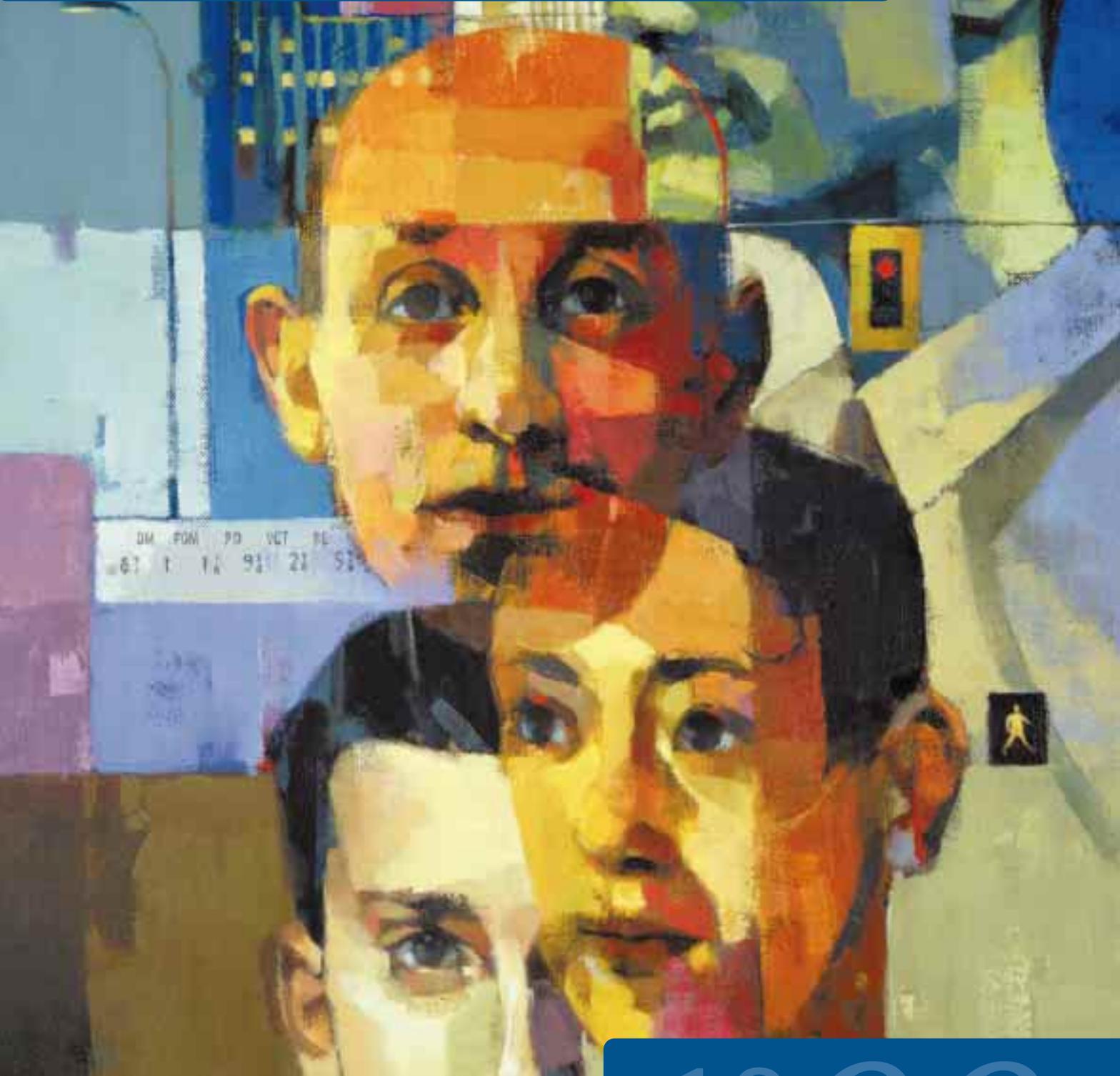




BCSC

BRITISH COLUMBIA SECURITIES COMMISSION



ANNUAL | REPORT

*for the fiscal year ended March 31*

1999



CONFIDENCE

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The British Columbia Securities Commission is the independent provincial government agency responsible for regulating trading in securities in British Columbia.

Its mission is to protect and promote the public interest by regulating trading in securities:

- to ensure the securities market is fair and efficient and warrants public confidence; and
- to foster a dynamic and competitive securities industry in British Columbia that provides investment opportunities and access to capital.

**The Commission's responsibilities are:**

- to ensure that investors have access to the information they need to make informed investment decisions;
- to provide rules of fair play for the markets;
- to establish qualifications and standards of conduct for people registered to advise investors and to trade on their behalf; and
- to protect the integrity of the capital market and the confidence of investors.

The British Columbia Securities Commission is a Crown corporation, a structure that provides the independence and administrative flexibility the Commission needs to regulate a dynamic market. The Commission is self-funded and the costs of securities regulation are borne by market participants, not the general taxpayer.

The Commission is required by legislation to submit to the Minister of Finance and Corporate Relations an annual report as well as audited financial statements. This year's report includes audited financial statements of the Commission for the fiscal year ended March 31, 1999, together with reports on the Commission's operations over the year.

The Commission submits a three-year strategic plan annually to the Treasury Board. The Commission's Strategic Plan 1999-2002 is available on its Web site at [www.bsc.bc.ca](http://www.bsc.bc.ca)

## HIGHLIGHTS OF THE FISCAL YEAR

### Capital Market Activity

- the number of individuals registered under the *Securities Act* increased by 14.6% to 18,076;
- the number of prospectuses filed decreased by 9% to 1,784;
- the number of reports filed concerning exempt securities distributions decreased by 16% to 5,074;
- applications for discretionary exemptions from legislative requirements increased by 19.5% to 907;
- commission revenues from all sources were up 21% to \$26.1 million; and
- the failure of Vantage Securities Inc., a locally based securities dealer, in early 1998 led to the first claims against the British Columbia Contingency Trust Plan since 1986.

### Enforcement

- the Commission issued six enforcement hearing decisions and made findings against 14 respondents;
- the staff issued 16 notices of hearing during the year, down from 22 in 1997-1998; and
- 49 respondents resolved enforcement matters by entering into settlement agreements with staff and consenting to various sanctions, including monetary assessments totaling \$3 million.

### Public Information

- public requests to view Commission files decreased 42.4% to 2,533, due largely to increased public reliance on the SEDAR electronic database system; and
- the Commission's Web site was enhanced with the addition of the new registration database.

### Policy and Legislation

- the Commission approved the Venture Capital Pool (VCP) program developed by the Vancouver Stock Exchange (VSE) and delegated additional responsibilities to the Exchange for the review of certain initial public offering prospectuses;
- the Commission published for comment new national proposals concerning:
  - disclosure requirements for those involved in mineral exploration and mining;
  - the issuance and resale of escrow shares;
  - expanded civil remedies for investors; and
  - enhancements to the mutual reliance review system
- the Commission adopted a uniform rule requiring that registered dealers provide disclosure about the Y2K-preparedness of their information systems; and
- legislative amendments were passed, but not yet proclaimed, concerning the filing of insider reports and the application of securities law to variable insurance contracts based on segregated funds.

## APPROACHING THE NEW MILLENIUM.

I doubt there has ever been a time when the regulation of our securities markets has changed more quickly than it is changing today. Over the past decade we have worked closely with our counterparts across the country, through the Canadian Securities Administrators (CSA), to develop new policies and new programs to improve the efficiency of our regulatory system. Those initiatives are now falling into place.

**Harmonizing Canada's Securities Regulations**

Over the next few years we will fully realize our vision of a harmonized Canadian Securities Regulatory System (CSRS), one that will reduce regulatory overlap, increase mutual reliance among regulators and establish more uniform national standards for market participants. Increasing the efficiency of regulation is necessary not only to ensure that our capital markets can compete on a global scale, but also to meet the demands of Canadian investors for information, education and effective protection.

We are very pleased with the progress made by the CSA this past year. In June of 1998 we were able to publish for comment a memorandum of understanding among the CSA jurisdictions that will, when adopted, substantially advance the principle of mutual reliance and lead to the long-term reduction of costs and regulatory duplication. In addition to that memorandum, we published regulatory proposals to implement mutual reliance in the areas of prospectus review, registration and applications for exemptive relief.

The CSRS initiative, previously described as the 'virtual national securities commission' concept, is well on its way to reforming our system of regulation. It is the result of hard work and dedication by our staff and by our counterparts across the country, and it responds to the needs of the investment community for a more rational and less expensive oversight structure. We have found ways to respond to those business needs without compromising our investor protection goals.

**The Changing Structure of the Financial Services Industry**

CSA took other bold steps toward more effective regulation this past year as well. In February 1999, we released a concept paper entitled "A Framework for Market Regulation in Canada". The paper discusses the evolving structure of the financial services industry in Canada and the growing gap between the structure of the industry and the structure of the system designed to regulate it. The erosion over the last two decades of the traditional 'four pillars' of the financial system has led to similar products and similar activities being regulated in very different ways. Such a system makes no more sense to regulators than it does to consumers.

The paper proposes that market regulation and consumer protection for all financial services providers (including banks, trust companies, insurance companies, securities firms and credit unions) be consolidated in the regulatory agencies of the provinces and territories. The provincial and territorial regulators would coordinate their activities through the CSA and through the recently established joint forum of securities, insurance and pension regulators, to ensure an efficient and harmonized system of market regulation. The implementation of this system would fill some crucial gaps and provide a major enhancement in the regulation of Canada's financial institutions and the protection of Canadian consumers. We look forward to continued discussion of the CSA proposal in the months and years ahead.

**Stock Exchange Restructuring**

A third major development in our financial system was the recent announcement of the proposed restructuring of Canada's four major stock exchanges. Under the proposal,



the Vancouver and Alberta Stock Exchanges would merge to form a single Canadian venture exchange. The Toronto Stock Exchange (TSE) would focus on senior equities and the Montreal Exchange (ME) on derivative products. The Canadian venture exchange would have offices across Canada. It would assume from the TSE the responsibility for the Canadian Dealing Network and would acquire listings from the ME that do not qualify for listing on the TSE.

We know from hard experience the many challenges of regulating a venture market, but we also know that it can be done effectively. Our commission has been generally supportive of the proposal to this stage because we believe that a specialized system of pan-Canadian exchanges has the potential to better meet the needs of both the issuers in search of capital and the investors who provide it. We are committed to ensuring that the standards and practices of the restructured venture exchange do not compromise the principles of investor protection.

The restructuring proposal will require the approval of the CSA, and a great deal of work must yet be done by the exchanges to bring it to fruition.

DOUGLAS M. HYNDMAN Chair

### Responding to New Technology

At the same time as the traditional exchanges are restructuring, the CSA is working on policies to deal with the development of alternative trading systems and Internet-based trading and advising. It is essential that we adapt our regulatory tools and standards to address the problems and opportunities created by the application of new technology to the securities markets.

### In Memoriam

While the past year was both challenging and successful in many ways, our Commission suffered a tragic loss in 1998 with the passing of Peter Manson, Q.C., one of our most respected and hard-working commissioners. Peter was first appointed a commissioner in 1995 after a long and distinguished career in business and law. His enthusiasm, integrity and thoughtfulness were an inspiration to all of us who had the honour of working with him. We mourn his passing and we will miss his sage advice, particularly as we look forward to the unprecedented changes that now face the industry and those of us who regulate it.



## THE COMMISSION

## and Commission Members

The Commission is the independent provincial government agency responsible for regulation of securities and exchange contracts in the province. Since 1995 it has been a self-funded Crown corporation. Its functions are divided between the Commission members (Commissioners) and the Commission staff.

Commission members, including the Chair and Vice Chair, are appointed by the government and have overall responsibility to administer the securities legislation. Commissioners perform three broad functions:

- to serve as the board of directors of the Commission and supervise its management;
- to provide policy direction to industry and staff and, with the consent of the Minister, to enact legally binding rules; and
- to act as an administrative tribunal authorized to make a variety of decisions under the legislation.

The *Securities Act* allows for the appointment of up to 11 Commissioners, who are chosen for their skills and

experience in business, capital markets and regulation. The Commission currently has eight commissioners.

During the fiscal year, the Commission rendered 22 decisions: 11 were related to enforcement cases brought before the Commission by staff; six were reviews of decisions made by the VSE; four were reviews of decisions made by staff or by a single Commissioner; and one concerned an application to revoke or vary an outstanding order. A number of the decisions are discussed in the Enforcement Activity section of this *Annual Report*.

Many of the policy and legislative initiatives undertaken by the Commission during the year are described in the Policy and Legislation section of this *Annual Report*.

## COMMISSION MEMBERS



**DOUGLAS M. HYNDMAN**, *Chair*

Douglas Hyndman received his B.A. (Economics) from the University of British Columbia in 1972 and his MBA from the University of Western Ontario in 1975. He joined the British Columbia Ministry of Finance in July 1975 and served in various positions within the Treasury Board Staff Division. From 1984 until 1987, he was Assistant Deputy Minister with responsibility for advising the government on economic, fiscal, budgetary and tax policy. He was appointed Chair of the Commission on April 16, 1987.



**JOYCE C. MAYKUT**, *Q.C., Vice Chair*

Joyce Maykut, Q.C., is a graduate of the Faculty of Law at the University of Alberta and was called to the bar in British Columbia in 1974. After two years of prosecuting with the federal Department of Justice, she joined the criminal defence bar and ran her own practice for three years. Ms. Maykut joined the Vancouver office of the Legal Services Branch of the Ministry of Attorney General in 1981 and acted as counsel to various administrative tribunals, including the Securities Commission. From 1986 to 1990, she was the Senior Solicitor of the Vancouver office and was responsible for supervising the delivery of legal services to a variety of government clients. Ms. Maykut was appointed Queen's Counsel for the province in 1988, and was appointed Vice Chair of the Commission on May 1, 1990.



**BRENT W. AITKEN**, *Commissioner*

Brent Aitken is a graduate of the Faculty of Law at the University of Alberta. He practised law, primarily in the securities field, in Calgary for 10 years. During this period Mr. Aitken was seconded for one year as counsel to the Alberta Securities Commission and taught securities regulation and corporate finance at the University of Alberta and the University of Calgary law schools. Mr. Aitken then joined Canadian Airlines International Ltd., where he held a number of senior executive positions until the end of 1992. Mr. Aitken was first appointed a member of the Commission on October 19, 1995. His current appointment expires December 31, 2001. Mr. Aitken has chaired the Commission's Audit Committee and currently chairs the Human Resources Committee.



**JOAN L. BROCKMAN**, *Commissioner*

Joan Brockman is a professor of the School of Criminology at Simon Fraser University. She received her B.A. (Sociology) from the University of Saskatchewan in 1973, her M.A. (Sociology) from the University of Alberta in 1976, her LL.B. from the University of Calgary in 1980, and her LL.M. from the University of British Columbia in 1982. Ms. Brockman was called to the Alberta bar in 1981 and the B.C. bar in 1983. She has served as the Coordinator of the University Board on Student Discipline at Simon Fraser University since 1994. She is co-author of a book with V. Gordon Rose, *An Introduction to Canadian Criminal Procedure and Evidence for the Social Sciences* (Toronto: Nelson Canada, 1996), and has published a number of articles in law journals and other publications on topics including the regulation of professionals and gender bias. She was appointed on March 13, 1998, to a two-year term as a member of the Commission.



**JOHN K. GRAF**, *Q.C., Commissioner*

John Graf is a Chartered Accountant who graduated from the University of British Columbia in 1966 and qualified as a CA in 1968. He specialized in taxation with a major accounting firm until 1973, when he joined Fletcher Challenge Canada Limited as its Manager of Taxation. He subsequently became Treasurer of the company and recently retired as its Vice President, Secretary and Treasurer. Mr. Graf has extensive experience in corporate and regulatory affairs, corporate finance, securities transactions and relationships with the investment community. He was appointed as a member of the Commission for a two-year term on December 17, 1998, and was recently appointed chair of the Audit Committee.



**ADRIENNE R. WANSTALL, *Commissioner***

Adrienne Wanstall is a 1981 graduate of the Faculty of Law at the University of British Columbia. She was called to the Bar in British Columbia in 1982 and then joined the Ministry of Finance and Corporate Relations as Senior Policy Advisor in the Policy and Legislation Department, responsible for the review of legislation relating to financial institutions. From 1987 to 1992, Ms. Wanstall was the Director of the Commission's Policy and Legislation Division. On November 13, 1992, she was appointed a full-time member of the Commission. Ms. Wanstall chairs the CSA Investor Education Committee.



**ROY WARES, P. ENG., *Commissioner***

Roy Wares, P. Eng., a native of Aberdeen, Scotland, is a consulting geological engineer with more than 30 years experience in management and supervision of mineral exploration, development and regulatory programs in Canada and the U.S. He graduated from the Faculty of Science at the University of Aberdeen in 1964, completed graduate work in geology at Queen's University, Kingston, Ontario in 1971, and in 1979 completed graduate studies in regional resources planning at the University of Aberdeen. He is registered as a professional engineer in B.C. and as a professional geologist in Newfoundland. He was appointed March 13, 1998, for a two-year term as a member of the Commission.



**DIANE K. WOLCH, *Commissioner***

Diane Wolch, a resident of Victoria, graduated from the Faculty of Commerce at McGill University, then moved to Winnipeg where she joined the Manitoba government's Department of Industry and Commerce. She joined Burns Fry Limited, Winnipeg, as a broker from 1980 to 1987 and was a financial consultant with The Exchange Consulting Group in 1988 and 1989. She was appointed to the Manitoba Securities Commission in 1992. Ms. Wolch was first appointed a member of the B.C. Securities Commission on October 19, 1995, and was reappointed on October 16, 1997, for a further two-year term.



**PETER A. MANSON, Q.C., *Commissioner*  
(1928 - 1998)**

Peter Manson received his law degree from the University of British Columbia in 1952. He engaged in general practice with Ladner Downs from 1952 until 1976 when he became Vice President and General Counsel with Cominco Ltd. In 1982, he became the Senior Vice President, Corporate and Legal Affairs, for the Bank of Montreal. He returned to Ladner Downs in 1988 where, until his retirement from the practice of law in 1995, he was a partner with responsibility for transactions for and advice to financial institutions and resource developers and in connection with matters of international trade. He was a Director of Seaboard Life Insurance Limited and a number of private corporations. Mr. Manson was first appointed a member of the Commission on October 19, 1995, and reappointed on October 16, 1997, for a further two-year term. Mr. Manson passed away on October 3, 1998.

The past fiscal year was one of ups and downs for British Columbia's capital markets. More than 2,300 new people were registered to trade or advise in securities in B.C. in 1998-1999, and almost half of those new registrants were mutual funds salespeople. The strength of the mutual fund sector was also evident in terms of corporate finance, as the number of mutual fund prospectus filings increased by almost 9% over the year.



**WAYNE REDWICK**  
A/Executive Director

Capital formation activity in the non-mutual fund sector, however, declined substantially. While the number of local prospectuses filed in 1998-1999 was steady, there was a 70% decline in the number of exchange offering prospectuses filed during the year (from 43 in fiscal 1997-1998 to only 13 in 1998-1999). The total number of national prospectuses filed (excluding mutual funds) in 1998-1999 decreased by 40.6% last year to 372. Non-prospectus capital formation also appears to have declined in 1998-1999, with reports of exempt distributions down 16%.

Overall, Commission revenues for fiscal 1998-1999 increased by 21% to \$26.1 million, due largely to increased revenue from registration fees and corporate finance fees from the mutual fund sector. Enforcement proceedings also resulted in the collection of almost \$1.5 million more than was collected in 1997-1998. Over 80% of the increased enforcement revenues have been dedicated to industry and investor education. The remainder represented recovery of costs.

Education was a major focus of our Communications staff in 1998-1999. We were very pleased to offer several industry education sessions across the province last year on the mutual fund sales practices rule. We also took a lead role in CSA's Investor Education Week for both 1998 and 1999 and we participated in several investor education forums throughout the year.

Industry and investor education are key to the Commission fulfilling its mandate. We are committed to the principle that investors should have access to the tools they need to make informed decisions. We are also committed to the principle that those who are subject to regulation should be able to understand what the regulations are. With the increasing complexity of capital markets and the rapid changes in securities regulation it is clear that we must devote more resources to promoting knowledge. Our strategic plan calls for increased expenditures on communications and education in each of the next three years.

Fiscal 1998-1999 was a year of important developments in several other areas as well. We were able to implement a new classification and compensation plan that will better enable the Commission to attract and retain the high calibre of staff we need to meet our responsibilities. We, along with our CSA counterparts, formulated new procedures to expand the concept of mutual reliance among regulators and reduce the regulatory burden on the industry. We established new protocols allowing the VSE to assume responsibility for reviewing a broader range of public offering documents. We expanded our program of 'continuous disclosure reviews' to improve the quality of information available to investors in the secondary market. We also expanded our Web site to enable the public to more easily check the registration status of a salesperson or firm they might do business with.

The next few years should prove to be both challenging and exciting. In the next short while we may well see the restructuring of a stock exchange system that has existed in Canada for decades. We also expect to establish a regulatory system that will allow for the development of alternative trading systems to compete with the traditional exchanges. We are continuing to develop the 'integrated disclosure system', a new corporate disclosure model that is being designed to provide investors with more comprehensive and timely disclosure about their investments and allow issuers to benefit from a simplified disclosure process when offering new securities to the public. In the next few years we could also see a substantial restructuring of the regulatory system that has applied to the securities activities of the banking, trust and insurance sectors.

As regulators, we have a unique opportunity to be involved in the reshaping of securities regulation in Canada. As we move forward our mandate is clear. We are determined to streamline and harmonize the regulatory system to reduce costs and increase efficiency wherever possible. We will enhance investor protection through education, effective

oversight of the industry and diligent enforcement. We will take advantage of technology and find new and innovative solutions to the problems we will face. I know that the staff of the Commission are committed to achieving these goals.

I would like to thank the many industry professionals who have volunteered their time to participate in various committees that the Commission relies on for advice

and input. The names of those committees and their members are set out on page 28. Their efforts have been greatly appreciated.



## OPERATIONS | REPORT

### REGISTRATION

The *Securities Act* requires that anyone in the business of trading or advising in securities or exchange contracts in the province be registered with the Commission. Applicants must meet certain educational standards and capital requirements to obtain registration and are then required to meet detailed conduct, solvency and reporting obligations.



**ROSS MCLENNAN**  
Director,  
Registration

The Registration Division is responsible for reviewing and processing applications for registration of all dealers, underwriters, advisers and salespersons in British Columbia. Registration staff also monitor the conduct and solvency of registrants to ensure compliance with the legislation. This is done through review of financial reports, on-site examinations and investigations undertaken in conjunction with the Enforcement Division.

The Commission is assisted in its registration and regulatory duties by the two self-regulatory organizations (SROs) recognized under the legislation – the VSE and the Pacific District of the Investment Dealers Association of Canada (IDA). Each of these SROs has authority to register member dealers and their sales staff and to regulate the business conduct and affairs of firms and individuals within their jurisdiction.

At the end of fiscal 1998-1999 there were a record 18,076 individuals registered to trade or advise in securities in British Columbia, an increase of 2,308 registrants since the end of fiscal 1997-1998. Almost half of the growth was in the category of mutual fund salespersons, whose numbers rose 1,128 over the year to 11,766. This is particularly

noteworthy in light of the fact that 10 years ago there were only 1,297 mutual fund salespersons in total in the province.

There was also a significant increase in 1998-1999 in the number of individuals registered as scholarship plan salespersons. Their numbers increased to 739 from 298 at the end of fiscal 1997-1998, likely the result of recent favourable changes to the federal legislation governing Registered Education Savings Plans and the introduction of the Canadian Education Savings Grant Program.

As of March 31, 1999, the VSE and the Pacific District of the IDA collectively registered 3,946 salespersons, an increase of 13.7% over March 31, 1998.

The number of dealers, security issuers and underwriters increased only marginally over the year, to 261 from 255. Of these, 138 were SRO members, down from 142 in the prior year, with the decrease due mainly to the consolidation of dealers. The number of registered advisers – portfolio managers, investment counsel and securities advisers – in the province increased by 24.8% to 156.

## REGISTRATION DATABASE

The Division successfully launched its registration database on the Commission's Web site in November 1998.

The public can now search the database to obtain basic registration information concerning every individual or firm registered under the *Securities Act* since 1985.

## COMPLIANCE EXAMINATIONS

During fiscal 1998-1999, the Division completed 33 on-site compliance examinations of non-SRO dealers. Every such dealer in the province has now been examined at least once within the past six years. Staff also conducted reviews of 920 financial disclosure reports filed by registrants during the year. Of the 25 capital deficiencies identified from these reports, all except for the Vantage Securities Inc. case were promptly resolved.

## VANTAGE SECURITIES INC.

During the first quarter of fiscal 1998-1999, the Commission initiated proceedings to have the courts appoint a receiver for Vantage Securities Inc., a Vancouver-based securities dealer that was unable to comply with capital requirements. Shortly after the appointment of KPMG as receiver, Vantage was petitioned into bankruptcy.

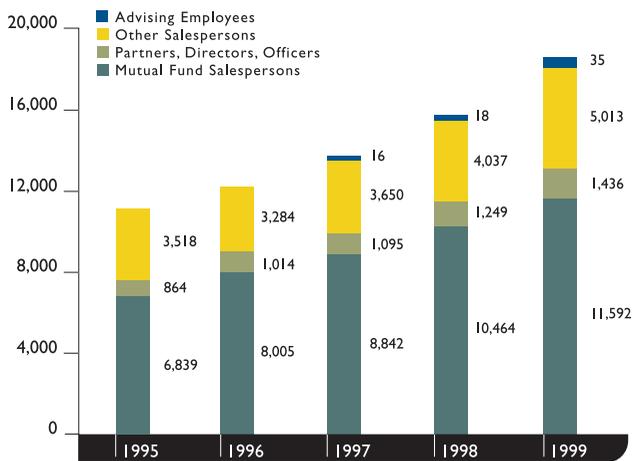
Unwinding the affairs of Vantage was extraordinarily complex for the trustee, primarily due to recent changes to the federal bankruptcy legislation and its application to securities firms. Unfortunately, those complications caused considerable delay and inconvenience for many of Vantage's clients. Due to the financial condition of Vantage and the cost of administering the bankruptcy, a claim of \$1.8 million was made on the British Columbia Contingency Trust Plan to ensure that clients of Vantage received the amounts due to them from the firm. That claim was subsequently reduced to \$900,000 and the final amount is expected to be significantly less. This is the only instance in which a claim has been made against the Contingency Trust Plan since 1986.

The bankruptcy of Vantage brought to light a number of regulatory issues concerning the federal bankruptcy legislation and its potential effect on industry practices concerning the registration of securities. The Commission is pursuing these issues with its CSA counterparts to ensure that investors are not subjected to unanticipated risks in their dealings with registrants.

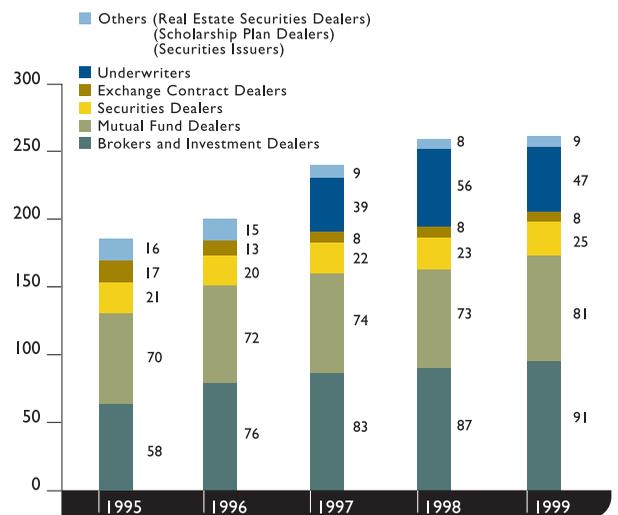
## CONTINGENCY FUNDS

Dealers in British Columbia who are not members of either the VSE or the IDA are obliged to fund and participate in the British Columbia Contingency Trust Plan, a trust fund designed to provide limited protection for investors in the event of the insolvency of a participating dealer. The maximum fund coverage for any account is \$2,500. Participating dealers are required to hold all client funds and securities in trust to minimize risk to client assets. The only claim against the fund in 1998-1999 was the claim relating to the Vantage Securities Inc. bankruptcy.

Dealers that are members of the VSE or IDA participate in the Canadian Investor Protection Fund (CIPF), a national contingency fund operated on behalf of the stock exchanges in Canada and the IDA. Under the CIPF, each client account is subject to coverage of up to \$500,000. Participating dealers are entitled, subject to a number of restrictions, to co-mingle certain types of client assets with those of the dealer. There were no claims against the CIPF in British Columbia in fiscal 1998-1999.



NUMBER OF INDIVIDUALS REGISTERED AT MARCH 31



NUMBER OF REGISTERED DEALERS AND UNDERWRITERS AT MARCH 31

Under the *Securities Act*, a company that intends to raise capital by selling securities to the public must generally prepare a detailed disclosure document - a prospectus - for investors. The prospectus must be filed with the Commission for review and acceptance before the securities can be sold in British Columbia.



**MARCINE RENNER**  
A/Director,  
Corporate Finance

When a company obtains a receipt for its initial prospectus, it becomes a 'reporting issuer' and is thereafter required to provide to investors timely information regarding material changes in its affairs, as well as periodic financial statements. Company insiders must also file monthly reports of any trading they do in the issuer's securities.

The staff of the Corporate Finance Division is responsible for review of prospectuses and other offering documents. The staff is also responsible for monitoring and reviewing continuous disclosure filings by reporting issuers and for collection and review of trading reports filed by corporate insiders. Corporate Finance staff oversee the VSE in connection with their review of prospectuses of issuers listed on the Exchange.

### PROSPECTUS FILINGS

Forty-three receipts were issued by the Commission for local prospectuses in fiscal 1998-1999, down slightly from the 50 receipts issued in 1997-1998. The number of exchange offering prospectuses (EOPs) declined substantially over the period, with only ten receipted in 1998-1999, compared with 41 the prior year. The decline in public offerings by way of EOPs may have been due, in part, to the introduction in early 1998 of the SHAIIF (Shorter Hold Periods with Annual Information Form) System for distributions which provides shortened hold periods for certain private placements.

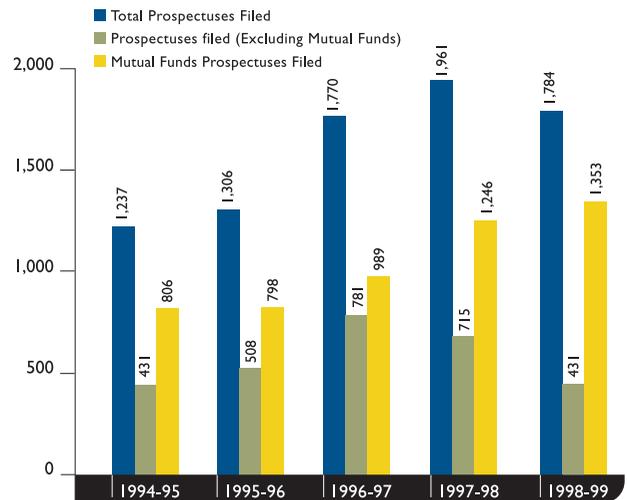
Fiscal 1998-1999 also saw a decrease of 40.6% in the number of national prospectuses filed by non-mutual fund issuers and a substantial reduction in both debt and equity capital qualified to be raised by these issuers. Despite the general downturn in market activity during the year, the mutual fund sector continued to grow, filing 1,353 prospectuses in 1998-1999, up from 1,246 the previous year.

Overall, the number of prospectuses filed declined 9% this year to 1,784 compared with 1,961 in fiscal 1997-1998.

### IMPROVING THE PROSPECTUS REVIEW PROCESS

For 1998-1999, the Corporate Finance Division's objective was to issue first comment letters within 14 days for each prospectus submitted for primary review by Commission staff. The actual average response time for the year was 15.8 days for local and B.C. prime prospectus filings, a substantial improvement over the 40 day average for the same period last year.

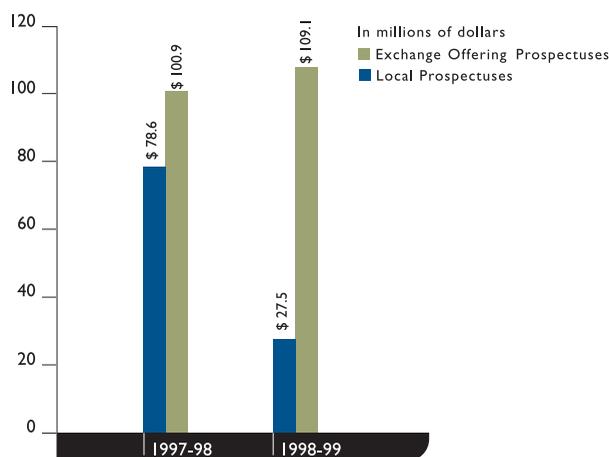
Division staff were actively involved in the development of the proposed national policy for the mutual reliance review system for prospectuses. A national training program introduced staff to the system and testing of the system commenced in late 1998. This program of mutual reliance with other members of the CSA is intended to improve the efficiency and harmonization of the prospectus review process on national filings.



TOTAL NUMBER OF PROSPECTUSES

## CONTINUOUS DISCLOSURE REVIEW PROGRAM

Early in the fiscal year the Corporate Finance Division initiated a new program to review the continuous disclosure materials provided by issuers to the public. The program reflects the Commission's goal to improve the quality and timeliness of information available to the market at times other than during a prospectus offering. Twenty-three issuers were the subjects of comprehensive disclosure reviews over the year. Those reviews led to the issuance of seven cease trade orders against issuers and 36 cease trade orders against insiders. In 19 instances, new or amended disclosure materials were provided by issuers and 23 insiders filed additional insider reporting information. The continuous disclosure review program is being expanded in 1999-2000 and is considered an important initiative as CSA moves toward an integrated disclosure system.



CAPITAL QUALIFIED TO BE RAISED IN B.C. BY LOCAL AND EXCHANGE OFFERING PROSPECTUSES

## CHIEF ACCOUNTANT

The Chief Accountant provides accounting expertise to the Division and to the Commission generally and monitors developments in national and international accounting and auditing standards. The Chief Accountant also assists in the formulation of accounting and financial reporting rules and practices and represents the Commission on a number of national committees.

During 1998-1999, the Office of the Superintendent of Financial Institutions (OSFI) proposed to over-ride Canadian Generally Accepted Accounting Principles (GAAP) with respect to accounting for business combinations. Consequently, two national banks applied to the Commission for exemptive relief to allow them to file financial statements that did not comply with GAAP as a result of complying with direction from OSFI. After consultation with other CSA jurisdictions, the relief was granted subject to the provision of additional detailed disclosure by the banks.

## STATUTORY FILINGS

The Statutory Filings Department is responsible for the review and processing of insider reports as well as the financial statements filed by reporting issuers.

### Insider Reporting

Every insider of a reporting issuer must file an insider report with the Commission for each month in which the insider trades securities of the issuer.

In 1998-1999, staff processed 50,669 insider reports, down 12% from the 57,697 filed in 1997-1998. Insiders of companies listed on the VSE filed 32% of the total number of insider reports, down from 44% the previous year. Late filing of insider reports led to \$89,728 in late fees being paid to the Commission in 1998-1999, compared with \$112,400 in the prior year.

The CSA is involved in the development of a new system to allow the electronic filing of insider reports on a national basis. It is hoped that the system will be operational within the next two years and that it will enable the Commission and its CSA counterparts to adopt a uniform national standard for the filing of insider reports on a more timely basis, within ten days after each trade.

The Commission publishes summaries of certain insider reporting data in its *Weekly Summary* and on its Web site at [www.bsc.bc.ca](http://www.bsc.bc.ca).

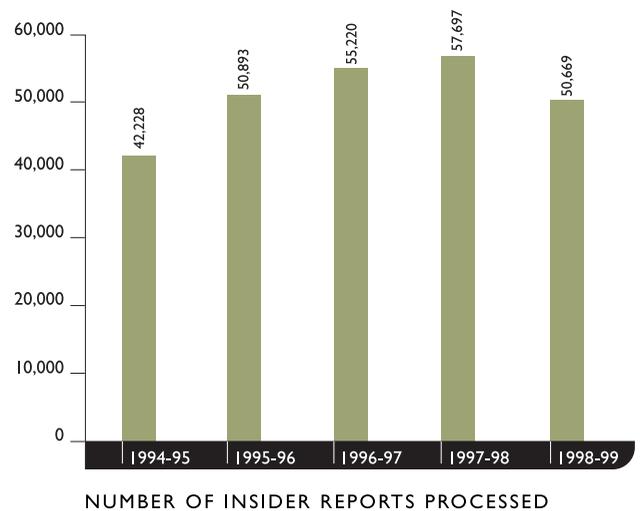


## Financial Reporting

In 1998-1999, the staff in Statutory Filings received and processed more than 14,300 interim and annual financial statements filed by approximately 4,640 active reporting issuers in the province.

Issuers that fail to file or that file deficient financial statements appear on the Commission's Issuers in Default List and may be subject to cease-trade orders until the default is remedied. The list is published in the *Weekly Summary* and is available on the Commission's Web site. During the year, 152 cease trade orders were issued for non-compliance with financial reporting obligations, and at year-end 146 issuers were in default.

The legislation imposes special fees on reporting issuers that do not file their financial statements on time. In 1998-1999, issuers paid more than \$222,800 in late filing fees to the Commission, down from \$283,300 in 1997-1998.



## EXEMPTIONS and Orders

The Securities Commission has legislative authority to grant relief from certain requirements of securities and corporate legislation that relate to registration, disclosure, take over bids and other obligations.



**MARGARET SHEEHY**  
Director,  
Exemptions  
and Orders

Applications for this discretionary relief are considered by staff of the Exemptions and Orders Division who also process filings relating to distributions of securities under statutory exemptions.

During the fiscal year, the Division considered 907 applications for various types of discretionary relief from the provision of the legislation, an increase of 19.5% over 1997-1998. Of those applications, 755 orders and rulings were granted, 23 were denied and 129 were withdrawn. In 836 cases relief was granted from the requirements of the *Securities Act*, 392 of which related to registration or prospectus requirements or both. In 18 cases relief was granted from the *Securities Rules* and in 53 cases from the requirements of the *Company Act* or *National Policy Statements*.

Approximately 308 applications, or 34% of all applications, were filed on an expedited basis with applicants paying higher fees for accelerated staff review. This represents a decrease of 13% since 1997-1998.

Division staff were challenged by the increase in the number of applications filed, and also by the novel and complex issues raised in many of these applications. While exemption applications are usually considered by staff, unusual and precedent-setting applications are directed to the Commissioners. In 1998-1999, the number of applications decided by the Commissioners more than doubled to 338, compared with 162 in 1997-1998.

Staff worked with colleagues in other CSA jurisdictions to develop consistent approaches to the treatment of applications for discretionary relief. A major objective of the Division staff during the year was the implementation of a mutual reliance review system (MRRS) for applications made in multiple CSA jurisdictions. Under the MRRS, each application would be subject to primary review by one regulatory agency. Regulators in other jurisdictions would rely, wherever possible, on the review conducted in the primary jurisdiction. The system was tested in 1998

under a concept proposal. After considering the results of the test and the comments received, the Commission published National Policy 12-201 Mutual Reliance Review System for Exemptive Relief Applications in November 1998.

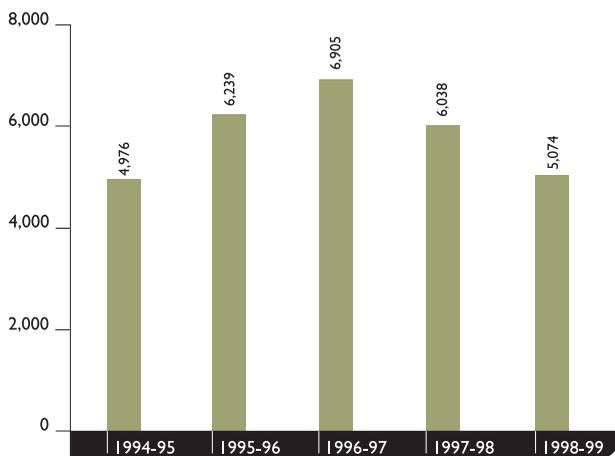
The MRRS has generally been well received by the industry, as evidenced by the increasing number of applications filed under the system, and will continue to be tested and refined before full implementation, tentatively scheduled for the third quarter of 1999-2000. To improve the efficiency of the system, staff have been working with other CSA jurisdictions to develop a common approach to the treatment of distributions of securities outside the province and to harmonize resale restrictions across jurisdictions.

The Division is also coordinating a project to establish a cross-divisional team within the Commission to provide resources and technical expertise in the area of take over bids. This team will be responsible for reviewing complex take over bid applications and responding to regulatory issues that arise in hostile take over bids and contested bids.

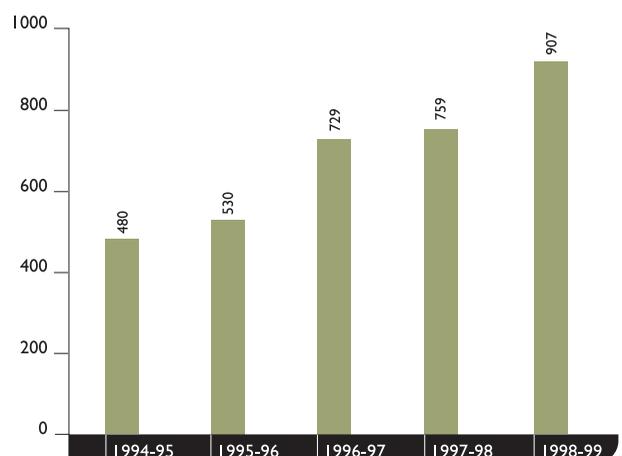
To improve service to the industry, the Division is continuing to identify areas in which blanket relief by order or legislative amendment would be appropriate. The objective of this project is to reduce costs and potential delays to issuers who must make individual applications for relief that is regularly provided. The project led to the issuance in March 1999, of a blanket order granting permission to issuers to make written representations, in certain circumstances, about a stock exchange listing.

Approximately 85 applications of this type had been made in 1997-1998 and it is expected that the new blanket relief will significantly reduce the need for applications.

Staff also received and processed 5,074 reports (Form 20s) on distributions of securities made in reliance upon statutory prospectus exemptions. This represents a decrease of approximately 16% since 1997-1998. The legislation imposes fees for exempt distributions of 0.01% to 0.03% of the proceeds raised from British Columbia purchasers. These fees totalled approximately \$1.4 million for the fiscal year, down slightly from the \$1.5 million total in 1997-1998.



REPORTS OF EXEMPT DISTRIBUTIONS FILED



APPLICATIONS FOR EXEMPTIVE RELIEF

The mandate of the Enforcement Division is to protect the investing public through the investigation of complaints and the enforcement of the *Securities Act*. The Enforcement Division is comprised of the Case Assessment Team, the Investigation Branch and the Litigation Branch.



**SASHA ANGUS**  
Director,  
Enforcement

The Case Assessment Team is responsible for receiving and assessing complaints concerning alleged misconduct or abuse in the capital markets. The Investigation Branch is responsible for investigating alleged violations of the *Act* and preparing investigation briefs, which are either referred to Crown Counsel for possible prosecution in the Provincial Court or referred to the Executive Director with recommendations for administrative proceedings before the Commission. The Litigation Branch is responsible for conducting administrative proceedings before the Commission, providing legal representation to staff in administrative proceedings, representing the Commission before the courts of British Columbia and providing legal advice to staff.

Administrative hearings before a Commission panel can lead to various sanctions, including orders that:

- cease all trading in an issuer's securities;
- cancel or restrict a person's registration under the *Act*;
- prohibit a person from trading in certain or all securities;
- prohibit a person from acting as a director or an officer of an issuer or from engaging in investor relations activities; and
- impose an administrative penalty of up to \$100,000.

Cases relating to *Securities Act* violations prosecuted by Crown Counsel can carry maximum penalties on conviction of three years imprisonment and fines of \$1,000,000 or more.

The three-year Securities Fraud Office Pilot Project concluded in October 1998. The project was designed to coordinate the resources of the Commission, the RCMP and the Ministry of the Attorney General (Crown Counsel) and increase prosecutions as a deterrent to fraudulent conduct in the securities market. The Commission concluded at the end of the three-year project that its resources would be more effectively directed toward administrative remedies and enforcement proceedings, leaving prosecutions to the RCMP and Crown Counsel.

The mandate of the Enforcement Division is to protect the investing public through the investigation of complaints and the enforcement of the *Securities Act*. The Enforcement Division is comprised of the Case Assessment Team, the Investigation Branch and the Litigation Branch.

In 1998-1999, the Enforcement Division received a total of 3,179 new complaints and enquiries, an increase of 6.7% over the previous fiscal year. Of the total, 956 complaints were in writing, almost half of which came from members of the investing public with the remainder being formal referrals from Commission staff, other regulatory agencies including the VSE, the IDA and the securities industry. The most frequent complaints concerned unregistered advising and trading, unregistered distribution of securities, fraud or theft and inadequate disclosure.

Sixteen notices of hearing were issued in enforcement matters during the year and six enforcement proceedings involving 22 respondents were concluded by way of Commission decision.

Forty-four other enforcement matters involving 49 respondents were concluded by way of settlement agreements between the respondents and the staff. Monetary assessments in those settlements in 1998-1999 totalled \$2,299,000, up substantially from 1997-1998 assessments of \$463,323. The increase was mainly the result of three large settlements involving Arakis Energy Corporation, James Terrence Alexander and First Marathon Securities Limited.

These settlements and the rest of the year's administrative enforcement proceedings are discussed in more detail in the Enforcement Activity section of this *Annual Report*.

The following is a summary of activity related to administrative enforcement proceedings for the 1998-1999 fiscal year:

### **James Terrence Alexander**

On February 23, 1999, James Terrence Alexander, the former president and chief executive officer of Arakis Energy Corporation, entered into a settlement agreement with the Executive Director. In the agreement, Alexander consented to orders barring him from the markets for 20 years and agreed to pay a record \$1.2 million in fines and costs.

As a director and senior officer of Arakis, Alexander was responsible for the inappropriate conduct of Arakis referred to in the settlement agreement noted below. In addition, during the period from 1993 to 1995, Alexander provided instructions for the sale of several million shares of Arakis for his own accounts, the accounts of JT Alexander and Associates Holding Corp., and for the accounts of various offshore entities. At the time of this trading, Alexander knew or ought to have known that certain material facts or changes had not been generally disclosed. Alexander also acknowledged violations of section 57 of the *Act* as well as *Company Act* violations.

### **Norman Graham Armstrong**

In its decision of February 12, 1999, the Commission found that Norman G. Armstrong had deliberately and deceitfully bilked ten B.C. residents of more than \$150,000 by falsely promising them shares in a well-known diamond mining company. The Commission ruled that during the period from 1993 to 1997, Armstrong had solicited money from several investors to acquire shares of Dia Met Minerals Ltd. Instead of buying the shares, Armstrong used the money for his own purposes, including paying off gambling debts. The Commission barred Armstrong from B.C.'s securities markets for life and assessed an administrative penalty of \$100,000.

In 1997, Armstrong had entered a guilty plea to seven counts of criminal fraud in relation to the same conduct. He was sentenced to two years in jail, three years on probation and ordered to pay restitution of \$139,159 to his victims.

### **Arakis Energy Corporation**

In a settlement with the Executive Director dated May 11, 1998, Arakis Energy Corporation acknowledged inappropriate conduct in 1994 and 1995 and agreed to pay \$250,000 in sanctions and costs of the investigation. In 1994, Arakis had issued one million of its common shares to an offshore corporation without having received full consideration for the shares. Later in the same year, Arakis

issued shares to other offshore entities without receiving full consideration at the time of the issuance. Arakis also acknowledged that it failed to exercise due diligence to confirm the representations it made to the public in a news release issued on July 6, 1995.

In the release, Arakis said it had entered into a contract with Arab Group International (AGI) and its associates for the purpose of financing Arakis' Sudan petroleum project. Under the terms of that contract, Arakis announced AGI would provide funding of US \$750 million.

The effect of the release was to raise investor confidence. The financing did not materialize. In the BCSC settlement, Arakis acknowledged it did not obtain independent financial or banking recommendations about AGI, nor did Arakis obtain adequate information from any other source regarding the financial resources or legitimacy of the group.

### **Barclay Las Vegas Limited Partnership, Cloverleaf Management Ltd., Regis Capital Corporation, Andrew Gabor and Adrien Goetz**

In a decision dated March 4, 1999, the Commission found that Barclay Las Vegas Limited Partnership, Cloverleaf Management Ltd., Regis Capital Corporation, Andrew Gabor and Adrien Goetz had all contravened the *Act* in the distribution of Barclay's securities. Cloverleaf was Barclay's general partner, Regis was the promoter of the Barclay offering, and Gabor and Goetz were both senior officers of Cloverleaf and Regis.

In 1995 and 1996, limited partnership units in Barclay were distributed to a number of 'sophisticated purchasers' and accompanied by an offering memorandum. The Commission found that the offering memorandum did not contain adequate disclosure and that other legal requirements concerning the distribution were not met. A hearing was scheduled for June 1999 at which the Commission panel was to hear submissions from staff and the respondents as to appropriate sanctions in this case.

### **Bartizan Capital Corporation**

On July 16, 1998, Bartizan Capital Corporation entered into a settlement with the Executive Director in which it acknowledged that it had distributed over 1.3 million of its shares and share purchase warrants to 31 purchasers in 1997 in violation of the *Act*. The registration and prospectus exemptions Bartizan had purported to rely on for the distributions were not available for a number of reasons. The offering memorandum provided by Bartizan

to many of the investors omitted certain material facts concerning the business operation of Bartizan. In addition, Bartizan advised in securities without registration and failed to comply with the regulations concerning the filing of reports of exempt distributions. In the settlement agreement, Bartizan agreed to provide supplemental disclosure and offer a right of rescission to every investor to whom it sold shares illegally. Bartizan also agreed to pay \$25,000 in costs and sanctions.

#### **BGC Acquisition Inc. and Argentina Gold Corp.**

On January 27, 1999, the Commission heard an application by BGC Acquisition Inc. for a cease trade order against securities issued by Argentina Gold Corp. pursuant to a shareholder rights plan that had been adopted on January 14, 1999. Argentina Gold adopted the shareholder rights plan, or poison pill, to block completion of a take over bid for its shares by BGC, a subsidiary of Barrick Gold Corp., while Argentina Gold sought other bids. The Commission determined that a cease trade order would be in the public interest and prohibited, effective January 27, 1999, all trading in the rights issued by Argentina Gold under the plan, and all trading in the shares issuable on the exercise of the rights.

#### **CW Shareholdings Inc. and WIC Western International Communications Ltd.**

On April 8, 1998, the Commission held a joint hearing with the Ontario and Alberta Securities Commissions to consider an application by CW Shareholdings Inc. for a cease trade order against a shareholder protection rights plan adopted by WIC Western International Communications Ltd. WIC had adopted the plan to block a take over bid by CW, a subsidiary of CanWest Communications Corp., while WIC sought other bids. The Commission decided that unless the plan ceased to be in effect with respect to the offer of CW, an order would be issued on April 21, 1998. That order was to prohibit trading in the rights provided for in the plan, the distribution and the exercise of the rights and the issuance of any Class B Non-Voting Shares or other securities on the exercise of the rights.

#### **Daniel William Fisher**

In a decision dated September 18, 1998, the Commission fined Daniel W. Fisher \$25,000 and stripped him of his trading rights for 15 years. The Commission also prohibited Fisher from being a director or officer of any issuer and from engaging in investor relations for 15 years and ordered him to pay the costs of the hearing.

Fisher was the sole shareholder, director and president of Western Horizontal Drilling Inc. The Commission found

him responsible for the conduct of Western Horizontal in selling securities without being registered and without filing a prospectus and in promoting the sale of its securities through false advertisements that projected ludicrous rates of return.

#### **First Marathon Securities Limited and Robert Disbrow**

In a settlement agreement dated January 29, 1999, First Marathon Securities Ltd. acknowledged that it failed to properly apply business procedures and failed to ensure that its Vancouver branch manager carried out his duties to supervise employees. The case involved First Marathon's activity in relation to the trading of Cartaway Resources Corp. in 1994 and 1995.

A group of First Marathon Brokers took a controlling interest in Cartaway Resources on the Alberta Stock Exchange (ASE), using the company as a vehicle for acquiring other business interests. The penny stock's share price rose to more than \$26 before the market for the shares collapsed.

First Marathon acknowledged that it may have inadequately addressed the potential conflicts of interest that arose among five of its Vancouver brokers, a Calgary office employee, Cartaway and First Marathon's clients.

First Marathon agreed to donate \$450,000 to the Mineral Deposit Research Fund at the University of British Columbia and to pay a further \$50,000 to the Commission toward the costs of the investigation, in recognition of the damage caused to junior capital markets.

In a separate settlement agreement on the same day, Robert Disbrow, the branch manager of First Marathon's Vancouver office, acknowledged that he had failed to adequately supervise Vancouver office personnel in relation to the Cartaway case. Disbrow, who had already been fined \$110,000 and suspended for three months by the TSE, undertook to comply fully with B.C. securities legislation and the new employee investment policies established by First Marathon.

#### **Kerry Wayne Gibbons**

In a settlement agreement dated April 2, 1998, Kerry Wayne Gibbons, formerly a mutual fund salesperson in Prince George, acknowledged that he had provided unsuitable investment advice to over 100 clients in relation to a leveraged mutual fund investment scheme. Gibbons surrendered his registration to sell securities for at least 15 years and agreed to pay \$10,000 should he make application for registration in the future.

### **Frank Albert Johnson**

On February 18, 1999, Frank Albert Johnson consented to orders of the Executive Director removing most of his trading rights and prohibiting him from being a director or officer of any issuer for a period of eight years. Johnson also agreed to pay \$15,000 to the Commission, \$10,000 of which represented the costs of the investigation.

In the settlement agreement, Johnson acknowledged that he had failed to properly disclose his trading as an insider of two VSE-listed companies and signed press releases and financial statements as a director of Sterling Pacific Resources Inc. that contained misrepresentations. Johnson also failed to fulfill his duties as a director of Sterling Pacific in relation to the issuance of securities by the company in 1996.

### **Paul Daniel Johnson**

In a settlement agreement dated November 26, 1998, Paul Daniel Johnson, a mutual fund salesperson, consented to the suspension of his registration for three months and agreed to pay \$15,000 to the Commission. Johnson acknowledged that during the period from 1993 to 1995 he had made unsuitable recommendations to three clients in relation to a leveraged mutual fund investment strategy. Johnson provided misleading and confusing information about the risks and other characteristics of the strategy and failed to act fairly, honestly and in the clients' best interests.

### **William Thomas Edward Kelly and Maureen Louise Kelly**

In separate settlement agreements dated November 10, 1998, William and Maureen Kelly each consented to orders of the Executive Director banning them from the markets for 20 years, and each agreed to pay \$10,000 to the Commission for investigation costs. In May 1997, both William and Maureen Kelly were convicted in Provincial Court of numerous violations of the *Act* in relation to the illegal distribution of securities of Tex-Can Oil & Gas Fund No.1 and Tex-Can Oil & Gas Fund No.2. Among other things, the Kellys had distributed securities without a prospectus or prospectus exemption, traded in securities without registration or a registration exemption, filed documents with the Commission that contained misrepresentations and traded in securities in breach of a cease trade order.

### **Keywest Resources Ltd. et al**

In its decision of February 17, 1999, the Commission refused an application by Commission staff to impose sanctions on three directors of Keywest Resources Ltd. Staff had alleged that the directors had acted improperly by not enforcing, on behalf of Keywest, an escrow agreement between the company and a former director, John W. S. Roeder. The Commission found, however, that the directors were not obliged to enforce the escrow agreement without considering the company's current circumstances and best interests and concluded that the directors had not acted improperly.

### **Simon Fraser Resources Ltd., Jefferson T. Thachuk, Mark Burgert, Karl Heinz Burgert, and Michael Delmor Thachuk**

In a decision dated July 17, 1998, the Commission made findings against Simon Fraser Resources Ltd. and four individuals involved in its management in 1990 and 1991.

The Commission ruled that Simon Fraser distributed securities under a Statement of Material Facts that did not contain full, true and plain disclosure, failed to disclose material changes in its affairs, failed to keep proper records of its financial transactions and failed to comply with various VSE policies. The Commission ordered that the company, which has been under a cease trade order since 1991, not resume trading until it files and obtains a receipt for a prospectus.

Mark Burgert and Jeff Thachuk, who were managing Simon Fraser when many of the violations occurred, were prohibited from acting as directors and officers of any reporting issuers for three years. Similar orders



for a one-year period were made against two other Simon Fraser directors, Karl Burgert and Michael Thachuk.

The Commission's decision has been appealed.

#### **Turner Phillips and Steven Phillips**

In a decision dated July 21, 1998, the Commission imposed a ten year trading ban on Steven Phillips and prohibited him from being a director or officer of any issuer and from engaging in investor relations activities for the same period. The Commission found that Phillips had used fictitious letterhead, a packaged office service and the Internet to falsely present his firm, Turner Phillips, to the public as a legitimate full-service investment dealer and a member of numerous stock exchanges. In fact, Turner Phillips was neither a registered dealer nor a member of any stock exchange.

The Commission found that Turner Phillips had contravened the *Act* by trading securities without registration, falsely holding itself out as being registered and making a misrepresentation with the intention of effecting a trade in securities. Turner Phillips was prohibited from trading for ten years and ordered to cease contravening the *Act*.

#### **Wall Financial Corporation, Bruno Wall, Peter Wall and Jack Haggerty**

In four related settlement agreements signed in April 1998, Wall Financial Corporation, two of its senior executives and an employee consented to pay the Commission a total of \$100,000 in costs and penalties as a result of misconduct during an issuer bid made by Wall Financial in 1994.

Haggerty, a long time employee of Wall Financial, had been asked by Bruno Wall, the president and a director of Wall Financial, to buy shares of Wall Financial on behalf of the company through an account maintained in Haggerty's name. The share purchases by Haggerty occurred during the course of an issuer bid that Wall Financial had announced in September 1994. The share purchases on behalf of Wall Financial were not properly disclosed and were not in compliance with the regulations governing issuer bids. Peter Wall, the Chairman and a director of Wall Financial, and Bruno Wall were responsible for the company's failure to comply.

Wall Financial agreed to pay \$35,000 to the Commission, while Bruno Wall and Peter Wall each agreed to pay \$25,000 and Haggerty agreed to pay \$15,000.

## **HEARINGS AND REVIEWS**

Any person directly affected by a decision of a single Commissioner, the Executive Director or a recognized SRO has the right to appeal the decision by way of a hearing and review before the Commission. During fiscal 1998-1999, the Commission issued decisions in the following hearings and reviews:

#### **Bradstone Equity Partners Inc.**

Bradstone Equity Partners Inc. applied for a hearing and review of a decision by the VSE to permit Peruvian Gold Ltd. to make a share exchange take over bid for Gabriel Resources Ltd. without obtaining the approval of Peruvian's shareholders. In its decision of April 24, 1998, the Commission found that the bid made by Peruvian should have been deemed a reverse take over by the VSE. The Commission ordered that Peruvian obtain shareholder approval for the bid and to comply with VSE policy applicable to reverse take overs.

#### **Calais Resources Inc., Arthur Daher, Marlowe Harvey**

In September 1998, Calais Resources Inc., Arthur Daher and Marlowe Harvey applied to the Commission for a stay of a VSE decision requiring the resignation of Daher and Harvey as directors of Calais. In its decision of September 22, 1998, the Commission denied the application. A hearing on the merits of the VSE decision is still pending.

#### **Roger John Gary**

Roger John Gary applied to the Commission for a hearing and review of a VSE decision to fine him \$25,000 and assess him costs of \$5,000. Gary, a former salesperson with Pacific International Securities Inc., was originally cited in 1995 for violating VSE bylaws involving manipulation of shares in Caprice Greystoke Enterprises Ltd. Gary admitted in an agreed statement of facts to violations that the VSE hearing panel described as 'serious professional misconduct'. In Gary's application, he asked the Commission to review the penalties, saying the Exchange hearing panel's decision was based on speculation, was patently unreasonable and violated the principles of natural justice. Gary asked the Commission to set aside the \$25,000 fine and substitute a \$15,000 fine and \$5,000 in costs, which had been jointly recommended to the VSE panel by Gary and VSE staff. The Commission rejected Gary's appeal and confirmed the VSE sanctions, finding no basis for the Commission to interfere in the matter.

### **Jean-Claude Hauchecorne**

On March 25, 1999, the Commission issued a decision denying an application by Jean-Claude Hauchecorne to stay a VSE disciplinary proceeding against him.

Hauchecorne had alleged that the chair of the VSE panel had made statements that demonstrated a reasonable apprehension of bias in the case. The Commission panel concluded that Hauchecorne's application was premature and that the VSE panel should be allowed to complete its hearing process and render a final decision on sanction before a request for a stay was considered.

### **International Silver Ridge Resources Inc.**

Jon Brian Perrett and Barry Gregory Wilson applied for a hearing and review of the VSE decision to refuse to consent to the release of 75,000 escrow shares of International Silver Ridge Resources Inc., to each of Perrett and Wilson. On August 18, 1998, the Commission issued a decision dismissing the application for review and confirming the decision of the VSE.

### **Larry McLean Lee**

Berkshire Investment Group Inc. applied for a hearing and review of a decision by the Director of Registration to refuse to register Larry McLean Lee, a Manitoba resident, as a mutual fund salesperson in British Columbia. In its decision of August 10, 1998, the Commission remitted this matter back to the Executive Director with a direction that he register Lee and impose appropriate conditions on Berkshire's and Lee's registration.

### **James Seth Mathers and Arnold Edward Fehr**

On May 6, 1996, a VSE hearing panel found that both James S. Mathers and Arnold E. Fehr had contravened certain VSE by-laws and rules in relation to trading in the shares of Riviera Explorations Ltd. in 1992. Both Mathers and Fehr applied for a hearing and review of the panel's decision on the basis that some important findings of the panel were not supported by the evidence.

In its decision of February 4, 1999, the Commission found that the VSE panel had failed to give reasons for its rejection of opinion evidence produced at the hearing. The Commission set aside certain parts of the VSE panel decision and the most substantial sanctions imposed on Mathers and Fehr. The VSE subsequently applied to the Court of Appeal for leave to appeal the Commission decision. On May 6, 1999, the Court of Appeal dismissed the application.

### **Igor Rochacewicz and LJI Corporate Relations Inc.**

On September 26, 1995, the VSE notified Forbes Medi-Tech Inc., a listed company, that it would not accept Forbes' investor relations agreement with LJI Corporate Relations Inc. or the employment of Igor Rochacewicz with Forbes. The VSE asked Forbes to terminate both the investor relations agreement and Rochacewicz's employment immediately. Rochacewicz is a former broker who had been disciplined by the VSE and had failed to pay outstanding fines. Rochacewicz applied for a hearing and review of the VSE decision. In its decision of October 6, 1998, the Commission found that the VSE had a legitimate basis for its decision and confirmed it.

### **VSE News Dissemination Policy**

In a decision issued on August 13, 1998, the Commission stayed the implementation of a proposed new VSE policy governing news dissemination procedures for VSE-listed companies. The Commission found that the balance of convenience favoured a stay in the implementation of the new policy pending a full hearing and review of the matter and ordered the effective date of the policy changed from September 1, 1998, to March 1, 1999. The VSE subsequently withdrew the new policy, making the hearing and review unnecessary.

## SUMMARY OF OTHER SETTLEMENTS

During the fiscal year the Executive Director also entered into settlement agreements with:

### **Arlitt Financial Corporation and John Louis Arlitt**

*conduct:* making misrepresentations with the intention of affecting a trade in a security; failure to properly designate records prepared as part of investor relations activities; advising without registration.

*sanction:* undertaking to comply with the legislation and policies; payment of \$5,000.

### **Leon F. Anderson and Bing Jung**

*conduct:* unlawful distribution of securities by control persons as a result of failure to properly file a notice of intention to sell.

*sanction:* undertaking to comply with the legislation and policies; payment of \$1,000.

### **Paul Douglas Bajus**

*conduct:* trading without registration.

*sanction:* undertaking to comply with the legislation; payment of \$500.

### **Larry A. Balisky**

*conduct:* trading without registration; unlawful distribution of securities.

*sanction:* undertaking to comply with the legislation and policies; payment of \$2,500.

### **Timothy James Barry**

*conduct:* trading without registration; unlawful distribution of securities.

*sanction:* prohibited from trading in securities, other than through a registered dealer, for one year; undertaking to comply with the legislation and policies; payment of \$5,000.

### **James R.K. Colledge**

*conduct:* failure to act appropriately in relation to a number of improper non-arm's length loans between issuers in the Waverly group.

*sanction:* prohibited from trading for two years, except for trading in his own account or the account of his wife and children; prohibited from acting as a director or officer of any issuer with a head office in B.C. for two years; payment of \$10,000.

### **Bruce P. Dunn**

*conduct:* trading without registration; unlawful distribution of securities; making prohibited representations concerning the listing of securities on an exchange.

*sanction:* prohibited from trading except through a registered dealer; prohibited from acting as a director or officer of certain types of issuers and prohibited from engaging in investor relations activities until at least December 31, 2000; payment of \$4,000.

### **Eagle Court Pinnacle Lodges Ltd., Steven Clarke, Rene Joseph Gladu and Robert Joseph Jupe**

*conduct:* Eagle Court traded without registration; unlawfully distributed securities and failed to file an offering memorandum or reports of exempt distribution as required; Clarke, Gladu and Jupe, as directors and officers of Eagle Court, caused Eagle Court to commit the violations.

*sanction:* distribution to purchasers of new offering memorandum; offer of right of rescission; undertaking to comply with the legislation and policies; payments by Clarke of \$1,500, Gladu of \$1,500, Jupe of \$1,500 and Eagle Court of \$2,000.

### **First Ginseng Capital Corp.**

*conduct:* unlawful distribution of securities.

*sanction:* undertaking to comply with the legislation; payment of \$5,000.

### **Flexx Realm Inc.**

*conduct:* trading without registration; unlawful distribution of securities.

*sanction:* offer of rescission to purchasers; undertaking to comply with the legislation and policies; payment of \$10,000.

### **Patrick Joseph Gleeson**

*conduct:* manipulative and deceptive trading practices.

*sanction:* prohibited from trading in securities (with limited exceptions) for two years; prohibited from acting as a director or officer of any reporting issuer for two years; payment of \$10,000.

**Gerald Edward Gray**

*conduct*: manipulative and deceptive trading practices.  
*sanction*: prohibited from trading securities (with exceptions) and prohibited from acting as a director or officer of any reporting issuer until at least May 9, 2002; payment of \$20,000.

**Dale Hoffman**

*conduct*: trading in securities with knowledge of an undisclosed material fact.  
*sanction*: undertaking to comply with the legislation; payment of \$2,500.

**Stephen Peter Hughes**

*conduct*: trading without registration; unlawful distribution of securities.  
*sanction*: prohibited from trading in securities, other than through a registered dealer, for one year; undertaking to comply with the legislation and policies; payment of \$5,000.

**Richard Douglas Husolo**

*conduct*: misrepresentations with respect to registration under the *Act*.  
*sanction*: undertaking to comply with the legislation; written notification to be sent to clients.

**Roberta Jane Kriese**

*conduct*: trading without registration; unlawful distribution of securities.  
*sanction*: prohibited from trading in securities, other than through a registered dealer, for one year; undertaking to comply with the legislation and policies; payment of \$5,000.

**John Lawrence Lewis**

*conduct*: misrepresentations with respect to registration under the *Act*.  
*sanction*: written notification to be sent to clients.

**Liquid Gold Resources**

*conduct*: failure to file reports of exempt distributions.  
*sanction*: undertaking to comply with the legislation and policies; payment of \$6,500.

**Thomas Loewen**

*conduct*: trading without registration; unlawful distribution of securities.  
*sanction*: prohibited from trading in securities for one year; undertaking to comply with the legislation and policies; payment of \$5,000.

**Moneywatch Consultants Limited**

*conduct*: failure to apply prudent business procedures for dealing with clients.  
*sanction*: payment of \$10,000.

**Frederick Maurice Nesbitt**

*conduct*: trading without registration; unlawful distribution of securities.  
*sanction*: prohibited from trading in securities, other than through a registered dealer, for three years; undertaking to comply with the legislation and policies; payment of \$7,500.

**Permion Technologies Inc.**

*conduct*: failure to deliver offering memorandum; unregistered trading.  
*sanction*: undertaking to comply with the *Act*; payment of \$10,000.

**Oasis Publishing of Canada Corporation**

*conduct*: trading without registration; unlawful distribution of securities.  
*sanction*: offer of right of rescission to purchasers; undertaking to comply with the legislation; payment of \$6,000.

**Michael James Shaw**

*conduct*: trading without registration; unlawful distribution of securities.  
*sanction*: prohibited from trading in securities for one year; undertaking to comply with the legislation and policies.

**James Sinclair**

*conduct*: making a misleading representation in a press release and a proxy circular.  
*sanction*: undertaking to comply with the legislation concerning press releases; payment of \$2,000.

**Stellar Metals Inc.**

*conduct*: disseminating prohibited representations concerning the future price or value of securities; advising without registration.  
*sanction*: undertaking to comply with the legislation; payment of \$3,000.

**Douglas Russell Stickley**

*conduct*: providing unsuitable investment advice to clients in relation to a leveraged mutual fund investment program.  
*sanction*: prohibited from selling mutual funds for four months or until completion of the Canadian Securities Course, whichever is later; close supervision for two years; payment of \$5,000.

### **TAC International Limited**

*conduct:* trading without registration; unlawful distribution of securities.

*sanction:* prohibited from trading in securities permanently; offer of rescission to all purchasers; undertaking to comply with the legislation; payment of \$25,000.

### **Peter C. Tatham**

*conduct:* deceptive trading practices; failure to file insider reports.

*sanction:* prohibited from acting as a director or officer of any issuer for two years; prohibited from trading for five years; payment of \$10,000.

### **Ultra Petroleum Corp.**

*conduct:* advising without registration.

*sanction:* undertaking to comply with the legislation; payment of \$2,000.

### **David Vaughn**

*conduct:* trading without registration; unlawful distribution of securities.

*sanction:* prohibited from trading in securities for one year; undertaking to comply with the legislation and policies; payment of \$5,000.

### **James Albert Wied**

*conduct:* trading and advising without registration and holding oneself out as being registered when registration has been suspended.

*sanction:* strict supervision for 12 months; undertaking to comply with the legislation and policies; payment of \$3,000.

### **Jerome L. Wright**

*conduct:* trading without registration; unlawful distribution of securities; making prohibited representations concerning the listing of securities on an exchange.

*sanction:* prohibited from trading except through a registered dealer; prohibited from acting as a director or officer of certain types of issuers and prohibited from engaging in investor relations activities for at least three years; payment of \$5,000.

### **Collection of Administrative Penalties and Settlement Payments**

The Commission considers monetary sanctions to be an important deterrent to fraud and misconduct in our capital markets. In administering the *Act*, it is appropriate to impose sanctions that are based on the circumstances of the violation and that are consistent with penalties previously imposed for similar conduct.

The Commission has taken steps in recent years to ensure that every effort is made to collect these amounts. Like any other judgment creditor, the Commission faces situations in which the respondent declares bankruptcy, leaves the jurisdiction or shields assets from execution.

The Commission develops new rules and policies in response to market developments to improve investor protection and enhance the efficiency of the markets. The Commission also makes recommendations to the government for amendments to the securities legislation.



**BRENDA BENHAM**  
Director,  
Policy and  
Legislation

The Policy and Legislation Division:

- advises the Commission on local and national regulatory proposals;
- translates the Commission's regulatory objectives into sound and workable rules, policies or other regulatory instruments;
- coordinates rule and policy development with other securities regulators;
- provides guidance to market participants about securities regulatory requirements; and
- provides advice and assistance to other Commission staff on legal and policy matters.

For the past three years, the Commission's primary policy focus has been on harmonizing the securities rules and policies across the country.

In addition to its work on national initiatives, the Division developed local policy instruments to address issues arising in B.C.'s markets. These include development of a selective review process for prospectus filings, approval of the Venture Capital Pool Program (VCP) of the VSE, approval of the VSE as the primary reviewer for certain initial public offerings (IPOs) and a notice setting out registrants' obligations when trading under certain registration and prospectus exemptions.

#### **RULE MAKING PROCESS**

The Commission is one of six provincial securities regulators with authority to make legally binding rules or Commission regulations. Division staff have developed proposals for a number of changes to make the rule making process work more efficiently among the jurisdictions. The Commission continues to fund one legislative counsel position within the Ministry of Attorney General that is dedicated to the review of Commission rules and proposed amendments to the *Securities Act*.

#### **REVISIONS TO ESCROW REQUIREMENTS**

In May 1998, the CSA published for comment a proposal for a harmonized national escrow regime. Escrow requirements limit the ability of corporate founders to sell into the market, shares that they acquired before the issuer

went public. Current escrow release requirements, whether based on time held or on corporate performance, differ significantly among jurisdictions. The CSA committee working on this project will meet after the end of the fiscal year to consider comments received on the proposal and may recommend changes that will be included in the draft rule to implement the proposal.

#### **INCREASED EMPHASIS ON CONTINUOUS DISCLOSURE**

The Commission is placing more emphasis on the quality and timeliness of information that is provided to the market by issuers after they have distributed securities to the public. This 'continuous disclosure' information is important to investment decisions and the valuation of securities in the secondary market where the vast majority of securities transactions in Canada take place.

In May 1998, the CSA published for comment proposed legislation that would expand the civil remedies available to investors in cases where issuers have failed to meet their continuous disclosure obligations. The proposed legislation was based on the recommendations, released in 1997, of a committee struck by the TSE. A significant number of comments were received on the proposed legislation and the Commission did not recommend that this legislation be introduced in the spring 1999 legislative session. Staff are continuing to review the comments and will be addressing a number of the concerns raised.

Throughout the year, work continued on a major project to develop a new corporate disclosure model, described as the 'integrated disclosure system', under which issuers would be required to file more comprehensive disclosure on a regular basis, but would benefit from a simplified disclosure process when offering new securities to the public. The Commission expects to publish a concept paper relating to the integrated disclosure system during 1999-2000.

#### **MUTUAL RELIANCE INITIATIVES**

During the year, the CSA made significant progress on a broad mutual reliance review system (MRRS) initiative that focused on three areas of regulation: prospectus review, exemption application processing, and registration. The MRRS program is intended to simplify the process for

dealing with regulators in multiple jurisdictions. The underlying principle is that each provincial or territorial securities regulator, while retaining jurisdiction to make decisions in each case, will rely generally on the review of the applicant's home jurisdiction in deciding whether to approve an application.

In June 1998, the CSA published for comment a memorandum of understanding among the CSA jurisdictions to implement the MRRS and other materials relating to the MRRS for prospectus filings and registration. In November 1998, a national policy was issued in relation to the MRRS for exemptive relief applications.

The MRRS memorandum of understanding and related policies and instruments are expected to be finalized during fiscal 1999-2000.

### **THE VCP PROGRAM AND IPO REVIEW**

In June 1998, the Commission approved the VCP program introduced by the VSE and authorized the VSE to be the principal reviewer of certain IPOs. An operating agreement between the Commission and the VSE sets out the review standards that the Exchange will apply to filings and the reports that the VSE will provide to the Commission.

### **MINING DISCLOSURE STANDARDS**

In July 1998, the CSA published for comment a proposed national instrument dealing with disclosure standards for mineral exploration and mining properties. Its purpose is to improve the integrity and accuracy of public disclosure by establishing standards for oral and written disclosure concerning mineral exploration and development and mining properties. Comments are currently being considered and the final national instrument is expected to be adopted during fiscal 1999-2000.

### **THE SHAI F SYSTEM**

In September 1998, the Commission revised its SHAI F System (Shorter Hold Periods with Annual Information Form), which reduces resale restrictions for privately placed securities in some circumstances. Under the Alberta-B.C. Accord, the Alberta Securities Commission adopted a similar SHAI F System at the same time.

### **DISCLOSURE FOR MORTGAGE SECURITIES**

During the spring 1998 legislative session, the government passed amendments to the *Mortgage Brokers Act* to provide, among other things, for greater disclosure to those who invest in mortgages. Pending completion of regulations to

implement those amendments, the Commission extended its existing rule that restricts the use of the mortgage exemption in the *Securities Act* to trades in mortgages that are regulated by the Registrar of Mortgage Brokers.

### **FRAMEWORK FOR MARKET REGULATION IN CANADA**

In February 1999, the CSA released a concept paper, "A Framework for Market Regulation in Canada", that discusses the structure of financial services regulation in Canada and the changing structure of the financial services industry. The concept paper proposes that market regulation of all financial services providers (including banks, trust companies, insurance companies, securities firms and credit unions) be assumed by regulatory agencies of the provinces and territories. A new Joint Forum of Financial Market Regulators has been established to discuss issues of common interest among Canadian securities, insurance and pension regulators, arising from the growing integration of the financial services sector. The first meeting of the Joint Forum was held shortly after the end of the fiscal year.

### **STOCK EXCHANGE RESTRUCTURING**

In March 1999, Canada's four major stock exchanges announced an extensive restructuring proposal that would, among other things, result in the merger of the Vancouver and Alberta Stock Exchanges to form a single Canadian venture exchange.

The regulatory implications of the proposed restructuring are complex and the project is expected to be a significant focus for the Policy Division in 1999-2000.

### **OTHER POLICY INITIATIVES**

In 1998-1999, the Division also pursued several other policy initiatives, including:

- publication for comment of proposed national instruments relating to such things as financial reporting practices, mutual fund disclosure, early warning, take over bid relief for institutional investors and communication with security holders;
- publication for comment of national policies relating to delivery of documents by electronic means and trading through the Internet;
- adoption of national instruments relating to mutual fund sales practices, the multi-jurisdictional disclosure system and Year 2000 preparedness reporting; and
- publication for comment of rules concerning the 'permanent registration' system and mandatory SRO membership for mutual fund and securities dealers.

## The Corporate Planning and Management Services

Division is responsible for providing internal administrative support for the Commission. It operates through four departments: Finance and Administration, Human Resource Services, Computer and Management Systems and Public Information and Records.



**MARTIN EADY**  
A/Director,  
Corporate  
Planning and  
Management  
Services

The Finance and Administration department prepares the Commission's budgets and financial statements, manages payroll, facilities and acquisitions and handles the day-to-day financial affairs of the Commission. The Human Resource Services department provides assistance to Commission management and staff on all human resource issues. The Computer and Management Systems department is responsible for the design and management of the Commission's information systems. Public Information and Records is responsible for custody and management of the Commission's records, providing public access to Commission information and compilation of the *Weekly Summary*.

### FINANCE AND ADMINISTRATION SUMMARY OF FINANCIAL RESULTS

Total revenues for the fiscal year ended March 31, 1999, were \$26.1 million, compared with \$21.6 million in fiscal 1997-1998. This 21% increase exceeded projections and was in part attributable to continued growth in registrations and mutual fund prospectus filings. Revenue from registration fees was \$5.6 million, up from \$4.8 million in fiscal 1997-1998, while revenue from prospectus filings and other corporate finance activity was \$11.1 million, up from \$9.5 million in the prior year. Two major enforcement settlements contributed \$1.5 million to revenue for the year, and the income earned on accumulated reserves increased to \$1.5 million from \$0.7 million in fiscal 1997-1998.

Operating expenditures for the year were \$17 million, up from \$15.3 million in 1997-1998. Expenditures on salaries and benefits increased as a result of the new job classification system and at year end accounted for 66% of total operating expenditures, up from 62.3% in the prior year. Expenditures on contract services rose to \$1.6 million from \$1.2 million in 1997-1998, with the bulk of the increase attributable to preparation, printing and distribution costs incurred in the Commission's expanded investor education program. Payments to fund

the Securities Fraud Office Pilot Project declined to \$500,000 from \$1 million in the prior year, as the Pilot Project wound up in September 1998.

The overall operating surplus for 1998-1999 was \$9.1 million, an increase of \$2.8 million over fiscal 1997-1998.

Capital expenditures for the year were \$1.1 million, up marginally from the \$1 million incurred in 1997-1998.

Since becoming a Crown corporation in 1995, one of the Commission's objectives has been to establish an operating reserve sufficient to ensure that the Commission could fund capital projects and maintain service levels at times of reduced market activity. The accumulated reserve was reduced substantially during the fiscal year when the provincial government, following the passage in 1998 of the *Budget Measures Implementation Act*, required the Commission to remit \$12 million.

The Commission plans its financial affairs on a long-term break-even model in which all of its revenues are directed to regulatory programs. The Commission has established a Fee Stabilization Reserve of \$10 million to ensure that an unexpected drop in revenue will not result in an immediate fee increase to market participants. The Commission will draw upon the reserve in future years when fee revenue falls below existing and anticipated commitments.

### HUMAN RESOURCES SERVICES

At the end of fiscal 1998-1999, the number of Commission staff was 175, up from the 172 employed at the end of fiscal 1997-1998.

In January 1999, the Commission implemented a new job classification and compensation plan. The plan was necessary to stop debilitating staff turnover and to ensure that the Commission can attract and retain staff of the calibre required for effective market regulation. The new compensation plan is based on median compensation levels in the markets in which the Commission competes for talent.

## COMPUTER AND MANAGEMENT SYSTEMS

The Computer and Management Systems staff focussed much of their attention during the past year on ensuring that the Commission's mission-critical information systems are Y2K compliant. A number of older systems have been replaced with newer technology, rather than patched, to deal with potential Y2K problems. SCAN (Securities Commission Automated Network), the Commission's new integrated information system, has now fully replaced ASROS, the mainframe database application that served the Commission since 1982. Development has continued on several enhancements to SCAN to meet the need for specific workstation modules. The Insider Reporting System, the only mission-critical application currently in use that is not Y2K-compliant, is scheduled to be replaced in mid-1999.

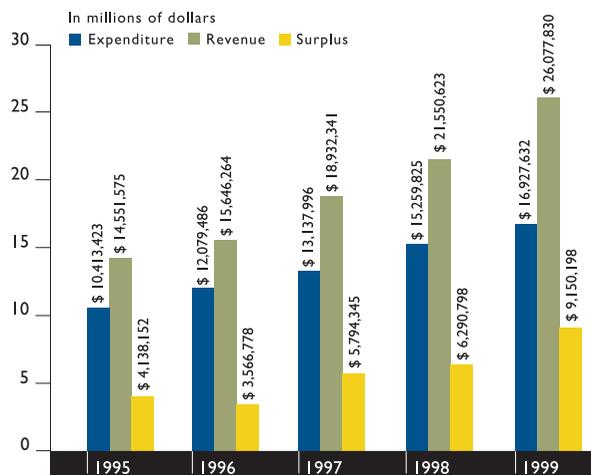
The national System for Electronic Document Analysis and Retrieval (SEDAR) became operational in 1997 and enables the Canadian investment community to file offering and continuous disclosure documents electronically. The SEDAR Web site now averages 1.5 million 'hits' per week.

## PUBLIC INFORMATION AND RECORDS

Over the year, the department handled 2,533 requests from the public to access Commission files, down from 4,401 in the prior year. The decline is due largely to the increased level of public access to disclosure documents and market information on-line through the SEDAR and Commission Web sites.

The records staff created 6,669 new files during the fiscal year and now manages a total of 140,690 files on behalf of the Commission.

There were 507 subscribers to the Commission's *Weekly Summary* at year-end, down slightly from 533 at the end of 1997-1998.



COMMISSION REVENUES AND EXPENDITURES

The Commission has expanded its communications program in recent years to better meet the needs of the public, the industry and other market participants.



**MICHAEL BERNARD**  
Manager,  
Communications

The program is designed:

- to inform the public about British Columbia's capital markets and its system for securities regulation;
- to arm investors with the knowledge and information they need to protect their own interests effectively;
- to better inform securities issuers and the industry of changes in the laws or policies that govern their conduct.

The Commission and its communications staff played a leading role in the development of the CSA's Investor Education Week programs for both 1998 and 1999. Nine new investor education brochures have been created for the program and are being actively distributed across the country in the free CSA Investor Education Kit. To date, over 8,000 kits have been distributed to the public in British Columbia.

The Commission expanded its presence at the Vancouver Financial Forum held in February 1999, during which it distributed several thousand brochures and information pamphlets to attendees. Douglas Hyndman, the Commission's Chair, was a featured presenter and opened this year's Forum with an address on "Protecting Yourself and Your Investments in a New Market World".

Communications staff also oversaw the development of a new visual identity for the Commission with the introduction of a new corporate logo and corresponding changes to other aspects of the Commission's public face.

During 1998-1999, staff placed increasing emphasis on media relations and worked with local and national media to raise public awareness of investor issues. Print, radio and television media were encouraged to interview Commission staff on a variety of subjects, ranging from the new short-form prospectus for mutual funds and the need for investor vigilance on the Internet to Commission enforcement actions and the risks of exempt market securities.

The Communications staff expanded their efforts over the past year to reach ethnic audiences in the province. Projects included sponsoring a booth at the first ever Chinese Investment Forum, where the Chair was a

keynote speaker, and translation of three Commission brochures into Chinese. The Commission also organized an investor seminar in cooperation with a major Chinese community service organization and provided simultaneous translation in Cantonese and Mandarin.

During the last quarter of the fiscal year the Commission, on behalf of CSA, retained the Angus Reid Group to conduct a nationwide poll to assess the public's investment knowledge and information needs. The survey was conducted just after fiscal year-end and will provide a sound foundation for the development of effective educational programs in the years ahead.

Commission staff made presentations to the industry in five major centres around the province to explain and discuss the comprehensive Mutual Fund Sales Practices Rule that took effect on May 1, 1998. The Registration Division also continued publication of its periodic newsletter addressing regulatory and compliance issues important to registered dealers and salespersons in the province.

The Commission has allocated additional resources to communications and education for 1999-2000 and subsequent years. Among other projects, the communication staff will be focussing on plain language initiatives, expanded access to Commission information via the Internet, and more effective delivery of investor and industry education materials across the province.

The Commission has anticipated two areas of concern with regard to the Year 2000 computer problem (Y2K): internal information systems and industry Y2K readiness. As an organization that regulates and provides important services to the investment industry, the Commission is working to help the industry prepare itself for Y2K. As the agency responsible for protecting the public, the Commission is also concerned that the industry take every reasonable step to protect clients and investors and to inform them of risks that they may face as a result of Y2K.

#### INTERNAL INFORMATION SYSTEMS

During fiscal 1998-1999, the Commission's Computer and Management Systems department devoted substantial resources to integrated Y2K compliance of internal information systems. Several mission-critical systems, including the Commission's mainframe database and records management system, were replaced with newer technologies, rather than patched, to ensure Y2K compliance. The Commission's new SCAN system (Securities Commission Automated Network) was implemented during the year and incorporates the core functions and information systems used in registration, enforcement, corporate finance, exemptions and public records management. SCAN is fully Y2K compliant. The Commission's financial reporting and payroll system is also certified to be Y2K compliant.

The only remaining mission-critical application that is not Y2K compliant is the Commission's Insider Reporting System, which is scheduled for replacement by the summer of 1999. If that system is not replaced prior to January 1, 2000, it is possible that the Commission may be unable to publish summary reports of insider transactions on a timely basis. The information will, however, continue to be available to the public at the Commission's offices.

The staff of the Commission utilizes, in the course of daily activities, a number of third party information systems and databases including corporate registry databases, market information systems and law enforcement databases. The efficiency of the Commission's operations could be adversely affected if any of these information systems or databases became unavailable as a result of Y2K problems. None, however, would seriously hamper the Commission's ability to perform its core functions.

Integrated Y2K testing and certification of Commission hardware and software as Y2K compliant is scheduled for the first quarter of fiscal 1999-2000. No equipment or application upgrades, except those necessary for Y2K preparedness, will be implemented between October 1999 and January 2000. The Commission is currently working to develop and implement a business continuity plan to ensure that essential

services can be provided in the event of an internal or external Y2K-related problem.

The budget for 1999-2000 for Y2K testing, remediation and contingency planning is \$432,000.

Due to the nature of the problems that could occur as a result of Y2K, the Commission cannot be certain that its information systems or its operations will not be adversely affected. Every reasonable step has been and is being taken, however, to ensure that service interruptions do not occur.

#### INDUSTRY Y2K READINESS

The Commission is participating in the CSA Y2K program. This program has many components including educating and creating awareness among capital market participants; mandating Year 2000 disclosure by registrants, issuers and others; monitoring Year 2000 efforts of key market participants; and coordinating and implementing industry testing and contingency planning.

With the help of two industry task forces, the CSA developed and implemented Year 2000 tests for the Canadian securities and mutual fund industries. Those tests, which were successfully completed, took place from May 28 to June 11, 1999. They involved testing cycles simulating trades spanning the end of 1999 and beginning January, 2000, as well as trades entered and settled in 2000. A separate industry test of debt markets in Canada was successfully completed in March 1999.

The Commission, together with the other members of the CSA, has formed a joint CSA staff committee to address regulatory contingency planning issues in the event of Year 2000 market disruptions.

Neither the Commission nor other regulatory agencies can offer any assurances that issuers or registrants in British Columbia will not be adversely affected by Y2K computer problems. Investors are encouraged to contact the companies in which they have invested and the dealers through whom they trade to inquire about Y2K readiness and the potential impact on them of any non-compliant systems.

## SPECIAL THANKS TO MEMBERS OF INDUSTRY

Many people contribute to the work of the British Columbia Securities Commission. The Commission would like to extend its thanks for their assistance and counsel.

### Securities Law Advisory Committee

Neil de Gelder, Q.C., Ladner Downs  
Leon Getz, Q.C., Getz Karby  
Paul L. Goldman, Goldman Phillips & Vineberg  
Martin MacLachlan, Swinton & Company  
J. Douglas Seppala, DuMoulin Black  
David J. Smith, Lawson Lundell Lawson & McIntosh  
Greg Smith, Tupper Jonsson & Yeadon  
Paul Visosky, Catalyst Corporate Finance Lawyers

### Securities Policy Advisory Committee

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Valerie J. MacLean, Better Business Bureau of Mainland B.C.  
S.R. (Bob) Munroe, FPC Investments Inc.  
Judy A. Rothwell, KPMG Canada  
John J. Webster, PricewaterhouseCoopers  
Cecilia Wong, Leith Wheeler Investment Counsel Ltd.

### Technical Subcommittee of the Institute of Chartered Accountants of British Columbia

Dennis Bettiol, CA, Ernst & Young  
Len Boggio, CA, PricewaterhouseCoopers  
William Davidson, CA, Davidson & Company  
Don de Jersey, CA, BDO Dunwoody  
Peter de Visser, CA, De Visser & Company  
Philip Dowad, CA, KPMG  
Robert Kang, CA, Vancouver Stock Exchange  
David Kong, CA, Ellis Foster  
Gerald Leonard, CA, Grant Thornton  
Kelvin Lum, CA, Arthur Andersen  
Terrence Neill, CA, Deloitte & Touche  
Larry Okada, CA, Staley, Okada, Chandler & Scott  
Jacqueline Tucker, CA, J.M. Tucker Inc.  
Doug Wallis, CA, Institute of Chartered Accountants of B.C.

## INVESTING IN OUR COMMUNITY

We would like to recognize our staff for their contributions of time or money, through the British Columbia Securities Commission Social Committee, to the following community projects:

B.C. Children's Hospital  
The Food Bank  
The Provincial Employees Community Services Fund  
The Vancouver Sun Run



**REPORT OF THE AUDITOR GENERAL  
OF BRITISH COLUMBIA**

To the Commissioners of the British Columbia Securities Commission, and  
To the Minister of Finance and Corporate Relations, Province of British Columbia:

I have audited the balance sheet of the British Columbia Securities Commission as at March 31, 1999 and the statements of operations and surplus and of cash flow 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 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 British Columbia Securities Commission as at March 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

VICTORIA, BRITISH COLUMBIA

*May 15, 1999*

**STATEMENT OF MANAGEMENT RESPONSIBILITY:**

The financial statements of the British Columbia Securities Commission for the year ended March 31, 1999, have been prepared in accordance with generally accepted accounting principles.

Commission management is responsible for the preparation, integrity and objectivity of the financial statements and other financial information presented in the Commission's Annual Report. Systems of internal control are developed and maintained by management to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to provide reliable basis for preparation of financial statements.

The Commission has approved the financial statements. The Audit Committee of the Commission has reviewed the statements with the external auditors. The Auditor General of British Columbia, appointed the auditor of the Commission by the Lieutenant-Governor-in-Council, has carried out an independent audit of the financial statements in accordance with generally accepted auditing standards. The Auditor's Report outlines the scope of his independent audit and his opinion on the financial statements of the Commission.



DOUGLAS M. HYNDMAN  
*Chair and Chief Executive Officer*



WAYNE REDWICK  
*A/Executive Director and  
Chief Administrative Officer*

**BALANCE SHEET**  
**AS AT MARCH 31, 1999**

|   | 1999                        | 1998                        |
|---|-----------------------------|-----------------------------|
| <b>ASSETS</b>                                     |                             |                             |
| Current Assets:                                   |                             |                             |
| Cash and Short-term Investments                   | \$ 8,681,829                | \$ 22,552,929               |
| Accounts Receivable (Note 4)                      | 86,421                      | 243,094                     |
|   | <u>8,768,250</u>            | <u>22,796,023</u>           |
| Investments Held for Designated Purposes (Note 3) | 11,301,559                  | 137,119                     |
| Capital Assets (Note 5)                           | <u>1,990,411</u>            | <u>1,632,698</u>            |
| <b>TOTAL ASSETS</b>                               | <b><u>\$ 22,060,220</u></b> | <b><u>\$ 24,565,840</u></b> |
| <b>LIABILITIES</b>                                |                             |                             |
| Current Liabilities:                              |                             |                             |
| Accounts Payable                                  | \$ 1,109,159                | 1,615,081                   |
| Deferred Revenue                                  | 5,627,938                   | 5,315,594                   |
| Employee Leave Liability (Note 6)                 | <u>1,118,142</u>            | <u>568,226</u>              |
|   | 7,855,239                   | 7,498,901                   |
| <b>SURPLUS</b>                                    |                             |                             |
| Contributed                                       | 1,415,018                   | 1,415,018                   |
| General   | 1,488,404                   | 15,514,802                  |
| Fee Stabilization Reserve (Note 3)                | 10,000,000                  | -                           |
| Education Reserve (Note 3)                        | <u>1,301,559</u>            | <u>137,119</u>              |
|   | <u>14,204,981</u>           | <u>17,066,939</u>           |
| <b>TOTAL LIABILITIES &amp; SURPLUS</b>            | <b><u>\$ 22,060,220</u></b> | <b><u>\$ 24,565,840</u></b> |

See accompanying notes to the financial statements

Approved on behalf of the Commission:



DOUGLAS M. HYNDMAN

Chair



BRENT W. AITKEN

Member

**STATEMENT OF OPERATIONS AND SURPLUS  
FOR THE YEAR ENDED MARCH 31, 1999**

|   | <b>1999</b>         | <b>1998</b>          |
|---|---------------------|----------------------|
| <b>REVENUE</b>                                      |                     |                      |
| Fees by Division                                    |                     |                      |
| Corporate Finance                                   |                     |                      |
| Prospectus, Distribution & A.I.F. Fees              | \$ 11,136,360       | \$ 9,544,850         |
| Statutory Filings                                   | 3,402,490           | 3,304,434            |
| Registration  | 5,590,506           | 4,798,811            |
| Exemptions & Orders                                 | 2,429,350           | 2,523,266            |
| Enforcement   | 706,847             | 347,359              |
| Information & Records                               | 196,236             | 221,966              |
| Administrative Penalties and Designated Settlements | 1,164,440           | 67,119               |
| Interest Income                                     | 1,474,725           | 742,818              |
|   | <u>26,100,954</u>   | <u>21,550,623</u>    |
| <b>EXPENDITURES</b>                                 |                     |                      |
| Salaries & Benefits                                 | 11,209,070          | 9,512,201            |
| Contract Services (Note 7)                          | 1,553,754           | 1,183,290            |
| Securities Fraud Office (Note 8)                    | 476,509             | 1,000,000            |
| General   | 1,042,652           | 1,141,954            |
| Depreciation  | 721,684             | 705,981              |
| Building Occupancy                                  | 679,280             | 655,625              |
| Information Systems Development                     | 653,668             | 645,432              |
| Systems Operating & Communication                   | 239,496             | 124,064              |
| Travel  | 386,799             | 291,278              |
|   | <u>16,962,912</u>   | <u>15,259,825</u>    |
| <b>EXCESS OF REVENUE OVER EXPENDITURES</b>          | 9,138,042           | 6,290,798            |
| GENERAL SURPLUS, BEGINNING OF YEAR                  | 15,514,802          | 9,361,123            |
| TRANSFER OF FUNDS TO THE PROVINCE (Note 9)          | (12,000,000)        | -                    |
| APPROPRIATIONS (Note 3)                             | (11,164,440)        | (137,119)            |
| <b>GENERAL SURPLUS, END OF YEAR</b>                 | <u>\$ 1,488,404</u> | <u>\$ 15,514,802</u> |

See accompanying notes to the financial statements

**STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED MARCH 31, 1999**

|   | <b>1999</b>          | <b>1998</b>          |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                      |                      |
| Cash receipts from filing fees                                  | \$ 23,930,806        | 21,695,428           |
| Cash receipts from penalties and settlements                    | 1,164,440            | 67,119               |
| Cash paid to employees  | (10,988,751)         | (9,399,550)          |
| Cash paid to suppliers  | (5,208,483)          | (4,436,649)          |
| Interest income   | 1,474,725            | 742,818              |
| Cash flows from operating activities                            | <u>10,372,737</u>    | <u>8,669,166</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                      |                      |
| Purchase of capital assets                                      | <u>(1,079,397)</u>   | <u>(1,005,929)</u>   |
| Cash flows from investing activities                            | <u>(1,079,397)</u>   | <u>(1,005,929)</u>   |
| TRANSFER OF FUNDS TO THE PROVINCE (Note 9)                      | <u>(12,000,000)</u>  | <u>—</u>             |
| <b>NET INCREASE (DECREASE) IN CASH<br/>AND CASH EQUIVALENTS</b> | (2,706,660)          | 7,663,237            |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR                    | 22,690,048           | 15,026,811           |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                   | <u>\$ 19,983,388</u> | <u>\$ 22,690,048</u> |
| Represented by:   |                      |                      |
| Cash and Short-term Investments                                 | \$ 8,681,829         | 22,552,929           |
| Investments Held for Designated Purposes                        | <u>11,301,559</u>    | <u>137,119</u>       |
|   | <u>\$ 19,983,388</u> | <u>\$ 22,690,048</u> |

See accompanying notes to the financial statements

### 1. NATURE OF THE CORPORATION

The British Columbia Securities Commission (the "Commission") was established as a Crown corporation effective April 1, 1995. As the agency responsible for administering and enforcing the Securities Act, the Commission functions as an independent regulatory agency and administrative tribunal responsible for regulating trading in securities and exchange contracts in the Province. As an agent of the Province of British Columbia, the Commission is not liable to taxation, except insofar as the government is liable.

The Province of British Columbia transferred to the Commission net assets of \$1,415,018 on April 1, 1995 when the Commission was established as a Crown corporation. This amount represents a contribution to the Commission's surplus. See note 9.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

#### a) *Capital Assets*

Capital assets are recorded at cost, and depreciation is calculated on a straight-line basis over the estimated useful life of the asset.

Office furniture and equipment over 10 years

Computer hardware and software over 3 years

Leasehold improvements over 5 years

Capital assets transferred from the Province have been recorded at their net book value as at April 1, 1995, and depreciated on the above basis over their remaining useful lives.

#### b) *Revenue*

Registration fees are deferred and recognized in income over the term of the registration which, depending upon the type of registration, is either 12 or 24 months.

Prospectus filings fees, and fees for services provided in conjunction with filings, are recorded when cash is received.

Administrative penalties, settlements and recoveries of costs of hearings are recorded as revenue on an accrual basis unless management determines there is no reasonable assurance as to ultimate collection. When there is no reasonable assurance as to ultimate collection, revenue is recognized when cash is received.

#### c) *Investments*

Pursuant to section 18(1) of the Securities Act, the Commission is obliged to place with the Minister of Finance and Corporate Relations, for investment, any money received but not immediately required for operations. Short-term investments consist of units in a Province of British Columbia Pooled Investment Portfolio that invests in short-term money market instruments. Units are carried at the lower of cost, adjusted by income attributed to the units, and market value.

### 3. INVESTMENTS HELD FOR DESIGNATED PURPOSES

Investments are lodged with the Province of British Columbia in short-term deposits with a maturity date within one year, and are held for the following designated purposes:

#### a) *Fee Stabilization*

For the year ended March 31, 1999, the Commission appropriated \$10,000,000 of retained earnings to a Fee Stabilization Reserve.

The Commission intends to alter its fee structure so that its revenues are more closely matched to its budgeted expenditures.

The Fee Stabilization Reserve has been established to ensure that an unexpected drop in revenue will not result in an immediate fee increase to market participants. The Commission will draw upon the Fee Stabilization Reserve in future years when fee revenue falls below existing and anticipated commitments.

## b) Education

During the year, \$76,400 was collected for administrative penalties under section 162 of the Securities Act. This amount is held in the Education Reserve. Also held in the Education Reserve is \$1,088,040 collected from the portion of negotiated settlements not allocated to cost recovery. These amounts are to be expended only for the purpose of promoting knowledge of participants in the securities market of the legal, regulatory and ethical standards that govern the operation of the securities market in British Columbia.

|                            | Fee Stabilization | Education   |               |              | Total         |
|----------------------------|-------------------|-------------|---------------|--------------|---------------|
|                            | Appropriation     | Section 162 | Appropriation | Total        |               |
| Balance, beginning of year | \$ -              | \$ 137,119  | \$ -          | \$ 137,119   | \$ 137,119    |
| Additions during year      | 10,000,000        | 76,400      | 1,088,040     | 1,164,440    | 11,164,440    |
| Balance, end of year       | \$ 10,000,000     | \$ 213,519  | \$ 1,088,040  | \$ 1,301,559 | \$ 11,301,559 |

## 4. ACCOUNTS RECEIVABLE

At the end of the year, accounts receivable are comprised of:

|                         | 1999             | 1998              |
|-------------------------|------------------|-------------------|
| Enforcement settlements |                  |                   |
| current year            | \$ 200           | \$ 119,573        |
| prior years             | 2,500            | 68,000            |
| Other receivables       | <u>83,721</u>    | <u>55,521</u>     |
| Total                   | <u>\$ 86,421</u> | <u>\$ 243,094</u> |

During the year, administrative penalties of \$67,400, hearing costs of \$3,625 and settlements of \$17,000 for a total of \$88,025 (1998 - \$85,505) were collected and recognized as revenue. Collections of these amounts, not recognized in prior years, are not recognized as revenue until received. A further \$293,942 (1998 - \$521,214) of administrative penalties, settlements and recoveries were assessed but not recognized as revenue this fiscal year. The Commission maintains records of each administrative penalty, settlement and order for recovery of costs for collection action.

## 5. CAPITAL ASSETS

|                        | 1999                |                             |                     | 1998                |
|------------------------|---------------------|-----------------------------|---------------------|---------------------|
|                        | Cost                | Accumulated<br>Depreciation | Net Book<br>Value   | Net Book<br>Value   |
| Leasehold Improvements | \$ 759,717          | \$ 123,852                  | \$ 635,865          | \$ 258,515          |
| Office Furniture       | 384,736             | 174,234                     | 210,502             | 229,594             |
| Office Equipment       | 296,309             | 55,877                      | 240,432             | 249,971             |
| Computer Software      | 478,085             | 326,025                     | 152,060             | 84,195              |
| Computer Hardware      | <u>2,772,769</u>    | <u>2,021,217</u>            | <u>751,552</u>      | <u>810,423</u>      |
|                        | <u>\$ 4,691,616</u> | <u>\$ 2,701,205</u>         | <u>\$ 1,990,411</u> | <u>\$ 1,632,698</u> |

## 6. EMPLOYEE LEAVE LIABILITY

Employee leave liability represents amounts accrued for vacation and other leave entitlements.

## 7. CONTRACT SERVICES

Contract services is comprised of outside legal and forensic accounting, communication, court reporting, and audit services.

#### 8. SECURITIES FRAUD OFFICE

In fiscal 1995/96 a Securities Fraud Office pilot project was established as a joint project among the Commission, the Royal Canadian Mounted Police and the Ministry of Attorney General. The Commission provided funding of \$2.97 million over the three-year period of the project for the prosecution of securities-related offences. The project was designed to coordinate the resources of the Commission, the RCMP and the Ministry of the Attorney General (Crown Counsel) and increase prosecutions as a deterrent to fraudulent conduct in the securities market. The Commission concluded at the end of the three-year project that its resources would be more effectively directed toward administrative remedies and enforcement proceedings, leaving prosecutions to the RCMP and the Crown Counsel. Accordingly funding was not continued after the pilot project ended.

#### 9. TRANSFER OF FUNDS TO THE PROVINCE

In 1998 the Province enacted The Budget Measures Implementation Act, 1998. Under section 25 of that Act, the Minister of Finance and Corporate Relations was entitled, until March 31, 1999, to request the Commission to pay up to \$12 million to the Province. On February 26, 1999 the Minister of Finance and Corporate Relations made the request and the Commission paid \$12 million to the Province on March 23, 1999.

#### 10. RELATED PARTY TRANSACTIONS

The Commission is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities, other than those noted separately, are considered to be in the normal course of operations, and are recorded at the exchange amount.

#### 11. PENSION AND POST-RETIREMENT BENEFITS

- a) The Commission is an approved employer under the Pension (Public Service) Act. Eligible employees and the Commission contribute to the Public Service Pension Plan. An actuarial valuation of the assets and liabilities of the Public Service Pension Plan made at March 31, 1996 indicated a surplus. As a result of the evaluation the Commission received rebates totaling \$78,540 (1998 - \$68,664) during the fiscal year.
- b) Employees of the Commission are eligible for the same post-retirement benefits as other public sector employees. These include the payments for the medical services plan and extended health care premiums. No provision has been made in the accounts of the Commission for this liability.

#### 12. CONTINGENT LIABILITIES

##### a) *Mutual Fund Dealers Association of Canada*

The Mutual Fund Dealers Association of Canada (MFDA) is an organization formed by the mutual fund industry to act as a self regulatory organization for that industry. The Commission, together with the Ontario Securities Commission and the Alberta Securities Commission, has guaranteed severally, and not jointly, the obligations of the MFDA under certain credit facilities provided to the MFDA by a Canadian chartered bank. The maximum obligation of the three commissions under the guarantee is \$12 million. The Commission's portion of the guarantee of the liabilities outstanding from time to time is capped at 21%. The credit facility balance as of March 31, 1999 is \$640,000 of which, in the event of default, the Commission would be liable for a maximum of \$134,400.

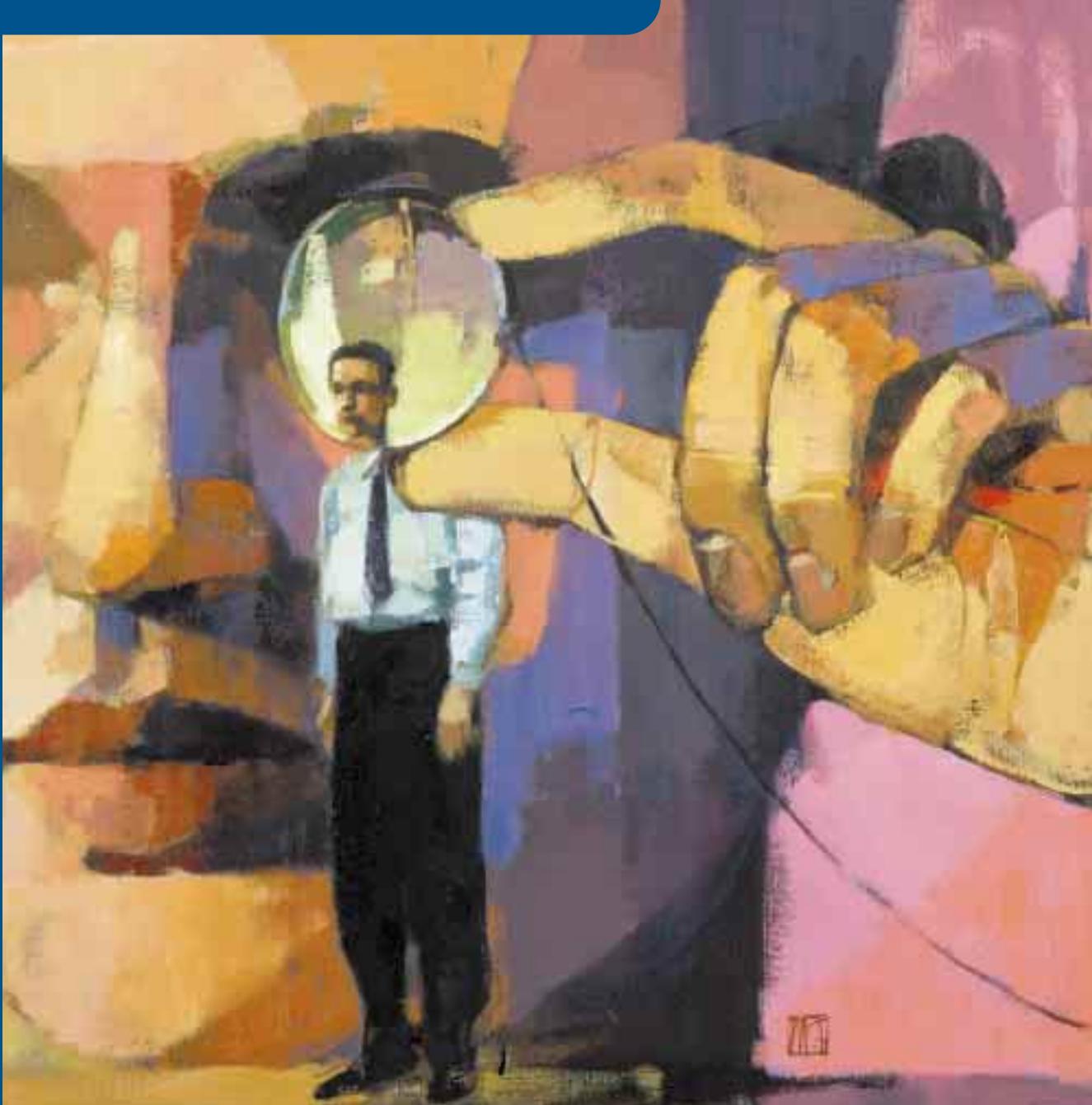
##### b) *Year 2000 Issue*

The Commission assessed its Year 2000 readiness through a review of all its operations and control systems. This review included a complete inventory and risk assessment of all its systems that could potentially be affected by the Year 2000 issue. The Commission believes its operations will not be materially disrupted by Year 2000 risks. In case of a failure of one or more systems, the operating divisions of the Commission are preparing contingency plans. It is not possible, however to be certain that all aspects of the Year 2000 issue affecting the Commission, particularly those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

#### 13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

PERSPECTIVE





**BCSC** BRITISH COLUMBIA SECURITIES COMMISSION

**FOR BROCHURES ON IMPORTANT TOPICS OR FOR INFORMATION ABOUT THE BRITISH COLUMBIA SECURITIES COMMISSION (BCSC) OR SECURITIES REGULATION IN BRITISH COLUMBIA CONTACT:**

The Public Information Centre  
British Columbia Securities Commission  
Suite 200 - 865 Hornby Street  
Vancouver, BC  
V6Z 2H4

**PHONE:** 604 899-6500  
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Outside the greater Vancouver area  
**PHONE:** 1-800-373-6393 (BC only)

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