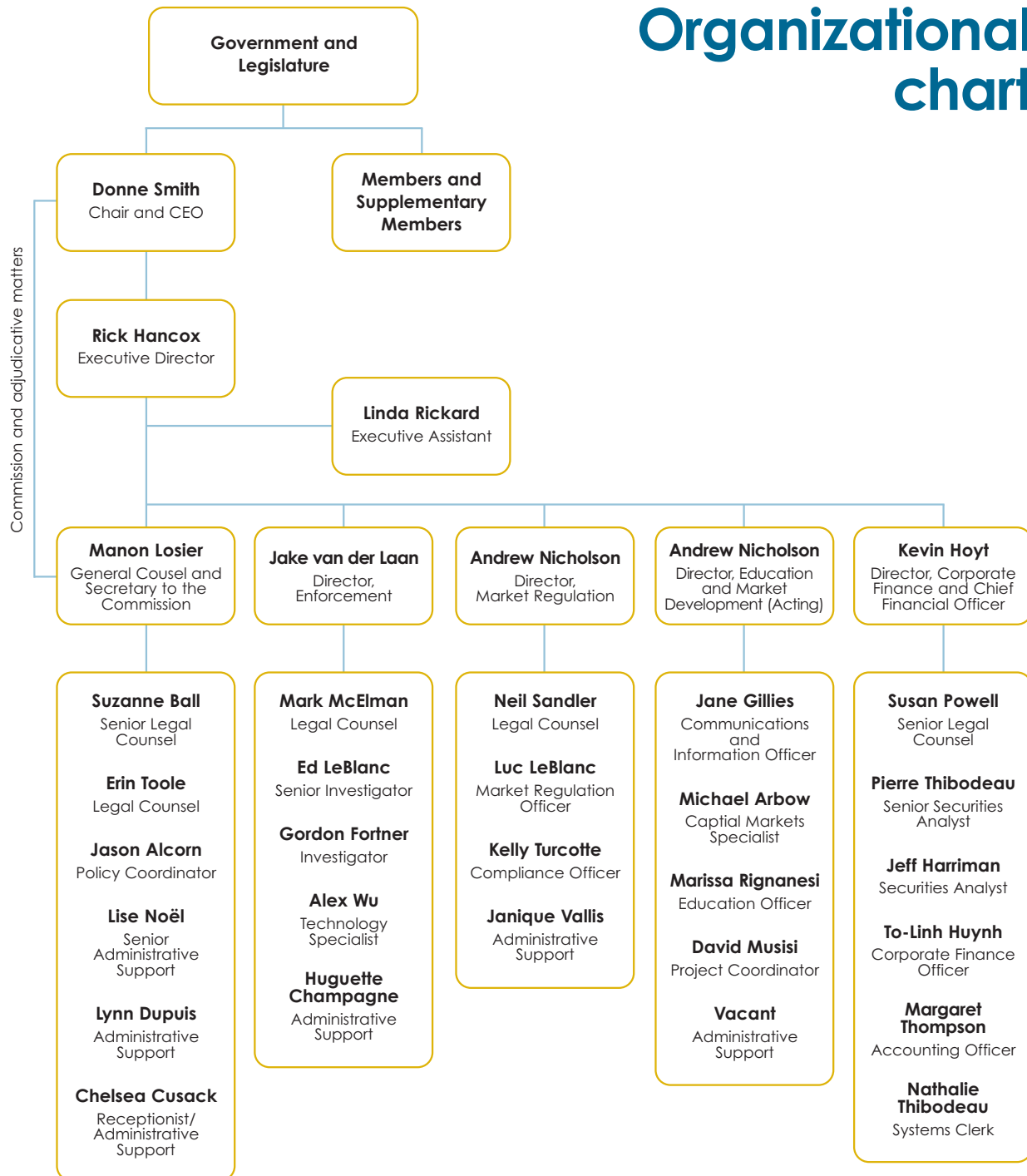
The role of the Enforcement division is to protect New Brunswick's public interest and the integrity of its capital markets. This division responds to investor complaints and inquiries, investigates and prosecutes violations of the *Securities Act*, and minimizes fraudulent activity against the investing 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.

Education and Market Development

The Commission created a new Education and Market Development division, bringing together staff involved in the implementation of our educational programs for the general public, investors and other stakeholders, and our capital market development initiatives, separate from our regulatory functions. Communications is an over-arching theme connecting these priorities, and our communications and media relations functions have been added to this division. This move concentrates focus and synergy on two of the Commission's strategic priorities – capital market growth and education – and includes the important element of communications.

Organizational chart



Message from the Executive Director



Our mandate is two-fold: investor protection and capital market development. These are inter-twined, and our ability to do both well will ultimately lead to dynamic and confident capital markets for the benefit of New Brunswick investors and businesses. Striking the right balance between measures to protect investors from unscrupulous behaviour and initiatives to create a business environment that encourages businesses to grow will help us realize our vision. Our ability to fulfill this mandate demonstrates to New Brunswickers that our role is a vital one and relevant to their needs.

We have an experienced and talented team of professionals who are focused and dedicated to fulfilling this mandate. Staff of each division contribute to the achievement of our objectives and we have a strong and effective management team that is able to adapt and respond to the challenges. These individuals are identified on our organization chart.

The Report on Performance illustrates the wide range of initiatives that we have undertaken to support our four strategic priorities of investor protection, capital market development, education and corporate excellence. It is clear that many of the initiatives developed in the earlier years have moved into full implementation.

Our enforcement actions are having success against the sophisticated techniques that scammers use, and this report shows the measures we are taking to ensure that market participants comply with the regulations. The action-oriented focus of our capital market development initiatives under Fullsail is producing results. We are meeting the challenges of educating New Brunswickers about investing and the capital markets through our investor

We understand New Brunswick's interests and local challenges and we continue to work effectively in a harmonized regulatory environment across the country.

protection awareness campaign and a number of other creative educational programs. And, as always we are working to ensure that we excel organizationally as a Crown corporation and quasi-judicial tribunal.

We provide a strong presence in New Brunswick for investor protection and investors have a place to call if they have

concerns. We are sparking the creation of dynamic capital markets to promote economic wealth and independence, and contribute to New Brunswick's self-sufficiency. We understand New Brunswick's interests and local challenges and we continue to work effectively in a harmonized regulatory environment across the country. Our work is not done – there is still much to do, and we remain passionate about and committed to our goals.

A handwritten signature in black ink that reads "Kenrick G. Hancox".

Kenrick G. Hancox
Executive Director
New Brunswick Securities Commission

Our investor protection priority

To protect capital market integrity through active compliance and vigorous enforcement measures.

Report on performance

OVERVIEW

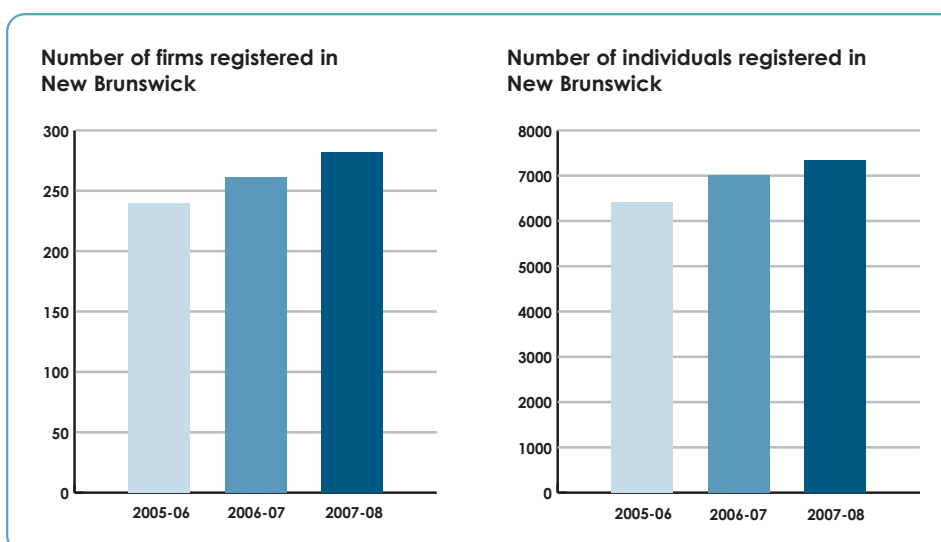
Our objective is to protect New Brunswick's investors and capital markets from fraudulent activity. We have a visible compliance regime and rigorous registration requirements, and we conduct registration and compliance reviews regularly. Investigations and enforcement actions also factor largely in our investor protection efforts.

In addition to internal expertise, we rely on self-regulatory organizations (SROs) to assist in protecting investors. SROs are non-government organizations charged with regulating various sectors of the securities industry. We recognized the Mutual Fund Dealers' Association of Canada (MFDA) as an SRO in July 2007. This action demonstrated our commitment to working with other regulators, including SROs, to ensure the protection of the investing public.

We were involved in a number of compliance and enforcement actions this year. Some resulted in sanctions against individuals and corporate entities. These included cease-trade orders, suspensions and cancellations of registration, and financial penalties. In 2007-08, we ordered \$401,100 in penalties and \$29,000 in costs. Upon collection, these penalties are paid into a separately-maintained Market Enhancement Reserve. The *Securities Act* mandates that they be used to fund initiatives to enhance New Brunswick's capital markets.

REGISTRATION

Registration is a fundamental pillar of securities regulation. The registration process involves assessing an applicant's character, financial stability and education to determine if he or she is appropriately qualified to provide advice in securities to the investing public. Determining the suitability of those seeking registration is one of our key functions in protecting investors from unfair, improper or fraudulent practices.



Individuals and firms that trade or advise in securities must register with us, regardless of where they reside. We currently regulate registrants from Ireland, the United Kingdom, the United States, every province in Canada and the Yukon. A limited exemption from the registration requirement for trades to qualified investors is available in certain instances.

Registration applications

After careful review, we sometimes determine that some registration applications are objectionable. As a policy, the applicant's sponsoring firm is notified of our intention to recommend that the Executive Director refuse the application. That applicant then has the opportunity to be heard prior to a final decision being made. In each of the situations in which this occurred in this fiscal year, the sponsoring firm chose to withdraw the registration application rather than to proceed with a hearing.

COMPLIANCE REVIEWS

Once registered, it is vital that registrants conduct themselves in an ethical and business-like manner, placing the interests of the investor first. Rules and regulations set out the framework for registrants' conduct. Consequently, another fundamental component of securities regulation is ensuring compliance with these rules.

Using our risk-based approach, we select registered firms and review their internal operations and structures. Our reviews may identify important compliance deficiencies such as incomplete application forms or trading information. In addition to regular ongoing field reviews of all our market participants, we conduct desk reviews of registrants who have their head office in New Brunswick. These are carried out annually based on the financial and bonding information filed by the registrant.

Conducting issue-specific reviews is also part of our compliance regime. We completed a sweep on all six scholarship plan dealers registered in New Brunswick to address ongoing issues related to this category of registrants. These included branch manager and salesperson supervision, hiring practices and training for salespersons, and the dealers' ability to abide by and enforce internal policies and procedures. We also carried out an issue-specific review on a mutual fund dealer to verify compliance with the terms and conditions imposed on one of their individual registrants.

We continue to work closely with SROs in conducting joint reviews. We participated in three joint compliance reviews in this fiscal year, one with the Investment Dealers Association of Canada and two with the MFDA. Additionally, we conducted reviews of three investment dealer branch offices and one mutual fund dealer branch office.

We also have a continuous disclosure review program for New Brunswick-based reporting issuers. The program is designed to assess their continuous disclosure documents, such as financial statements, management discussion and analysis, and annual information forms, to ensure they comply with Canadian Generally Accepted Accounting Standards and the *Securities Act*.

Report on performance

We initiated six continuous disclosure reviews of reporting issuers headquartered in New Brunswick in 2007-08, four of which were completed and two still ongoing. The results of our reviews varied from simply requiring improved disclosure on future filings to the restatement and re-filing of published documents. These reviews help inform and educate our reporting issuers on how to provide accurate and timely information to the users of their financial information. Through the principal regulator system, called Passport, we are the principal regulator for these companies, and other jurisdictions rely on our oversight of them to protect their investors and markets.

Our continuous disclosure review program also requires us to work closely with other securities commissions. We have completed a number of peer reviews to ensure that our methods and procedures are of high quality and consistent with those of our counterparts across the country. We also participate in peer reviews of others in an advisory capacity.

ENFORCEMENT ACTIONS

The Enforcement division conducted several investigations in 2007-08, and the Commission held 16 enforcement hearings as a result. Fraudsters and scam artists are using increasingly sophisticated methods to attempt to dupe New Brunswick's investors and avoid detection. It underscores our need to cooperate and communicate with other jurisdictions to prevent these individuals and groups from taking advantage of our investors and putting our capital markets at risk.

The following respondents were the subject of hearings throughout 2007-08:

Limelight Entertainment Inc. et al.

A Commission panel issued a decision in this matter following a hearing conducted during 2006-07 and imposed administrative penalties totalling \$350,000, along with costs. The Commission found that the respondents, who were repeat violators in the securities industry, had contravened the *Securities Act* and acted contrary to the public interest by making illegal distributions of securities and prohibited representations to New Brunswick investors. The panel found evidence that Limelight made 50 illegal distributions to 40 New Brunswick investors, defrauding them of almost \$80,000.

Al-Tar Energy Corp. et al.

Al-Tar was a company incorporated by an individual who had been previously involved with Limelight Entertainment Inc. Al-Tar representatives solicited New Brunswick investors to buy shares in this company, touting it as being involved in oil and gas interests in Alberta. The Ontario Securities Commission issued a cease trade order and our Commission subsequently issued a reciprocal cease trade order. In 2007, amendments made to the *Securities Act* gave the Commission the ability to issue reciprocal orders based on the existence of a similar order issued by another jurisdiction.

Our investor protection priority

First Global Ventures S.A. et al.

In 2006-07, respondents in this matter became the subject of temporary and permanent cease trade orders as a result of their soliciting New Brunswickers to purchase shares in a Panamanian "venture capital" firm. During 2007-08, the Commission considered the imposition of administrative penalties at a further hearing, and if warranted, what the amount should be. That decision is pending.

Staff worked closely on the First Global Ventures matter with staff of the Ontario Securities Commission.

James K. Hanley

Mr. Hanley declared bankruptcy shortly after the Commission imposed administrative penalties and costs following a settlement hearing in 2006-07. We applied to the Court of Queen's Bench asking that the penalty order the Commission had issued survive the bankruptcy. A hearing in this matter is pending and Mr. Hanley remains bankrupt awaiting the resolution of that issue.

Baskin Financial Services Inc. et al.

Baskin Financial Services Inc. provided investment advice and portfolio management services to a number of New Brunswick residents without being registered to do so. Further to a settlement agreement approved by the Commission, Baskin paid an administrative penalty of \$35,000, as well as \$3,600 in past registration fees and investigation costs of \$750.

Saxon Financial Services Ltd. et al.

During the summer of 2007, Saxon Financial Services Ltd., of Atlanta, Georgia and Saxon Consultants Ltd., whose office appeared to have been in the British Virgin Islands, held themselves out as independent brokers in currency and commodity options. Indications were that Saxon had successfully solicited dozens of Canadian clients who had invested hundreds of thousands of dollars. The scheme appeared to target Canadians and Europeans, specifically excluding American clients. The scheme used a direct telemarketing approach, referring potential clients to a sophisticated website. Salespersons indicated the potential of double or triple digit returns in a short period of time.

The Commission's hearing panel issued temporary cease-trade orders and after a further hearing made these orders permanent. The New Brunswick orders were reciprocally adopted in a number of other Canadian jurisdictions. We subsequently worked with authorities in the United States, including the Commodities Futures Trading Commission, as a result of which proceedings were commenced in a Georgia court. This eventually led to the raid of the Saxon offices and they were shut down.

Meisner Inc. S.A. et al.

Meisner Inc. S.A. was an entity carrying on business from Costa Rica that held itself out as an independent broker in currency and commodity options. It appeared to be similar to Saxon Financial Services Ltd., an entity against which the Commission had previously issued a cease-trade order. During the summer of 2007, we determined that representatives from Meisner were persistently and aggressively calling residents in at least New Brunswick, Ontario, Quebec and Alberta. The Commission issued a temporary cease trade order which was then made permanent. This order was subsequently reciprocally issued in a number of other Canadian jurisdictions.

Report on performance

University Lab Technologies Inc. et al.

University Lab Technologies Inc. (ULT) was a corporation based in Boca Raton, Florida. It held itself out as manufacturing and selling “nutraceuticals,” natural products purported to relieve arthritis and other ailments. An investigation revealed that the respondents were soliciting New Brunswick residents without being registered. The Commission’s panel issued a temporary cease-trade order against ULT and others and subsequently made this order permanent. The United States Securities and Exchange Commission also commenced proceedings against ULT, alleging fraud. Other Canadian jurisdictions also issued orders in this matter.

Wealth Pools International Inc. et al.

The respondents in this matter had promoted a pyramid-type investment scheme in New Brunswick in 2006 and 2007. The scheme originated with a spam e-mail touting Wealth Pools, and quickly spread as a result of its promises of large, lifelong returns. In the end, at least 109 New Brunswick residents invested in excess of \$440,000. The Commission approved settlement agreements with most respondents. As a result, some individuals agreed to pay administrative penalties and costs, and were permanently banned from trading in securities in New Brunswick. A hearing on the merits with respect to Robert Lane, the directing mind behind Wealth Pools, was also conducted and a decision in that matter is pending.

Locate Technologies Inc. et al.

Most of the respondents in this matter had been cease-traded by the Court of Queen’s Bench in 2004. A recent investigation revealed that notwithstanding this order, there appeared to have been subsequent trading in New Brunswick as a result of which at least 39 New Brunswick investors sent close to \$700,000 to an affiliated numbered company in Alberta. Three New Brunswick residents are alleged to have been involved in soliciting these investments from New Brunswickers. The Commission issued a temporary cease trade order. A hearing on the merits is scheduled for August 2008.

INVESTOR ALERTS AND THE COMMISSION CAUTION LIST

We do not commence enforcement hearing action in every case. Sometimes the information we have is insufficient to begin proceedings, but we may still have concerns that there is a potential threat to the capital markets. In such cases, we may decide to issue an investor alert and/or place the names of suspected violators of the *Securities Act* on our website’s “Caution List”. As an example, during 2007-08, we received information from other Canadian securities regulators that representatives of a suspected boiler room, called Heartford Capital Management, were contacting Canadian investors and soliciting investments in gold, oil and other options. They were not yet soliciting in the Maritimes. As a protective measure, we issued an Investor Alert news release and placed this entity on our caution list.

Our capital market growth priority

To create economic wealth and independence for New Brunswick through capital market development.

Report on performance

OVERVIEW

The Commission has a legislated mandate to grow the capital markets, and we believe a consistent and successful capital market development strategy will lead to economic independence and wealth for our province. Our role is to act as a catalyst for change and provide leadership as we work with our stakeholders. We support initiatives that increase equity capital opportunities and encourage the growth of entrepreneurship in New Brunswick, and continue to search for new ideas from around the world to help businesses gain access to the financial, intellectual and human capital that they need.

A consistent and successful capital market development strategy will lead to economic independence and wealth for our province.

capital opportunities and encourage the growth of entrepreneurship in New Brunswick, and continue to search for new ideas from around the world to help businesses gain access to the financial, intellectual and human capital that they need.

Although the work being done, we believe, is already benefiting New Brunswick's economy, this is not a short-term effort. No one solution, nor one solution provider, will deliver more robust capital markets. Our efforts require a sustained commitment and the active participation of many groups, including entrepreneurs, professional advisers, academia, the provincial government, economic development agencies, and the securities industry.

This year we undertook a number of initiatives to increase equity capital opportunities and encourage the growth of entrepreneurship. We have also identified a series of metrics as a means to track changes in our capital markets.

WORKING TO DEVELOP NEW BRUNSWICK'S CAPITAL MARKETS



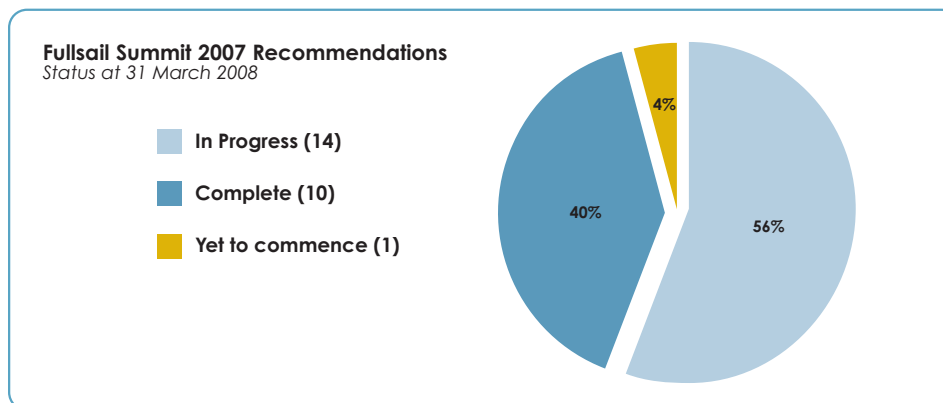
Fullsail Summit 2007

In January 2007, we hosted our first Fullsail Summit in Moncton. The objective of this Summit was to inspire stakeholders to be a part of growing our provincial capital markets. The Summit brought together almost 150 delegates from the public and private sectors to prioritize 33 recommendations taken from our *Funding our Future* report. Delegates reviewed ways to foster the development of the province's capital markets and adopted 25 recommendations for action, 10 of which are now complete. Fourteen are ongoing.

Some successful recommendations of note include the following:

- *Create an annual business plan competition.*
The New Brunswick Innovation Foundation took on this recommendation and created *Breakthru*, a competition that simulates the process entrepreneurs undertake when seeking

Report on performance



start-up capital from investors. *Breakthru* is the largest business plan competition in Canada with \$250,000 in prizes of cash and professional services. This competition provided educational opportunities for participants, as well as exposure to potential investors.

- *Create a New Brunswick angel network.*

The First Angel Network (FAN) is a new Maritime-wide angel network that uses communication, education and networking to help bridge the gap between entrepreneurs and capital in Atlantic Canada. FAN offers private investors access to a network of like-minded investors and pre-screened investment opportunities. It also gives qualified entrepreneurs the opportunity to approach a community of active investors. FAN has provided \$1.1 million in angel financing to two early-stage companies in our province.

- *Create a Council on Entrepreneurism.*

The Wallace McCain Institute for Business Leadership, the New Brunswick Business Council, and Bell Aliant hosted a roundtable on entrepreneurship in February 2008. The event matched 18 entrepreneurs with experienced business leaders and provided mentoring opportunities, inspiration and encouragement.

- *Promote education and awareness about capital raising options for entrepreneurs and advising professions, and prepare consulting, accounting and legal firms to work with entrepreneurs and equity capital.*

Our organization adopted this recommendation and created the *Learning the Ropes* education programs as a result. They offer entrepreneurs and business professionals

opportunities to learn about alternatives for raising capital and to meet business leaders and other entrepreneurs (see the *Report on performance – Our education priority* section in this report).

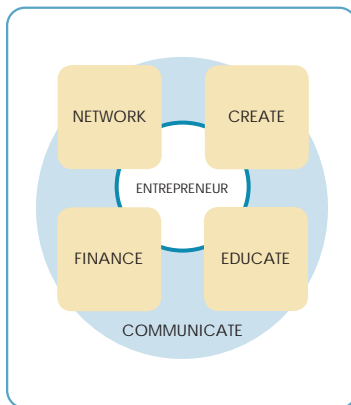


Venturing into a New Economy

We released our second report, *Venturing into a New Economy: Developing New Brunswick's capital markets*, in advance of Fullsail Summit 2008. In it, we showed the results of our international research into equity financing, bringing forward 27 new ideas for consideration.

Our capital market growth priority

The ideas fell into four high-level categories, with the need to communicate as an overriding theme that connected all the ideas:



- Network – build public and private networks to support entrepreneurs.
- Create – foster investment opportunities to take research from the post-secondary environment to the profit sector.
- Educate – assist entrepreneurs, and those individuals and organizations that support them, to get the tools they need to help grow New Brunswick's capital markets.
- Finance – develop an equity culture and encourage the funding of early and later stage growth companies.
- Communicate – increase awareness, both inside and outside of New Brunswick, of business opportunities and activities in our province.

The report focused primarily on two imperatives – the need to create and the need to finance. At the heart of the need to create lies the high-growth entrepreneur – the entrepreneur who has the potential to build a company with global reach. Through its focus on venture capital, the report also addresses the need to finance entrepreneurs. Venture capital financing is the natural and traditional successor to angel financing. Early stage venture capital is necessary to help carry entrepreneurs through the void in financing that makes or breaks many companies in early stages of growth.

The Fullsail initiative is focused on the entrepreneur and each of the four imperatives in the entrepreneur-centered model address essential services that entrepreneurs require if they are to grow businesses and gain access to equity capital. Successful and innovative entrepreneurs are essential to our province's economy and to the development of our capital markets.

Fullsail Summit 2008

In the spring of 2008, we hosted our second Fullsail Summit. Approximately 120 delegates representing various stakeholder groups, including academia, entrepreneurs, lawyers, accountants and economic development agencies attended the event in Saint John. Over the course of the Summit, experts from across Canada and the United States discussed the importance of networks for entrepreneurs, commercialization of research and development, education, financing, and the impact of communication with the media.

Delegates participated in an innovative mix of panel discussions and self-directed planning processes to identify priority objectives and refine or develop corresponding action plans. In turn, each action plan identified one or more individuals or groups that were willing to take

responsibility for implementation. By the end of the Summit, delegates had chosen 12 recommendations which they felt would have the greatest positive impact on fostering our province's capital markets over the coming year.

A lead indicator reveals probable future performance or outcomes.
A lag indicator reports past performance or outcomes.
A proxy indicator measures one phenomenon to estimate performance of another.

Report on performance

Exemptions to assist capital raising

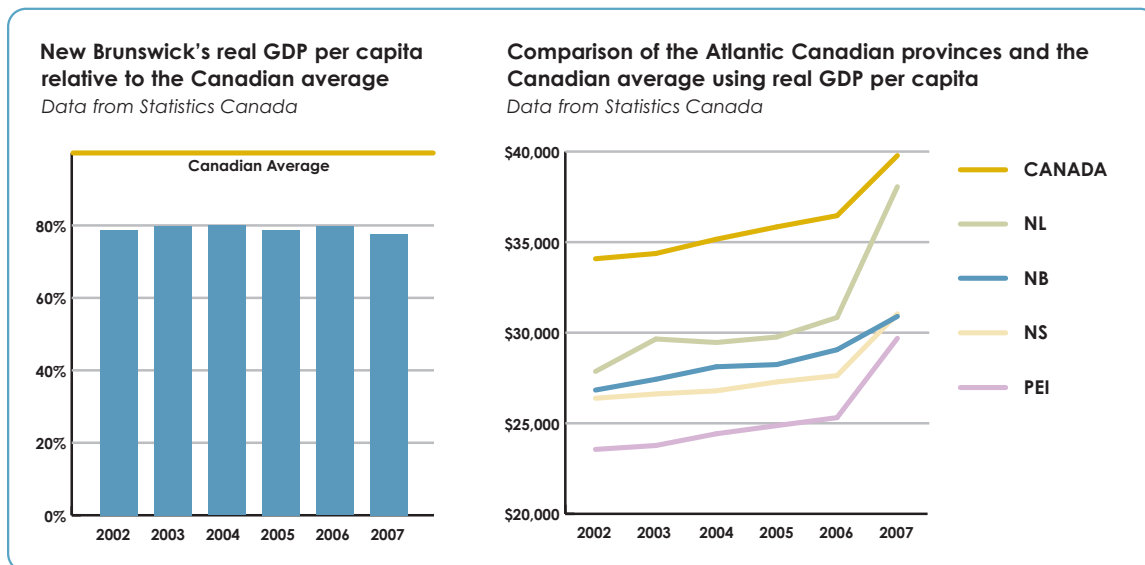
We assist businesses in their efforts to raise capital by easing regulatory requirements, where appropriate. These exempt distributions allow certain types of businesses to distribute securities without the need for a prospectus, and without a registered dealer. Businesses can raise capital from a targeted group of investors with minimal distribution costs. The exemptions vary, depending on the type of securities issued, the issuer, and the investor buying the security. These may include distributions to accredited investors, friends and family, and those distributions that rely on a less complete form of prospectus as a disclosure document.

MEASURING IMPACT

The objectives of our capital market development initiatives are to increase entrepreneurship and economic wealth and independence in New Brunswick. We use a number of measurements to determine our progress. They measure individual segments of the equity capital markets: angel investment, venture capital activity, and the public equity markets.

Overall indicator of capital market growth – Real Gross Domestic Product (GDP) per capita

Real GDP per capita is a lag indicator that can be used as a proxy to measure the change in overall wealth created from entrepreneurial activities as well as changes in the capital markets. Real GDP per capita measures personal wealth as opposed to “state” wealth (the wealth of the province or country). An ideal objective would be to move New Brunswick’s real GDP to the Canadian average.



Early stage private equity investment

Angel investment activity and the use of tax credits that promote private equity investment are two ways to measure the availability of early stage private equity investment.

Our capital market growth priority

1) Angel investment

The amount of angel investment and growth of angel investment networks serves as a lead indicator of future venture capital activity, since angels traditionally exit their investment through venture capitalist takeovers. These metrics also indicate awareness about the supply and demand of angel equity investment.

Angel Network deals in New Brunswick

Data from First Angel Network

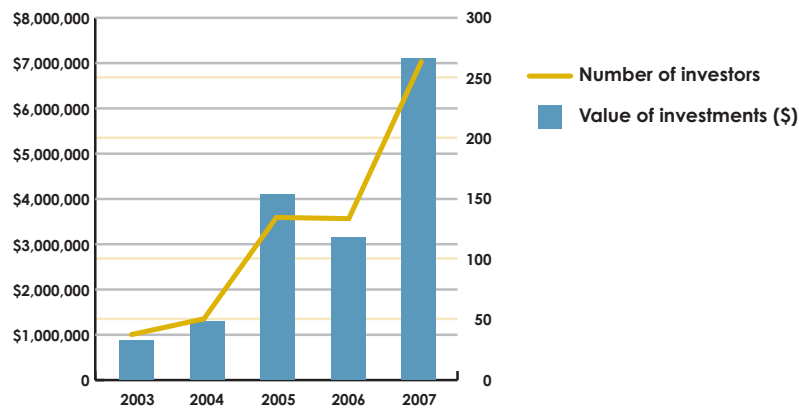
	Angel networks	NB angels in angel networks	Deals completed	Value of investment (\$)
2005	0	0	0	-
2006	1	20	0	-
2007	1	25	2	1,100,000

2) Small Business Investor Tax Credit (SBITC)

The SBITC is a provincial tax credit program. Measuring the SBITC value of investment provides information about both potential small and medium enterprise job creation and future deal flow for more advanced equity investing (venture capital or public equity, or both).

New Brunswick Small Business Investor Tax Credit

Data provided by the New Brunswick Department of Finance

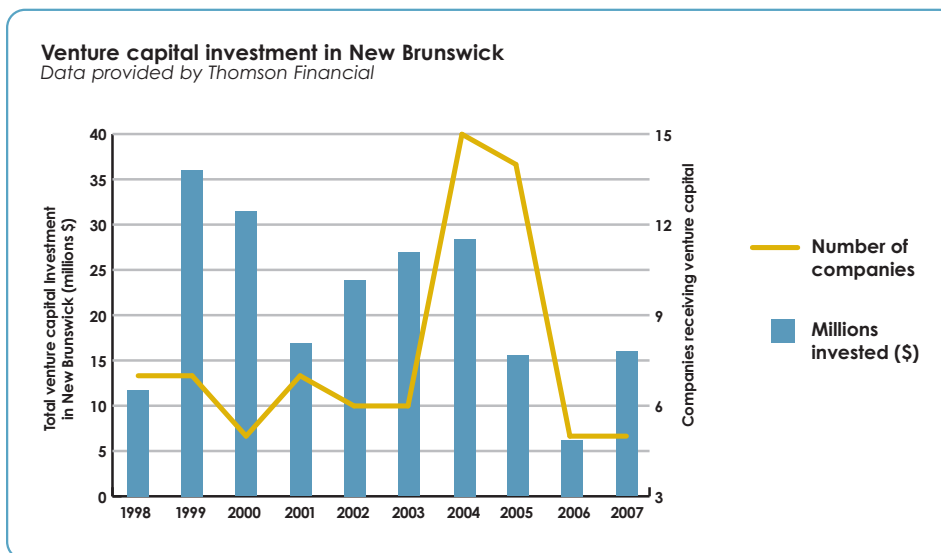


* Program inception 1 August 2003

Venture capital investment

Venture capital investment is a natural successor to angel financing. Early stage venture capital is needed to help carry entrepreneurs to their next stage of growth.

Report on performance



Venture capital investment allows early stage high-growth companies to reach mid-stage growth development, secure the equity needed to commercialize their research and development and pursue market readiness and entry.

Public equity – New Brunswick publicly traded companies

The number of New Brunswick publicly traded companies is a proxy indicator of entrepreneurial culture and infrastructure and a measure of the growth of the public equity markets and equity culture in New Brunswick.

New Brunswick publicly traded companies				
2004	2005	2006	2007	2008
9	9	9	8	10

Flight of Capital – New Brunswick investments leaving the province

We receive reports on the investment activity conducted in relation to 10 prospectus and registration exemptions. Measuring the amount of investments using these exemptions provides information about changes in our equity culture and a lead indicator to future venture capital financing needs.

In 2007-08, firms reported that New Brunswick investors, including some New Brunswick pension funds, invested \$711 million relying on these exemptions. Slightly less than \$13 million of that amount was raised by New Brunswick based corporations for their use. The bulk of the money that was raised last year left the province for investment elsewhere.

Report on performance

Our education priority

To be a reputable source for investor and capital market education and information.

OVERVIEW

Our education strategy targets gaps in the level of investment education and capital market awareness of New Brunswick's investors and other capital market participants. Our education plan defines our overall objectives and identifies our focus areas and audiences. It also specifies measurable goals, initiatives to help us meet those goals, and timelines in which to achieve them.

We provide investors with impartial educational resources and tools that they can use to help them make informed investment decisions. Our objective is to ensure that New Brunswickers gain the knowledge, skills, and confidence they will need to protect themselves from scams and inappropriate investments. We continue to build new education partnerships that allow us to communicate our investor protection messages to more people across the province, and we work with other securities regulators across the country in the areas of research and content development.

Stakeholders indicate that New Brunswick's entrepreneurs and those individuals and organizations that support them need to be better prepared to grow the capital markets in our province. In response to this, we provide New Brunswick's business professionals, including lawyers, accountants, entrepreneurs, mentors, dealers and advisers, with educational resources to help them navigate the intricacies of the capital market, including capital raising options, exemptions, and the *Securities Act*.

EDUCATION FOR INVESTORS

Investor Study: *Understanding the Social Impacts of Investment Fraud*

Once again, we worked with our counterparts in the Canadian Securities Administrators (CSA) to develop and conduct an in-depth national study about the social impacts of investment fraud. The study explored the impact of investment fraud beyond the financial loss endured by victims. There were 5,868 participants in the online study, 484 of whom were from Atlantic Canada. In the study, fraud victims and friends and family who were close to a victim

were asked about their experiences with attempted fraud and successful frauds. They were also asked to share their perceptions on the social impact of investment fraud.

Victims of fraud
43% experience higher stress levels
36% experience panic or anxiety attacks

The study verified that the first and greatest casualty of fraud is trust, not just in markets and investments, but in people in general.

Furthermore, the effects of investment fraud go far beyond a victim's bank account. The most prevalent health issues reported by Atlantic Canadians who participated in the study concerned emotional health, with 43% of fraud victims reporting that they continue to experience higher stress levels and 36% experience panic or anxiety attacks. Atlantic

Report on performance

Canadians reported that they are most commonly approached through an unsolicited phone call or email. This method of approach used by fraud artists was addressed in our *Invest in Knowing More* campaign this year.

The investor study results from 2006 and 2007 were used to help shape our education strategy and identify our investor education goals. The study results provide a useful tool to measure the success of our education initiatives.

Financial Fitness Challenge 2008

The “Financial Fitness Challenge” contest ran for the month of February 2008. This was the second year for this CSA investor education initiative. The web-based quiz targeted young Canadians aged 15 to 21, and its objectives were to:

- capture the interest of Canadian youth;
- effectively communicate the importance of financial literacy; and
- promote youth engagement and active participation in financial matters.



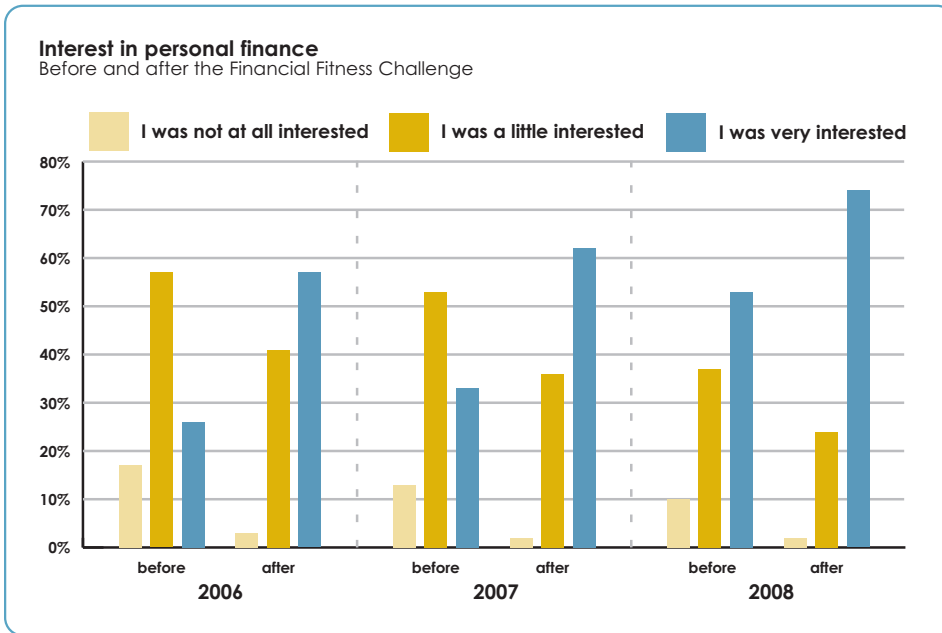
We increased our promotional efforts for the Financial Fitness Challenge this year. In January, we sent information packages containing posters, information sheets, and a teacher resource guide to the principals of every school in New Brunswick with students in the eligible age range. We followed this mail-out with an email to each principal explaining the contents of the kit and the contest. Statistics taken from a CSA post-campaign study show our efforts were well-received, as the number of New Brunswick students who registered for the Challenge almost doubled from last year.

Financial Fitness Contest	2007	2008
Number of unique New Brunswick registrations	398	787
% of eligible New Brunswick students	1	2
% of national participation	3	5

The information in the kit encouraged teachers to incorporate the challenge into their classroom activities and challenged students to test their financial fitness. Students were directed to the website www.financialfitnesschallenge.ca where they were engaged with educational games, tips, interactive simulations and worksheets, and a quiz that reflected the importance of saving and investing money for the future. The website also provided teachers with access to free lesson plans, quizzes, answer keys, and classroom activities. We gave presentations to a total of 167 entrepreneurship students from schools in Sussex, Salisbury, and Hampton, at their request and in collaboration with the Enterprise Network Youth Officer for the region. The CSA also used Facebook as a communications tool in this campaign, reaching out online to students, teachers' groups and the general public.



We continue to see an increase in students' interest in personal finance, both before and after taking the Financial Fitness Challenge. We also see a steady decrease in the number of students not at all interested in personal finance.



Investor protection awareness campaign

Forty percent of New Brunswickers indicated they had received suspicious phone calls about investment opportunities. This statistic was reflected in a separate CSA investor study, *Understanding the Social Impacts of Investment Fraud* completed in December 2007. New Brunswick investors are being targeted by telephone scam artists.

Forty percent of New Brunswickers indicated they had received suspicious phone calls about investment opportunities.

Educating New Brunswickers about this type of fraud became the focus of our awareness campaign.

We continued our ongoing, multi-year *Invest in Knowing More* campaign in January 2008. It promotes responsible investing and awareness of the New Brunswick Securities Commission as the place to call about a suspicious investment or adviser. The campaign built on last year's creative concept, using a multi-media approach involving television, radio and print advertisements.

The campaign garnered additional media coverage, which helped promote awareness of the fact that fraud happens in our province.



Report on performance

ABCs of Fraud®

In 2007, we sponsored the ABC's of Fraud® Awareness program through the Saint John Volunteer Centre. This non-profit group of volunteers deliver bilingual fraud awareness training throughout the province to various audiences. There is a focus on the senior audience, which aligns with our target audience of pre-retired and retired New Brunswickers.

EDUCATION FOR CAPITAL MARKETS PARTICIPANTS

Educational workshops

We developed a series of workshops in response to a recommendation at our first capital market development conference, Fullsail Summit 2007, which called for more capital markets education. *Learning the Ropes* works to build awareness of the basics of securities regulation, equity financing and options for raising capital.

Learning the Ropes – Grow your business without growing debt

The first *Learning the Ropes* workshop was held in Fredericton in November 2007, in conjunction with the New Brunswick Innovation Foundation's *Breakthru* business plan competition (the competition was also created as a result of a Fullsail recommendation). Our one-day workshop attracted over 100 delegates from our target audiences: lawyers, entrepreneurs, students, academia, accountants and other business stakeholders. Knowledgeable and experienced business leaders delivered presentations throughout the day. Topics included:

- The Small Business Investor Tax Credit;
- Angel financing;
- The venture capital experience;
- Capital Pool Company (CPC);
- Life as a public company.



Learning the Ropes – Chart your course to business growth

The second instalment of this series was delivered as a part of Fullsail Summit 2008. The two-hour workshop took place on the first day of the conference, kicking off the Summit. The topics presented at this workshop included:

- Where to go for financing, and at what stage of growth;
- Personal experience with financing from an entrepreneur's point of view;
- Angel financing;
- Expectations of angels;
- What the Commission is doing to help.

eXtreme Entrepreneurship

eXtreme Entrepreneurship is a bi-annual conference organized by the Conseil économique du Nouveau-Brunswick targeted primarily to entrepreneurs and post-secondary students, but also to educators, economic development officers, and public servants. The conference offered a unique opportunity for knowledge acquisition, sharing best practices, fostering the development of new contacts and partnership opportunities, and exhibiting products, services, and expertise.

Our education priority

This year's conference was held in February 2008, in Moncton. The themes were motivation, information and training. We chaired the financing stream, and presented on equity financing in both French and English. We also had the opportunity to host an exhibitor's booth at this conference.

EDUCATION OUTREACH

We continue to work with various educational institutions and professional organizations to introduce securities-related information to students and professionals. As a result, we have taken our message to hundreds of New Brunswickers, speaking on topics ranging from securities law, investor protection, and financing options, to name a few. The law schools at both the University of New Brunswick and the Université de Moncton continue to offer the securities law course we initiated. Members of our staff have delivered lectures at both universities.

The Junior Achievement (JA) organization held their annual regional banquets throughout the province in March 2008. At all four dinners, *Outstanding Achiever Spirit Awards* were presented to deserving young entrepreneurs. We were proud to be the sponsor of these awards and to be on hand supporting the JA and their efforts to grow the next generation of New Brunswick business leaders.

Website

Our website provides information and resources to investors and capital market participants. We launched our revamped site in the spring of 2007 and continue to enhance the education section for each of our target audiences.

Multimedia

This year we used the power and global reach of the internet as a way to enhance the distribution and consumption of our messages. We have placed our investor protection information on such sites as Brightcove (a premier business internet television platform), Google Video (a comprehensive index of videos on the internet), and YouTube (a leader in community-based, user-generated content), allowing us to spread our messages from person to person, group to group. The Brightcove, Google Video, and YouTube sites all give us access to a much larger audience than that of traditional media.

We also produced a series of investor education Podcasts in the spring of 2008. These Podcasts, the first by a securities regulator in the country, are available in English and French and cover a range of topics, including:

1. How your provincial Securities Regulator protects you from investment fraud
2. Investigate before you invest
3. Avoid slippery oil and gas scams
4. Talking to your parents about senior investment fraud
5. Common investor traps
6. Your rights as an investor

We have developed a multimedia blog (www.nbsc2008.podbean.com) that hosts all of our Podcasts and videos. Our audiences can subscribe to this blog and receive the latest updates in investor and capital markets information.

Our corporate excellence priority

To ensure we have the infrastructure in place to excel as a Crown corporation and quasi-judicial tribunal.

Report on performance

OVERVIEW

Our objectives under this priority are to ensure we maintain the expertise and resources needed to meet our mandate; to be recognized as a unique, innovative and leading-edge organization; and to maintain a cost-effective regulatory framework. This framework must meet the needs of our capital markets and demonstrate our operational and legislative flexibility in responding to capital market, regulatory and enforcement issues.

WORKING WITH OUR PARTNERS

We believe that New Brunswick investors and capital markets are best served through partnerships. We continued our close collaboration with other regulators in the Canadian Securities Administrators (CSA). Much of this work related to the harmonization of Canada's regulatory framework and we participated in more than 30 policy projects within the CSA. In addition, we had representatives on a number of committees, including investor education, communications and enforcement. Our Chair, one of the longest serving heads of a securities regulator in the country, and a previous Vice-chair of the CSA, sits on the Chairs' Committee. Our Executive Director also chairs the CSA Executive Directors Committee. As a smaller

As a smaller jurisdiction within the CSA, we carefully focus our energies where we feel we can make a significant contribution.

jurisdiction within the CSA, we carefully focus our energies where we feel we can make a significant contribution.

As a member of the North American Securities Administrators Association (NASAA), we participated on a number of different committees, including corporate finance,

enforcement, corporate governance and examiners. NASAA was organized in 1919 and is the oldest international organization devoted to investor protection. It has a membership consisting of 67 securities administrators from the US, Canada and Mexico.

Our application for membership in the Council of Securities Regulators of the Americas (COSRA) was accepted this year, making our Commission the fifth CSA jurisdiction to be so honoured. Established in 1992, COSRA provides a forum for cooperation and communication on securities regulatory issues among North, Central and South American jurisdictions. It currently has 36 members from 27 countries.

Another major area of cooperation with our counterparts is in enforcement. We continued to work closely with the enforcement staff elsewhere on cases that had cross-jurisdictional implications, and to highlight that cooperation in news releases, when appropriate. Fraud artists know no geographical boundaries and we want to ensure that jurisdictional complications do not stand in the way of our attempts to protect our capital markets and investors.

BALANCING INVESTOR PROTECTION AND CAPITAL MARKET DEVELOPMENT

The Commission held a number of administrative hearings on enforcement matters this fiscal year. Many of these resulted in disciplinary action. As part of our efforts to raise awareness about investor fraud, we issued news releases on each case, summarizing the circumstance, violations and action taken. The majority of these releases resulted in increased media attention, allowing us to highlight the frequency and social cost of fraud in our province. This approach, combined with our *Invest in Knowing More* media campaign, helped reinforce our message that we are the one to call if an investor is suspicious or has concerns about an investment opportunity.

Our efforts in the areas of communication, capital market development and education also brought to light our need to focus and resource these endeavours. In response, we created the Education and Market Development division, bringing together two of our strategic priorities, capital market growth and education.

The fostering of New Brunswick's capital markets is an important part of our mandate. In our role as a catalyst and coordinator, we brought together interested stakeholders, including

Our objective is to ensure securities regulation strikes the proper balance between a supportive business development culture and effective investor protection.

academia, entrepreneurs, investors, industry, government, professional advisers and regulators, to better understand the issues and complexities of equity markets in this province. The aim was not only to identify issues affecting New Brunswick's equity markets and entrepreneurs, but also, more importantly, to develop solutions and achieve results. Our objective is to ensure

securities regulation strikes the proper balance between a supportive business development culture and effective investor protection. Our efforts in this area are more fully described in the section *Report on Performance – Our Capital Market Growth Priority*.

EXCELLENCE IN CORPORATE GOVERNANCE

We continued with initiatives to enhance our governance oversight. As part of our efforts to ensure we maintain the highest standards in our governance practices, we completed a review of our governance policy to make certain it is current and relevant. As such, we are publishing a statement of the Commission's governance practices as part of this annual report. Members and management assessed our corporate progress against our strategic business plan, re-assessed our priorities and evaluated the kinds of challenges we are likely to face in the future.

REGULATORY FRAMEWORK

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 an inclusive regulatory system that balances the requirement for investor protection within an environment that fosters capital market development. All prospective rules are posted on our website for a 60-day comment period prior to adoption. We continue to encourage New Brunswick stakeholders to participate in the drafting of regulations that will directly affect them.

Report on performance

CONTINUING REGULATORY REFORM

During this fiscal year, significant amendments to the *Securities Act* came into effect which further harmonized securities regulation with other CSA jurisdictions, improved investor protection, and enhanced our ability to administer the legislation.

Harmonized legislation eliminates regulatory barriers and streamlines regulation for market participants. Under the new Passport System, with regard to prospectuses and exemptions, market participants now have a single point of entry, deal with only one regulator and receive one decision that is effective in most, if not all, jurisdictions.

Work continued throughout the year on legislative and regulatory amendments to incorporate registration of market intermediaries under the Passport System. Legislative amendments now

provide the foundation for a new registration rule to be adopted by all jurisdictions, the last segment in the harmonization of Canada's regulatory framework.

Under the new Passport System, market participants now have a single point of entry, deal with only one regulator and receive one decision that is effective in most, if not all, jurisdictions.

The investor protection measures which came into effect this year enable the Commission to issue a broader range of administrative orders. The Commission can award compensation to a claimant directly

or require a person to disgorge ill-gotten gains. Commission panels now have the ability to issue an order based on the fact that a respondent is subject to a similar order made by another securities regulatory authority. We have already used this authority to issue reciprocal orders in instances that required quick action against illegal investment activity occurring across the country.

When the registration element of the Passport rule is implemented in 2009, Passport will be fully operational as a national regulatory scheme and should put to rest the commonly held myth that there is a patchwork quilt of 13 different sets of securities laws in the country. While the Ontario Securities Commission has not adopted the Passport System, it has participated in the development of the other rules.

Statistics at a glance

New Brunswick Securities Commission

	2007-08	2006-07	2005-06
Enforcement Activity			
Complaints received	81	71	55
New investigations	35	29	29
Concluded investigations	20	22	24
Average length of investigation (in days)	88	160	155
Interim cease-trade orders	4 (24 parties)	13	1
Permanent cease-trade orders	4 (26 parties)	5	1
Reciprocal cease-trade orders	1 (4 parties)		
Registrants prohibited or limited from participating in market	1	2	1
Settlements approved	5	2	2
Hearing days (excludes hearings on requests for investigative orders)	16	24	5
NBSC costs levied	\$29,000	\$5,000	\$7,750
NBSC costs recovered	\$3,750	\$0	\$7,750
Administrative penalties levied	\$401,100	\$55,000	\$72,719
Administrative penalties recovered	\$51,100	\$10,000	\$72,719
Corporate Finance Activity			
Reporting issuers	3937	3568	3270
Reporting issuers (New Brunswick based)	7	6	8
Prospectus filings	507	532	493
Investment fund prospectus filings	225	213	195
Annual information forms	1299*	926	824
Exempt distribution reports	264	265	224
Rights offering circulars	17	11	7
Exemption applications	442	604	419
Market Regulation Activity			
New dealer and adviser firms	24	34	31
New individual registrant and non trading/ non advising officer or director filings	3615	3689	3246
Transfer of registration	315	261	220
Termination of registration	1795	1728	1446
Submissions to change previously filed registration information	12110	15328	13874
Registered individuals	7349	7012	6410
Registered firms	282	261	240

■ Restated in 2007-08

* 31 March deadline fell on a weekend, resulting in higher than usual filings in April 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 2008. This review should be read in conjunction with the financial statements and accompanying notes.

Management's discussion and analysis of financial position and operating results

For the fiscal year ended 31 March 2008

Dated 09 May 2008

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* of New Brunswick and we began operations on 1 July 2004. We function as an independent regulatory agency and administrative tribunal, responsible for overseeing the

We function as an independent regulatory agency and administrative tribunal, responsible for overseeing the securities industry in New Brunswick.

securities industry in New Brunswick. As a provincial Crown corporation, we are exempt from income taxes. Our operations are funded through fees paid by securities market participants.

We maintain accounting and internal control systems to provide reasonable assurance that our financial information is complete, reliable and accurate, and that

our assets are adequately protected. The Commission Members, in conjunction with the Audit Committee, have an oversight role regarding the integrity of the reported information.

We budget 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 2007-08 exceeded the budgeted amount.

	Budget 2007-08 (\$)	Actual 2007-08 (\$)	Actual 2006-07 (\$)
Revenue	9,576,925	10,818,368	10,210,198
Expense	4,289,560	4,371,032	3,797,266
Excess of revenue over expenses	5,287,365	6,447,336	6,412,932
Total assets		3,129,117	2,792,602
Total liabilities		741,031	590,574
Total funds' balance		2,388,086	2,202,028
Distributions to government		6,261,278	6,214,431

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 miscellaneous charges.

We obtain revenues primarily from reporting issuers and registrants.

There were no changes to the fee schedule this year. Revenue increases from market participants during the 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 97.6% of total revenue in the year (97.8% 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 our revenue. Fees paid by mutual funds to distribute their securities in New Brunswick were about \$5.1 million or 47% of revenue, up from \$4.8 million in the prior period. In addition, fees paid by the six largest Canadian bank-owned investment firms for the registration renewal of their representatives and firms were about \$1.22 million or 11.3% of revenue, up from \$1.17 million in the prior period.

The mutual fund industry

A significant portion of our revenue is derived from the mutual fund industry. Of the 3,937 reporting issuers in New Brunswick, approximately 2,500 or 63% of them are mutual fund issuers. Revenues generated by the mutual fund industry in the year included, approximately: \$4.7 million from prospectus filings; \$397,000 from annual financial statements; and \$900,000 from MFDA members' registration fees. These fees totalled \$6.0 million or 55% of total fee revenues.

Fee revenue sensitivity

Our fee revenues fluctuate with market activity. We are most dependent on fees paid by mutual funds to distribute securities. Mutual fund prospectus filings increased by 13% over the last fiscal year, from \$4.21 million in 2006-07 to \$4.77 million in 2007-08. We expect this revenue stream to remain stable or increase during the next fiscal year, as active mutual funds are required to file a prospectus annually in order to continue distribution of their securities.

We also rely heavily on fees paid by the six largest Canadian bank-owned investment firms to register their representatives and firms with us. Registration fees rose from \$1.17 million in 2006-07 to \$1.22 million in 2007-08, representing an increase of 4.3%.

Securities distribution fees for 2007-08 are showing an approximate 11.6% increase from 2006-07. This is largely due to an increase in the number of mutual fund prospectus filings and additional classes of securities offered by these funds. Our fee schedule commands an additional fee when mutual funds offer more than one class of security with their prospectus filing.

Registration fees for 2007-08 are showing a 3.7% increase from 2006-07. This is primarily attributable to a commensurate growth in the number of registrants. It is now easier for them to register in multiple jurisdictions under the National Registration System.

Analysis of total revenue

Category	Description	2007-08 Amount (\$)	2007-08 % of Revenue Total	2006-07 Amount (\$)
Distribution fees	Paid by securities issuers when filing distribution documents	5,338,950	49.3	4,785,850
Registration fees	Paid by individuals and firms to register with the Commission to sell or advise on securities	2,987,800	27.6	2,880,750
Financial filing fees	Paid by public companies when filing annual financial statements and annual information forms	1,881,125	17.4	1,956,475
Exemptions and orders	Paid by market participants primarily to request exemptions from Securities Act requirements	289,450	2.7	324,550
Other fees	Paid by market participants for late filing and other miscellaneous fees	68,990	0.6	41,410
Total fees		10,566,315	97.6	9,989,035
Administrative penalties and settlements	Paid subsequent to a hearing panel ruling	51,100	0.5	10,000
Enforcement cost recoveries	Paid subsequent to a hearing panel ruling	3,750	0	0
Investment income	Earned on cash balances	146,320	1.4	132,817
Miscellaneous income	Primarily conference fees	50,883	0.5	78,346
Total revenue		10,818,368	100.0	10,210,198

Financial filings for 2007-08 are showing a decrease of 3.9% from the prior year. The decrease is partly attributable to lower annual financial statements (AFS) filings, particularly those filed by mutual funds. National Instrument 81-106 *Investment Fund Continuous Disclosure* came into effect on 1 June 2005, changing the AFS filing deadline from 120 days (transition year) to 90 days. As a result, many funds had to file two sets of AFS in 2006-07. These filings have stabilized in 2007-08. We also ceased issuing certificates of no default in 2007-08, which generated about \$30,000 in the prior year. The decrease in financial filing revenues was, however, partly offset by higher annual information form filings in 2007-08.

Exemptions and orders revenue for 2007-08 is showing a 10.8% decrease from the prior year. On 17 March 2008, Multilateral Instrument 11-102 *Passport System* was implemented nationally, except in Ontario. Under the Passport System, an issuer need only file an application with its principal regulator (and Ontario) instead of filing in all jurisdictions where it is seeking relief. This resulted in a decrease in the number of filings from the previous year. We do not foresee being designated as principal regulator for many exemption applications in the next fiscal year.

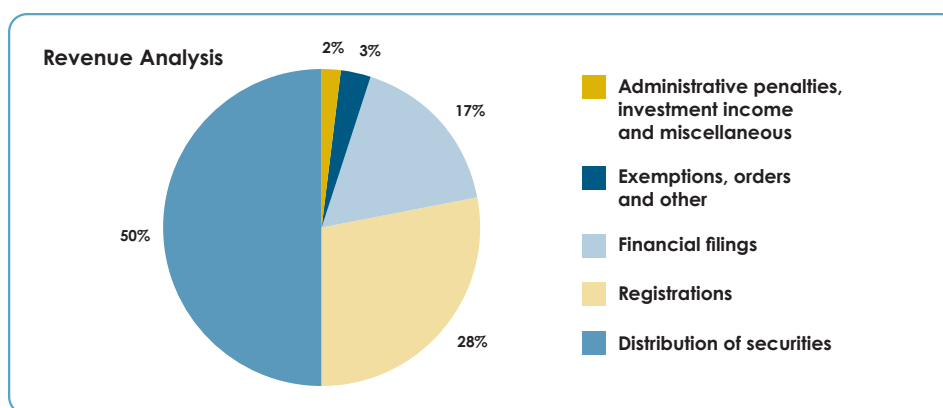
Receipts from administrative penalties and settlements are for the benefit of the Market Enhancement Reserve. As required by the *Securities Act*, these funds are to be spent only on endeavours or activities that enhance the capital markets in New Brunswick.

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 our ability to collect the assessed amounts. This source of revenue was up during the year from \$10,000 in 2006-07 to \$54,850 in 2007-08. Several orders for hearing costs or administrative penalties were issued during the year (total of \$375,250); they have not been recognized as revenue as there is a reasonable probability that the amount will be uncollectible. Receipts designated as cost recoveries are recognized as operating revenue.

We do not budget an amount for enforcement revenue so as to avoid the appearance of impropriety. During the 2007-08 year, there was \$27,000 in disbursements from the Market Enhancement Reserve.

In general, our portfolio generates modest returns. We do not make speculative investments with our surplus funds and we make 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.

Miscellaneous revenue relate primarily to sponsorship revenue for Fullsail Summit 2008, the capital market growth conference that was held during 6 – 8 April 2008. Other sources include a gain on the disposal of our vehicle and registration fees for various seminars that we sponsored during the year.



OPERATING EXPENSES

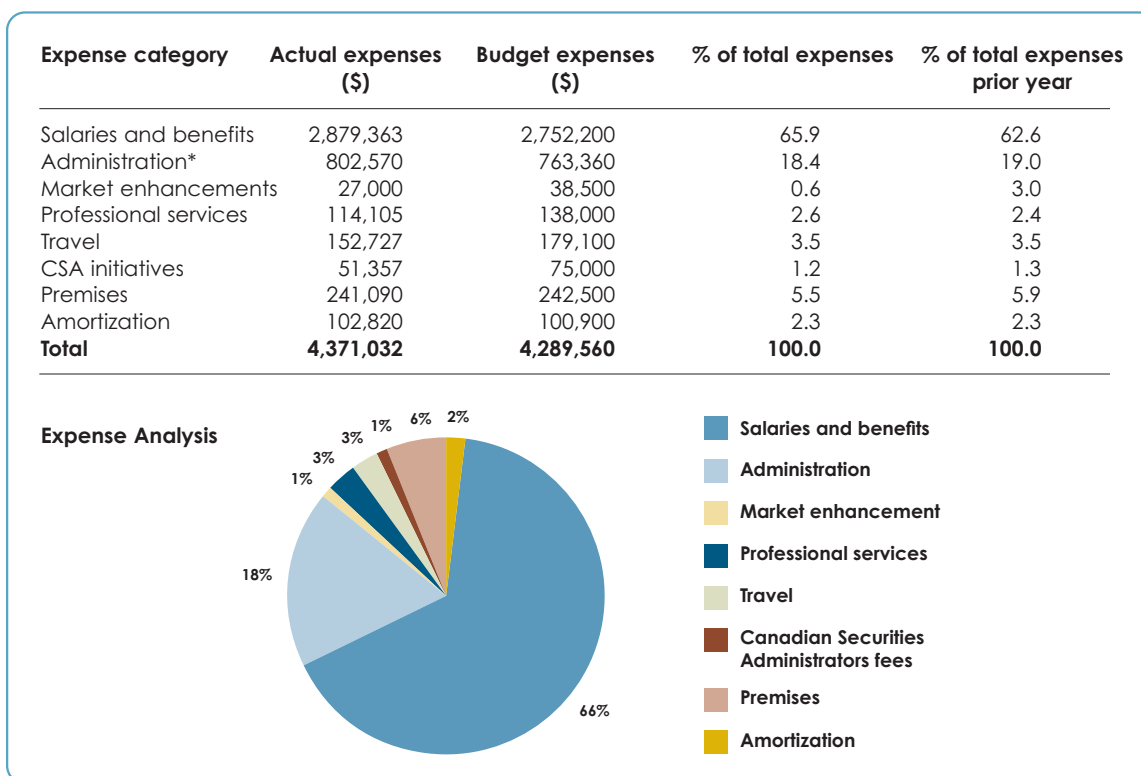
We take seriously our responsibility to manage our expenses over the fiscal year. We do this by:

- 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 each Commission meeting (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 our processes.

Our operating expenses during the year were \$4,371,032, compared to a budget of \$4,289,560, a difference of \$81,472. Several unbudgeted initiatives were approved by the Commission Members during the fiscal year and are included in the expense total. The most significant of these were additional advertising efforts, accelerated hiring and a contribution for a capital market development initiative.

Expenses:



* See Schedule 1 of the financial statements.

The largest expense item, totalling \$2,879,363 or 65.9% of total expenses, was salaries and benefits. As a percentage of total expense, this ratio is higher than the 62.6% for the prior year. We had 32 staff on payroll at year-end, compared to the 27 that were on payroll one year before. On an annualized or “person-year” payroll basis, we had 29.0 person-years of employment in 2007-08 versus 26.9 in 2006-07. A discrete cost of living adjustment was not applied during the fiscal period. Instead, based on the recommendations of the pay and benefits consultant, we implemented a revised pay grid retroactive to 1 April 2007. This revised pay grid had any applicable cost of living adjustments factored into its establishment. We do not administer a performance-based incentive program.

Administration expenses were our second largest category of expenses at \$802,570 or 18.4% of total expenses, a slight percentage decrease from the 19.0% that was incurred in the prior year. These expenses pertain to information technology, training, communication, printing, advertising and other general office expense items. Advertising activities represented the single greatest expense item during the year for administration expenses at \$173,816. This is primarily associated with the *Invest in Knowing More* investor protection awareness campaign, and included the development and placement of television, radio and print messages. Capital market activity, associated with the Fullsail 2008 conference that was held in early April 2008, was also significant and expenses for that totalled \$110,823. Information technology costs were \$96,514 during the period, and were used for network support, data security and back-up, website costs and software licenses.

This is the second year that we have transferred funds from the Market Enhancement Reserve towards eligible expenses that enhance the capital market in New Brunswick. A contract was signed with the Saint John Volunteer Centre to provide presentations in both official languages for the *ABC's of Fraud* campaign throughout the province. A total of \$27,000 out of the total contracted amount of \$45,000 was provided during the fiscal year. This campaign is expected to run for three years in total.

Professional services expenses increased slightly from \$91,045 to \$114,105 year over year. Translation costs continues to be the largest expense item in this category, followed by a contribution to the Department of Justice of \$30,000 for policy support.

Travel costs were \$152,727 or 3.5% of total expenses, the same percentage of expenses as the prior period. With a higher staff complement, the aggregate travel cost increase year over year was \$18,267, or 13.6%. Travel was primarily related to training initiatives and attendance at policy and other regulatory meetings of partners of the Canadian Securities Administrators (the CSA).

Expenses for CSA initiatives were slightly higher at \$51,357, or 1.2% of total expenses, compared to \$48,204 incurred in 2006-07. These initiatives support Canada's national system of securities regulation through a cooperative approach with our provincial and territorial regulatory partners. CSA projects are coordinated through a permanent secretariat located in Montréal and operating costs are apportioned to CSA members based on a formula correlated to population. We pay about 2.1% as our share.

Premise costs increased to \$241,090. This represents 5.5% of total expenses, down slightly from 5.9% the previous year. The increase in premise costs was attributable to a lease rate escalation built into our lease.

Amortization expenses increased from \$89,388 to \$102,820 year over year. Our largest depreciable asset involves our leasehold improvements, which are being amortized over ten years and account for about 38% of the total expense. Furniture, information technology hardware, information technology software and vehicle assets follow in descending order to make up the remainder of the amortization expense.

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 2007-08, administrative penalties totalling \$51,100 were assessed and collected, while the prior period's assessments and collections totalled \$10,000. A further \$350,000 administrative penalty was assessed in the year, but is not reflected on the financial statements as there is a reasonable probability that the amount will be uncollectible.

DISPOSITION OF SURPLUS OPERATING FUNDS

We made total payments of \$6,261,278 to the Government of New Brunswick during the year. The payment amount is calculated annually and is included in our Strategic Business Plan.

Since we were established in July 2004, we have made contributions of \$21,575,873 to the Government of New Brunswick.

The total contribution included a budgeted amount of \$5,100,000, as well as an additional \$1,161,278. The \$1,161,278 represents the balance of the general surplus as at 31 March 2007. The contribution is payable each year providing that doing so does not impair our ability to pay our liabilities, meet our obligations as they become due or fulfill our contractual

commitments. Since we were established in July 2004, we have made contributions of \$21,575,873 to the Government of New Brunswick.

LIQUIDITY AND FINANCIAL POSITION

We have sufficient liquidity to finance our operations and capital purchases. The net increase in cash prior to the disposition of surplus operating funds was \$6,623,727 during the fiscal year. Of that amount, \$6,261,278 was distributed to the Government of New Brunswick. The combined cash balance at year-end was \$2,661,499. This includes amounts from the Commission's two reserves.

We maintain a Fee Stabilization Reserve. The maximum value of the reserve remained at \$1,000,000 during the fiscal period. Revenue generation remains a source of risk for us as revenues are correlated to market activity and general economic conditions. The Fee Stabilization Reserve manages this risk by allowing us to maintain an operating contingency to absorb revenue shortfalls or unexpected expenditures. We take revenue generated from the reserve into general operations. The reserve was fully-funded at year-end.

RISKS AND UNCERTAINTIES

Operational and infrastructure risk

We are exposed to many types of operational risks, including the risk of fraud by employees or others, unauthorized transactions by employees, and operational or human error. We also face the risk that computer or telecommunications systems could fail, despite our efforts to maintain these systems in good working order. Shortcomings or failures of our internal processes, employees or systems, including any of our financial, accounting or other data

processing systems, could lead to financial loss and damage to our reputation. Our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our operations and the communities in which we do business.

We have policies and processes in place to manage and control these risks. Key components include:

- Commission Members operating as a Board of Directors who place a priority on sound corporate governance;
- an active and effective Audit Committee;
- an annual review of internal controls and legislative compliance;
- an annual review of risks facing the Commission;
- the adoption of a *Risk Management Policy*; and
- the effective communication of policies to staff and new Members on matters such as *Conflict of Interest* and *Code of Conduct* with various channels for reporting concerns.

Reputation risk

We actively manage our reputation risk through our corporate governance practices, code of conduct and risk management framework. The activities of our communications staff and our General Counsel's office are key participants in managing our reputation risk.

We continue to pursue initiatives to improve our ability to retain corporate memory and to ensure effective knowledge transfer.

People risk

As a knowledge-based entity, our ability to attract and retain people is critical to our success. We track a range of measures (e.g., turnover and compensation surveys) to

manage this risk. Knowledge management is a key focus and we continue to pursue initiatives to improve our ability to retain corporate memory and to ensure effective knowledge transfer.

SECURITIES REGULATORY REFORM

Harmonization of securities laws and the Passport System

We continue to support the Government of New Brunswick's work to implement securities regulatory reforms outlined in the Provincial/Territorial Memorandum of Understanding Regarding Securities Regulation (the 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.

A key foundation to the MOU's success is a set of nationally harmonized regulatory requirements, consistently interpreted and applied throughout Canada. We have coordinated our work with the other Canadian securities regulators to adopt harmonized legislation. A significant set of legislative amendments received Royal Assent on 30 May 2007. Since that time, specific sections have been proclaimed in conjunction with similar initiatives across the country.

We have also adopted rules that support the MOU. Effective 19 September 2005, Multilateral Instrument 11-101 *Principal Regulator System* was approved in New Brunswick. This first phase

materially affected our responsibilities as we became recognized as a principal jurisdiction under this instrument. This significantly increased our national role and responsibility for securities regulation.

The second phase was implemented with the adoption of Multilateral Instrument 11-102 *Passport System* on 17 March 2008 by all provincial and territorial Canadian jurisdictions, except Ontario. This instrument further enhanced the Principal Regulator System by enabling market participants to access the capital markets in multiple jurisdictions by filing prospectuses, to file continuous disclosure and exemptive relief applications with their principal regulator and to adhere to the requirements of one set of harmonized securities laws.

There is still significant ongoing effort associated with the MOU's implementation. We continue to work on Phase 3 of the Passport System. This will enable firms and persons who wish to advise or trade in securities to access clients in multiple jurisdictions by obtaining approval from their principal regulator. Legislative amendments designed to harmonize and to support the adoption of Phase 3 received Royal Assent on 30 April 2008. At the present time, we have the requisite human resources to manage this initiative.

The single regulator approach to securities regulation

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

FEE REVENUE

Market conditions

We fund operations primarily from filing fees paid by market participants. Fee revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions.

Passport System

Phases 1 and 2 of the Passport System have not materially affected our operations to date, although it may ultimately change what we do and how we fund our operations. We have not forecasted for a significant impact on our current revenues and expenses because we expect that changes, if any, will not have a net impact on our bottom line. It is indeterminate at this point whether future initiatives, such as fee review, will materially affect our revenues and expenses.

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. The CSA has a robust governance and management structure to manage this risk, however.

RISK-BASED COMPLIANCE

In delivering on our mandate, we take a risk-based approach for many of our disclosure review and compliance activities. Our Corporate Finance group continues to enhance its risk-based screening procedures so that most of its review population receives meaningful assessment each year.

Our Compliance team in the Market Regulation division uses a risk-based approach in selecting dealers and adviser firms for field reviews. The scope of the targeted reviews is assessed periodically to determine if we are meeting the objectives of our Compliance Strategy.

Enforcement also uses a risk-based approach to ensure cases that are brought forward are fully investigated and that allegations made are firmly supported by the evidence. Enforcement policy and procedures are sought to be consistent with, or exceed, best practices in the industry.

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 we 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 2007-08, a total of \$350,000 of administrative penalties and \$25,250 in awarded costs were not recognized as revenue as the amounts appear 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 our 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 us. It is difficult, therefore, to estimate this liability with precision. We apply a discount factor of 3% for each year that the eligible employee is below the minimum retirement age of 55.

Another area of significant estimate lies with the accrual for an enhanced pension benefit for our Chief Executive Officer (the CEO). This benefit will be paid to the CEO upon retirement. We rely upon the expertise of the Office of Human Resources for the Government of New Brunswick to determine this amount.

CHANGES IN ACCOUNTING POLICIES

Management is responsible for selecting the significant accounting policies and preparing the financial statements, including the accompanying notes, in accordance with Canadian generally accepted accounting principles. The significant accounting policies and their applications have not changed. There were no new accounting or reporting standards introduced in 2007-08 that would materially impact our statements. We are currently assessing the impact of International Financial Reporting Standards, which will be the required reporting standard in 2011.

OUTLOOK

Operating revenue is budgeted to be \$10.78 million for the 2008-09 fiscal year. This represents a decrease of about \$40,000, or 0.4%, from 2007-08 actual revenue of \$10.82 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 our revenue is received during this time period. As well, the implementation of the Passport Rule is expected to negatively impact exemption revenue.

Operating expenses are budgeted to be \$5.17 million for the 2008-09 fiscal year. This represents an increase of \$0.80 million over 2007-08 actual expenses. The majority of this increase, about \$0.60 million, is attributable to salary and benefit increases. This reflects the budgeted addition of five new staff, a 2.5% cost of living adjustment and step increases for staff within their pay bands.

The budgeted subsequent surplus for 2008-09 is about \$400,000, after the budgeted contribution of \$5.25 million to the Government of New Brunswick and a \$44,500 allocation from the Market Enhancement Reserve. The budgeted contribution represents an increase of \$150,000 to what had been budgeted in prior years.

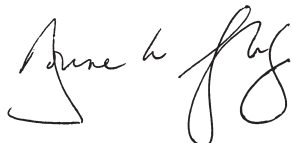
Management's responsibility for financial reporting

Management is responsible for the integrity, consistency and reliability 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.

Based on our knowledge, the financial statements, together with other financial information contained in the annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the New Brunswick Securities Commission as at the dates and for the periods presented. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions, and are believed to be reasonable.

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 Auditor General of New Brunswick's report, which follows, outlines the scope of the Auditor's examination and opinion on the financial statements.



Donne W. Smith
Chair and Chief Executive Officer



Kenrick G. Hancox
Executive Director



Kevin Hoyt
Director, Corporate Finance and Chief Financial Officer

09 May 2008



Auditor General of New Brunswick

Vérificateur général du Nouveau-Brunswick

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 2008 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 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Michael Ferguson, CA
Auditor General

Fredericton, NB
09 May 2008

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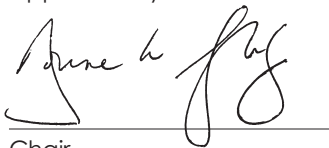
Balance Sheet

For the year ended 31 March 2008

	2008	2007
ASSETS		
Current Assets		
Cash (Note 3)	\$ 1,593,795	\$ 1,258,300
Accounts receivable	37,496	48,990
Prepaid expenses	72,229	38,078
	1,703,520	1,345,368
Investments held for designated purposes (Note 3)	1,067,704	1,040,750
Capital assets (Note 5)	357,893	406,484
	\$ 3,129,117	\$ 2,792,602
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 186,742	\$ 197,086
Accrued salaries and benefits	124,908	82,382
Accrued vacation liabilities	36,890	36,757
	348,540	316,225
Accrued benefit liabilities (Note 8)	392,491	274,349
Total liabilities	\$ 741,031	\$ 590,574
Fund balances		
General	\$ 1,320,382	\$ 1,161,278
Fee stabilization reserve (Note 4)	1,000,000	1,000,000
Market enhancement reserve (Note 4)	67,704	40,750
	2,388,086	2,202,028
	\$ 3,129,117	\$ 2,792,602

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

Approved by the Commission:



Chair



Member

Statement of income

For the year ended 31 March 2008

	2008	2007
REVENUE		
Fees		
Distribution of securities	\$ 5,338,950	\$ 4,785,850
Registrations	2,987,800	2,880,750
Financial filings	1,881,125	1,956,475
Exemptions and orders	289,450	324,550
Other	68,990	41,410
Administrative penalties and settlements	51,100	10,000
Enforcement cost recoveries	3,750	-
Investment income	146,320	132,817
Miscellaneous	50,883	78,346
	\$ 10,818,368	\$ 10,210,198
EXPENSES		
Salaries and benefits	\$ 2,879,363	\$ 2,376,378
Administration (Schedule 1)	802,570	722,035
Market enhancement (Schedule 2)	27,000	112,910
Professional services	114,105	91,045
Travel	152,727	134,460
Canadian Securities Administrators initiatives	51,357	48,204
Premises	241,090	222,846
Amortization	102,820	89,388
	\$ 4,371,032	\$ 3,797,266
EXCESS OF REVENUE OVER EXPENSES	\$ 6,447,336	\$ 6,412,932

Statement of fund balances

For the year ended 31 March 2008

	General	Fee Stabilization Reserve	Market Enhancement Reserve	Total
Balance, 31 March 2007	\$ 1,161,278	\$ 1,000,000	\$ 40,750	\$ 2,202,028
Excess of revenue over expenses	6,447,336	-	-	6,447,336
Disposition of surplus operating funds (Note 6)	(6,261,278)	-	-	(6,261,278)
Investment income reallocation	(2,854)	-	2,854	-
Allocation to (from) reserves (Note 4)	(24,100)	-	24,100	-
Balance, 31 March 2008	\$ 1,320,382	\$ 1,000,000	\$ 67,704	\$ 2,388,086

Statement of cash flow

For the year ended 31 March 2008

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 6,447,336	\$ 6,412,932
Adjustment for amortization – capital assets	102,820	89,388
Gain on disposal of capital asset	(6,450)	-
	<u>6,543,706</u>	<u>6,502,320</u>
Changes in non-cash working capital		
Accounts receivable	11,494	71,929
Prepaid expenses	(34,151)	(28,027)
Accounts payable and accrued liabilities	(10,344)	(220,766)
Accrued salaries and benefits	42,526	9,898
Accrued vacation liabilities	133	4,771
Accrued benefit liabilities	118,142	13,386
	<u>6,671,506</u>	<u>6,353,511</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Disposition of surplus operating funds	(6,261,278)	(6,214,431)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	(61,279)	(55,729)
Proceed on disposal of capital asset	13,500	-
	<u>\$ (47,779)</u>	<u>\$ (55,729)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 362,449	\$ 83,351
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,299,050	2,215,699
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,661,499	\$ 2,299,050
Represented by:		
Cash	\$ 1,593,795	\$ 1,258,300
Investments held for designated purposes	1,067,704	1,040,750
	<u>\$ 2,661,499</u>	<u>\$ 2,299,050</u>

Notes

to the financial statements

As at 31 March 2008

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
Information technology infrastructure: 3 years
Software: 4 years
Automobile: 4 years
Leasehold improvements: over term of lease

Notes

to the financial statements

As at 31 March 2008

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 sub-section 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.

(g) Recently adopted accounting standards

On 1 April 2007 the Commission adopted Accounting Standards Board of Canada (AcSB) handbook sections relating to financial instruments and comprehensive income. These adoptions had no impact on the Commission's opening fund balances. The Commission had no "other comprehensive income or loss" transactions during the year ended 31 March 2008 and no opening or closing balances for accumulated other comprehensive income or loss.

Notes

to the financial statements

As at 31 March 2008

2. Significant accounting policies (continued)

(g) Recently adopted accounting standards (continued)

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Commission's designation of such instruments. The standards require that all financial assets be classified as either held for trading, available-for-sale, or held-to-maturity, or loans and receivables. The standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, and available-for-sale financial assets that do not have quoted market prices in an active market.

The adoption of these sections has not resulted in any changes to the carrying values of financial instruments. The Commission's financial assets and financial liabilities are classified and measured as follows:

- I. Cash and restricted cash are classified as "held for trading". These financial assets, carried at fair value, are marked-to-market through net earnings each period end.
- II. Accounts receivable are classified as "loans and receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest method.
- III. Accounts payable and accrued liabilities and registration fees included in deferred revenue are classified as "other financial liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

(h) New Canadian accounting standards effective in 2008 and beyond

Financial instruments and disclosures

Effective 1 April 2008 the Commission will adopt new AcSB handbook sections relating to financial instrument presentation and disclosure. These sections are intended to enhance the users' ability to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks. The implementation of these standards is not expected to have a material impact on the Commission's financial position and statement of income.

Notes

to the financial statements

As at 31 March 2008

2. Significant accounting policies (continued)

(h) New Canadian accounting standards effective in 2008 and beyond (continued)

Capital disclosures

In December 2006, the AcSB issued new accounting standards relating to capital disclosures. This additional disclosure will include quantitative and qualitative information regarding an entity's objectives, policies and processes for managing capital. This section is applicable for the Commission's fiscal year beginning 1 April 2008 and is not expected to have a material impact on the Commission's financial disclosures.

Intangible assets

In February 2008, the AcSB issued new accounting standards relating to goodwill and other intangible assets. This section is applicable for the Commission's fiscal year beginning 1 April 2009 and is not expected to have a material impact on the Commission's financial position and statement of income.

International Financial Reporting Standards (IFRS)

In February 2008, the AcSB confirmed that generally accepted accounting principles (GAAP) for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. In March 2008, the AcSB clearly identified the applicability of this conversion to Crown corporations and other government business enterprises. This definition includes the Commission. An AcSB exposure draft released in April 2008 provides further details of this conversion.

The conversion to IFRS will be required, for the Commission, for interim and annual financial statements beginning on 1 April 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS. The Commission is currently evaluating the impact of the adoption of IFRS on its financial statements.

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.

Notes

to the financial statements

As at 31 March 2008

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

	Cost	2008	2007
		Accumulated Amortization	Net Book Value
Office furniture and equipment	\$ 97,036	\$ 72,861	\$ 24,175
Information technology infrastructure	90,764	65,580	25,184
Software	11,780	7,890	3,890
Automobile	34,086	8,521	25,565
Leasehold improvements	396,234	117,155	279,079
Capital assets in progress	-	-	-
	\$ 629,900	\$ 272,007	\$ 357,893
			\$ 406,484

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

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*.

Notes to the financial statements

As at 31 March 2008

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 2008 amounted to \$1,790,968. 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:

2008-2009	\$ 222,648
2009-2010	222,648
2010-2011	224,719
2011-2012	235,071
2012-2013	231,611
Thereafter	654,271
Total	\$1,790,968

(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.

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. This benefit cannot exceed 250 days for the Chief Executive Officer. 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.

Notes

to the financial statements

As at 31 March 2008

8. Accrued benefit liabilities (continued)

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. The Commission has an agreement whereby the Department of Justice and Consumer Affairs also provides support for the policy and regulatory responsibilities of the Commission.

The Commission expended \$115,316 (\$135,290 in 2007) during the reporting period on these services. As of 31 March 2008 an accounts payable of \$22,911 (\$30,644 in 2007) 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. In addition to this amount, a total of \$25,000 of translation services was provided without charge to the Commission. Total expenditures during the period were \$41,547 (\$39,707 in 2007). As of 31 March 2008 an accounts payable of \$11,104 (\$2,200 in 2007) 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.

Schedules

to the financial statements

For the year ended 31 March 2008

	2008	2007
SCHEDULE 1		
ADMINISTRATION		
Fostering capital markets	\$ 160,823	\$ 225,885
Investor protection and education	242,532	85,823
Members and staff development	113,148	101,689
Payment to Department of Justice and Consumer Affairs under Agreement	30,000	50,000
Information technology	118,822	110,298
Other administration	137,245	148,340
	\$ 802,570	\$ 722,035
 SCHEDULE 2		
MARKET ENHANCEMENT		
Contribution for <i>ABC's of Fraud</i>	\$ 27,000	\$ -
Television campaign	-	72,910
Contribution for development of securities law course		
Université de Moncton	-	20,000
University of New Brunswick	-	20,000
	\$ 27,000	\$ 112,910

Glossary

of terms

Accredited investor

A person or organization, generally wealthy and experienced, judged suitable to undertake an investment without needing the protection of the registration and prospectus requirements of the *Securities Act*. For specific criteria see National Instrument 45-106 *Prospectus* and *Registration Exemptions* on our website at www.nbsc-cvmnb.ca under the Law and Policy section.

Administrative penalty

A financial penalty imposed by the Commission on an individual or organization for breaches of the *Securities Act*. The legislation provides the Commission with the ability to levy an administrative penalty up to \$750,000.

Angel investor

An individual that invests funds and personal expertise in a small and/or start-up business.

COSRA

(Council of Securities Regulators of the Americas)

The council of securities regulators of the Americas provides a forum to coordinate securities regulation throughout North, South and Central America and cooperate with regulators in an increasingly global environment.

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.

Cease trade order

An order issued by the Commission to prohibit trading by an individual or organization or to stop trading in a specific security. Generally made on the basis that to continue to allow trading is contrary to the public interest.

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 *Securities Act*.

Continuous disclosure

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

Costs

The obligation to pay costs associated with a proceeding under the *Securities Act*. The Commission may impose these on an individual or organization after a hearing or investigation.

Debt capital

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

Distribution

A first time offering of shares by an issuer, from treasury. Treasury shares are shares from a company's reserve (as opposed to shares bought on the market).

Equity capital

A method of financing in which a company issues shares of its stock and receives money in return. Providers of equity capital include friends, family, business associates, angel investors, venture capitalists, and sidecar funds.

Exemption

An exemption allows a certain types of issuers to be exempt from certain requirements of securities regulations. Businesses can raise capital from a targeted group of investors with minimal distribution costs.

Fullsail

The Commission's capital market development initiative, the objective of which is to help bring economic wealth and independence to the province.

General Regulation

(Regulation 2044-66 under the *Securities Act*)

The regulation that falls under New Brunswick's *Securities Act*. It provides legal guidelines for Commission Members, management and staff.

NASAA

(North American Securities Administrators Association)

NASAA is the oldest umbrella organization of securities regulators and provides a forum to coordinate securities regulation among North American regulators and cooperate in a number of areas including enforcement and education.

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. Similarly, an offering memorandum is a prospectus-like document, but with less detail and used in private placements.

Public equity

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

SBITC

(Small Business Investor Tax Credit)

A tax credit of 30% on the amount invested up to a maximum of \$80,000. This tax credit is provided by the government of New Brunswick to those who invest in firms that have received approval of investment eligibility.

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".

SME

(Small and Medium Enterprise)

SMEs are usually characterised as companies with less than 100 employees. In New Brunswick, such firms employ up to 95% of the province's work force.

Securities Act

New Brunswick legislation that provides for the regulation of the securities industry in this province.

Sidecar financing

Provides capital that "rides" or invests alongside an angel group. Traditionally, sidecar funds co-invest with angels after the angel 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 angel.

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.

Publications

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

Education

Knowledge is Power: Education Strategy 2007–2010

Capital market development

Venturing into a New Economy: Developing

New Brunswick's capital markets

Funding our Future: Fostering capital markets in

New Brunswick

Making the Commitment (Fullsail Summit 2007

wrap-up report)

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

Investing Basics: Getting Started (Revised)

Working with a Financial Adviser (Revised)

Investments at a Glance (Revised)

Investments 101 – Youth Fact Sheet (New)

Protect Your Money: Avoiding Frauds and Scams (Revised)

Investment Fraud on the Internet (Revised)

Mutual Funds: What you need to know

The Prospectus: Being informed is being educated

Investment Planning Worksheet

When Your Broker Calls, Take Notes!

Corporate reports

- 2007-2008 Annual Report
- 2006-2007 Annual Report
- 2005-2006 Annual Report
- 2004-2005 Annual Report



Invest in Knowing More

The New Brunswick Securities Commission warns that investment scams are real, and wants to raise public awareness about investment fraud. Investors should contact the NBSC at 1 866 933 2222 if they have concerns or suspicions about an investment opportunity they have been offered.

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