



New Brunswick Tire Stewardship Board



**Annual Report 2006
Management Plan 2007-2008**

New Brunswick Tire Stewardship Board

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Letter to the Minister

March 31, 2007

Honourable Roland Haché
Minister of Environment
P.O. Box 6000
Fredericton, NB
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Dear Minister:

On behalf of the members of the New Brunswick Tire Stewardship Board,
I am pleased to submit our Annual Report for the fiscal year January 1, 2006
to December 31, 2006.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Bradford Marshall". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

K. Bradford Marshall

Executive Director
Department of Environment
Chairperson, New Brunswick Tire Stewardship Board

Attach.

Operations Summary

New Brunswick's Tire Stewardship Program (TSP) defines scrap tires as a valuable resource, rather than a waste management challenge.

Local pick-up operations take place in communities throughout the province every business day of the year. This continuous stream of rubber is destined for the Minto Industrial Park, which is home to Tire Recycling Atlantic Canada Corporation (TRACC).

TRACC functions as primary contractor to the New Brunswick Tire Stewardship Board (NBTSB) for collection, processing and ultimate recycling of the province's scrap tires.

During 2006, more than 6.8 million kilograms (15 million lbs) of recyclable rubber were delivered to the firm's plant through the TSP system. Roughly 75% of this total was contained in scrap passenger car tires, while larger truck tires accounted for the remainder.

A 'PTE' measurement system has been traditionally used as well, to generate annual data on the program. PTE stands for Passenger Tire Equivalents. Based on long-standing industry estimates, it considers the average truck tire roughly equivalent to five passenger car tires, in terms of the amount of recyclable rubber it can generate.

Expressed on this scale, more than 936,000 scrap PTEs were diverted from New Brunswick's waste stream for recycling in 2006.

TRACC's tire recycling facility is a recognized leader in developing innovative process technologies and operates some of the most advanced systems available. The company's products are specifically designed for niche markets in heavy industry, agriculture, construction, and the transport sector.

Recycled rubber-based goods manufactured in Minto, NB are known for their consistent high quality and durability.



TRACC's highest volume output at present is focused on livestock mattresses for dairy operations across North America and beyond. Each mattress contains at least 55 kilograms (120 lbs) of industrial rubber recovered from NB scrap tires. Installed with woven coverings stretched over the individual mattresses, they represent a distinct advantage for modern dairy producers.



TRACC products are shipped year round to customers across Canada, the United States, Latin America, Europe and beyond.

TRACC also makes rubber gaskets for use in heavy industry, noise and shock suppression materials, hard rubber bases for highway and street delineator posts, truck and trailer mud flaps, as well as other special purpose industrial products.

During 2006, the company completed a major expansion of its production system for synthetic slate roofing shingles. These are the first TSP products to combine recycled plastic with rubber, as part of the process feedstock. Manufactured in four different colours, the 'slate' appearance and intrinsic durability of the shingles provide major advantages over natural slate and other 'high-end' roofing products.

Another new output category for TRACC involves re-mold and re-tread tires, made exclusively for off-shore markets. Passenger tires with smaller rim sizes are the focus for re-treading, while the re-mold operation targets larger truck tires. Fleet vehicle operators in Central America and the Caribbean countries have already shown great interest in the durability of these 'made in NB' recycled units.



Management Plan

TSP operations in 2007-2008 will be aimed at further strengthening the collection, production and administrative components of the program.

Increasing the diversity of finished products generated through the TSP is a constant focus, and a major contributor to its long term sustainable development.



New Brunswick's scrap tire collection system is already rated among the most efficient in North America, operating at a 'capture' rate of almost 90%. The total number of scrap tires generated in the province in any given year is directly tied to new tire sales, which are, in turn, subject to changing market forces and prevailing economic conditions. After a decade of operational experience, today's TSP ensures that virtually every scrap tire available for recycling in NB ultimately becomes part of a new TRACC product.

Given the continuing growth in market demand for the firm's finished goods, it seems likely that more scrap tires than ever before will be required in the future to supply the necessary 'raw material.' For the first time in TSP history, the potential for importing scrap tires from other jurisdictions as feedstock for TRACC's manufacturing operations will be examined in the coming year.

It's also recognized that many New Brunswickers, in all areas of the province, may still have old 'snow' or 'summer' tires stored in their garage, shed or basement, which could be usefully recycled through the TSP system. With this in mind, public education efforts over the next two years will place further emphasis on the 'Return to Retailers' service, which is designed to capture these resources for productive use.

TSP Recycling is 'Just For You!'

Getting rid of scrap tires in your basement, garage or shed is 'Easy and Green' with TSP Recycling.

Your old tires can be dropped off, free of charge, during regular business hours, at any retail tire outlet in New Brunswick... even if they were not originally purchased at that location. They'll be stored on-site and picked up for recycling through our normal TSP operations.

Our 'Return to Retailers' service is specifically designed for New Brunswickers just like you... individuals with a few old tires to drop off. Not all retailers have the same amount of on-site storage space, so please don't bring them more than 5 tires at any given time.

Commercial operators, or anyone else with a large number of tires ready for recycling, should contact the TSP office directly instead.



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The TSP 'Return to Retailers' Service is designed to recover scrap tires in 'domestic' storage, divert them from waste disposal, and ensure productive recycling instead.



Roughly 5,000 OTRs are generated each year from the agriculture, forestry, construction and mining sectors in New Brunswick.

Expansion of the TSP itself to include a permanent recycling system for oversized 'Off-the-Road' tires, or OTRs, will be another priority in 2007-2008.

Their massive dimensions and reinforced structures traditionally meant that scrap OTRs could not be effectively handled by standard tire recycling equipment. These operational barriers are now receding, however, as newer, more cost-effective technologies emerge.

A detailed Request for Proposals (RFP) has been distributed to potential contractors covering all aspects of an OTR program for NB, including province-wide collection, transportation and ultimate recycling. Submissions in response to the RFP have been received and are presently being evaluated.

New Brunswick is working concurrently with the Canadian Association of Tire Recycling Agencies (CATRA) on establishment of national OTR recycling standards. One area where a consistent approach among provinces is clearly required is the level of 'environmental fees' which could be charged on new OTR sales.

The future expansion of stewardship programming throughout NB will also be a key development focus in 2007-2008.

The central idea of 'environmental stewardship' is that everyone involved in the production and use of a specific product should play a continuing role in managing any waste associated with that use.

New Brunswick's existing TSP is founded squarely on this concept. It brings consumers together with all components of the tire industry to recover a valuable resource from our waste stream, and recycle it in the most productive way possible.

The program's many concrete achievements over its first decade underscore the positive potential for expanding such efforts to include other product categories beyond tires. Regulatory and administrative planning is already underway to make this possible. New initiatives are expected during 2007-2008 to begin the process of bringing other types of products under the province's stewardship system.

Industry and Markets

Since the TSP was introduced a decade ago, tire recycling has become a fiercely competitive industry across Canada and the United States, as well as overseas.

As more and more North American jurisdictions adopt such programs to encourage waste reduction, major price fluctuations have also become commonplace for recycled rubber commodities. These include tire shreds of various sizes and 'crumb rubber' material from bulk processing plants.

Since its earliest days, New Brunswick's approach to tire stewardship has placed a high priority on making value-added goods and serving markets beyond our borders.

Making unique products for industrial and commercial clients has proved to be a winning strategy over the years, rather than simply generating raw 'crumb rubber' for shipment to recycling plants elsewhere. The result is a vibrant tire stewardship system here in NB, emphasizing advanced process technologies.

Ensuring product diversity and focusing on widely separate industrial markets are key TSP business strategies.



In terms of market performance, the strong demand for TRACC's high quality livestock mattresses outside North America underscores the value of this approach.

The company manufactured and shipped more than 110,000 of these innovative products in 2006. They are specially designed for installation in 'high-tech' dairy facilities, with large scale operations and hundreds of animals in active production.



Widespread application of sophisticated herd management techniques throughout the industry has put a premium on more hygienic 'bedding material', which prevents leg injuries and is also less costly to maintain.

By producing the right product, at the right time, international dairy producers are now being served on a global scale, direct from NB.

The mattresses are already well established in Western European markets, for example, and work is now actively underway to serve upgraded dairy production facilities in eastern Europe and Russia by 2008.

Over the years, off-shore markets in general have proven very receptive to the recycled rubber goods made by TRACC here in New Brunswick. Despite the appearance of cheap imitations in some instances, the continued sales growth of TRACC products overseas speaks volumes about their superior quality.

As the profile of the environment continues to grow as a global concern, the international market potential for 'green' output generated through the TSP appears stronger than ever.



Global dairy producers are using mattresses made from NB scrap tires to prevent leg injuries and bacteria growth in stall areas.

New Product Development

Diversifying TSP output to serve a wide range of niche markets is a continuing priority for the NBTSB. Over the years, TRACC has demonstrated a strong capacity for building innovative technologies to meet this objective.

One recent result of this effort is a unique new category of recycled rubber 'bulk' products, widely seen as major market performers in the years ahead. During 2006, new production

techniques were introduced by TRACC for generating multi-coloured 'bark mulch,' as well as 'nugget-style' ground cover, resilient playground surfaces, and synthetic slate roofing shingles.

Another potential market opportunity for special bulk products made from New Brunswick scrap tires could involve their use as lightweight fill during the construction of highway road beds. The specific focus in this regard involves areas where sub-surface water drainage and soft base layers are major impediments to road-building. In such environments, the permeability and lighter-weight characteristics of bulk recycled rubber could prove extremely beneficial, and far less costly than alternative engineering methods.



ADVANCED RECYCLED RUBBER 'BARK MULCH'

As noted above, TRACC recently developed a fully automated high speed production system, capable of generating its synthetic rubber 'bark mulch' in a wide variety of colours for use in residential and commercial landscaping.



The unique rubber bark 'chips' which result are virtually indistinguishable from natural bark mulch. The product can also be made in 'nugget' form for other types of ground cover installations and manufactured in almost any colour. A related production technique combines colourful rubber chips with a binder in a special process to create resilient surfaces for use around school playground equipment, which perform significantly better than traditional 'pea-gravel.'

Synthetic rubber 'bark mulch' is produced in a wide variety of colours for use in commercial and residential landscaping.



'Slate-style' shingles are the first TSP products to combine recycled plastic with rubber as part of the basic process feedstock.

SYNTHETIC SLATE ROOFING SHINGLES

TRACC's hybrid roofing shingles have also been building positive momentum, as field reports continue to underscore their assets and competitive advantage in the marketplace.

Originally researched in conjunction with the University of New Brunswick, TRACC focused major attention during 2006 on building a technically-advanced production system to meet 'state-of-the art' standards for the shingles, in a high-volume setting.

Ensuring they could be generated in different colours to suit various types of architectural requirements was another key factor in their development. All of these challenges have now been met by the company.

The result is an advanced production system that should set a standard for quality, while providing the volumes required, as market demand continues to grow. The end product is an extraordinary shingle which delivers the visual impact of solid slate, but performs more effectively, and less expensively, than real stone.

Easy installation is just one of the practical benefits for roofing contractors using this recycled rubber/plastic product, instead of natural slate or other premium price shingles. Since the weight of the TRACC product is comparable to regular asphalt shingles, the additional structural improvements required when using real slate are not necessary. They are also highly resistant to ice storm damage.

Even in cold temperatures, the composite shingles retain their flexibility as well. This means that roofing work can take place later in fall, or earlier in spring.

One niche market of specific interest in this regard involves heritage structures in areas where natural slate may have been used historically on institutional, residential or commercial buildings. Other opportunities involve high-end residential developments with a variety of special roofline features.

Based on the level of market interest already being experienced, the future of these unique recycled rubber/plastic TSP products appears very strong indeed.

TSP Administration

The volume of financial and administrative data required to ensure cost-efficient TSP operations, and sustainable program growth over time, demands leading-edge information technology.

On average, 25,000 kilograms (55,000 lbs) of industrial rubber join New Brunswick's scrap tire collection stream every business day. Tracking new tire sales, environmental fee transaction records, scrap tire shipments province-wide, and finished product output are among the many data streams requiring constant access.

The program's administrative operations are carried by a staff of four, three based in the NBTSB Head Office in Fredericton, and one monitoring inspector located at the TRACC site in Minto. Supporting this staff group is a comprehensive data management system designed to produce accurate reliable information on demand, in varying levels of detail.

The scope and detail of TSP information available at www.nbtire.com includes a major focus on recycled product output.

Much of the raw data entered in the network are initially generated at exterior locations, such as retail tire outlets. Expanding the use of remote digital equipment for handling such functions has become a key priority for the NBTSB. Every advance in the speed of data entry, and the depth of information available, supports the Board's key role in program oversight and auditing.

In the longer term, the TSP's expanded web site is also being designed to include operational aspects of the program, in addition to its public education role. The initial phase of the site's transformation is now complete. It significantly expands the scope and detail of TSP information available to the public at www.nbtire.com, with a particular focus on recycled product output.

In the coming year, a second phase will create a special access area of the site, providing direct service and assistance to tire retailers across New Brunswick. Beginning with more than 900 registered retail outlets in the province, the Board's web site clearly has potential over time to become an interactive information conduit for everyone involved in day-to-day operations of the TSP.

Another key administrative focus during 2006 involved public tendering for a new multi-year contract covering province-wide collection, processing and recycling of New Brunswick scrap tires until 2011.

Submissions in response to this tender call were invited from all interested potential contractors across Canada. After detailed assessment of the results, Tire Recycling Atlantic Canada Corporation was selected as the successful bidder and will continue to operate as the TSP's prime contractor. The new agreement maintains a constant priority on value-added manufacturing and increased diversity in TSP output, through the use of innovative, cost-efficient technologies developed within New Brunswick.



New Brunswick Tire Stewardship Board

BOARD MEMBERS

K. Bradford Marshall

(Chairperson)

Executive Director, Statute and Regulation Reform
Department of Environment

Kirk Gordon

Executive Director, Regional Environmental Services
Department of Environment

Darrell Welles

Senior Policy Analyst, Policy and Planning
Department of Environment

Tina Poirier

Department of Environment

LEGISLATIVE FRAMEWORK

The New Brunswick Tire Stewardship Board is an entity of the Province of New Brunswick whose members are appointed by the Minister of Environment.

The Board was established in 1996 under the *Clean Environment Act*. The applicable provisions of the legislation are specified in section 22.1 as follows:

The Minister may, in accordance with the regulations, establish a stewardship board for the following purposes:

(a) managing the manufacture, storage, collection, transportation, recycling, disposal, or other handling of a designated material; and

(b) ensuring that an industry's manufacture, storage, collection, transportation, recycling, disposal or other handling of a designated material is done in accordance with a stewardship plan approved by the Board.

The *New Brunswick Tire Stewardship Regulation* (Regulation 96-82) was filed on August 8, 1996. Section 4 of this Regulation designates tires as 'designated material' for the purposes of section 22.1 of the *Clean Environment Act*.



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AUDITORS' REPORT

To the Board of Directors

We have audited the statement of financial position of the New Brunswick Tire Stewardship Board as at December 31, 2006 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Board derives revenue from the collection of tire levies pursuant to the provisions of the Clean Environment Act, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these fee and levy revenues was limited to the amounts recorded in the records of the Board and we were not able to determine whether any adjustments might be necessary to revenues, excess of revenue over expenses, assets, liabilities and surplus.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the fee and levy revenue referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Board as at December 31, 2006 and the results of its operations and changes in its net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Fredericton, Canada
February 7, 2007

Statement of Financial Position

December 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Cash	\$ 515,024	\$ 713,031
Accounts receivable	610,478	503,729
Prepaid expenses	3,067	3,770
Current portion of advances to Tire Recycling Atlantic Canada Corporation (note 2)	60,292	58,076
	<u>1,188,861</u>	<u>1,278,606</u>
Investments (note 3)	1,917,205	1,849,946
Advances to Tire Recycling Atlantic Canada Corporation (note 2)	111,861	172,154
Capital assets (note 4)	23,191	37,874
	<u>\$ 3,241,118</u>	<u>\$ 3,338,580</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 281,873	\$ 262,017
Accrued processing fees	961,526	1,262,115
	<u>1,243,399</u>	<u>1,524,132</u>
Net assets:		
Invested in capital assets	23,191	37,874
Unrestricted	1,974,528	1,776,574
	<u>1,997,719</u>	<u>1,814,448</u>
	<u>\$ 3,241,118</u>	<u>\$ 3,338,580</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director

Statement of Operations

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Fees and levies	\$ 2,746,147	\$ 2,718,164
Expenses:		
Scrap tire processing costs	2,060,364	2,295,411
Retroactive payment on scrap tire processing	270,096	-
Salaries and employee benefits	148,287	141,642
Communication and translation	51,981	48,908
Professional services	32,201	23,169
Office	24,131	13,494
Security services	23,110	22,119
Amortization	17,721	13,114
Rent	10,800	10,800
Travel	8,499	13,256
Telephone	7,446	6,414
Insurance	5,172	5,394
Training and subscriptions	1,493	1,270
Board	1,429	1,343
Interest and bank charges	679	683
	<u>2,663,409</u>	<u>2,597,017</u>
	82,738	121,147
Investment income	100,533	79,832
Excess of revenue over expenses	<u>\$ 183,271</u>	<u>\$ 200,979</u>

See accompanying notes to financial statements.

Statement of Changes in Net Assets

Year ended December 31, 2006, with comparative figures for 2005

	Invested in capital assets	Unrestricted	2006 Total	2005 Total
Balance, beginning of year	\$ 37,874	\$ 1,776,574	\$ 1,814,448	\$ 1,613,469
Excess (deficiency) of revenue over expenses	(17,721)	200,992	183,271	200,979
Net change in investment in capital assets	3,038	(3,038)	-	-
Balance, end of year	\$ 23,191	\$ 1,974,528	\$ 1,997,719	\$ 1,814,448

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 183,271	\$ 200,979
Items not involving cash:		
Amortization of capital assets	17,721	13,114
Amortization of bond premium	14,820	15,055
Changes in non-cash operating working capital:		
Increase in accounts receivable	(106,749)	(18,800)
Decrease (increase) in prepaid expenses	703	(781)
Increase in accounts payable and accrued liabilities	19,856	240,958
Increase (decrease) in accrued processing fees	(300,589)	181,493
	(170,967)	632,018
Financing and investing activities:		
Capital assets acquired	(3,038)	(32,737)
Increase in investments	(82,079)	(73,901)
Repayments from Tire Recycling Atlantic Canada Corporation	58,077	55,942
	(27,040)	(50,696)
Increase (decrease) in cash position	(198,007)	581,322
Cash position, beginning of year	713,031	131,709
Cash position, end of year	\$ 515,024	\$ 713,031

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2006

The New Brunswick Tire Stewardship Board (the "Board") is an agent of the crown incorporated under the Clean Environment Act. The principal business activity is overseeing the collection and recycling of used tires on behalf of the Minister of Environment for the Province of New Brunswick.

1. Significant accounting policies:

(a) General:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Investments:

Bonds are carried at their face amount plus any unamortized premium. Investment income is recorded in an effective-yield method whereby the interest at the stated rate is modified by the amortization of the premium from the face value implicit in its acquisition price. If the market value of investments becomes lower than the carrying value and this decline in value is considered to be other than temporary, the investments are written down to market value.

(c) Fees and levies:

Fees and levies are recognized by the Board when cash is received or receivable from the tire retailers. The Board uses a closing date of January 31st of the following year to recognize fee transfers from tire retailers related to the current year as a receivable.

(d) Capital assets:

Capital assets are recorded at cost. Amortization is recorded using the following method and annual rates:

Asset	Basis	Rate
Office equipment	Straight-line	5 years
Furniture and fixtures	Straight-line	5 years
Computer equipment	Straight-line	3 years

Notes to Financial Statements

Year ended December 31, 2006

1. Significant accounting policies (continued):

(e) Scrap tire processing costs:

The Board remits a portion of all levies to Tire Recycling Atlantic Canada Corporation (TRACC). Half of the amount payable is remitted at time of collection and half is payable when TRACC has sold products containing the recycled material. The total amount due to TRACC is accounted for at time of pickup.

(f) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Advance to Tire Recycling Atlantic Canada Corporation:

The amount advanced to TRACC is supported by a demand promissory note, secured by a general security agreement, bearing interest at 3.75%, repayable in monthly instalments of \$5,476 including principal and interest and due September 2009.

3. Investments:

	Face value	Book value
NB Municipal Finance Corp., 5.75%, due July 17, 2007	\$ 167,000	\$ 176,850
Farm Credit Corporation, 4.35%, due August 15, 2007	190,000	199,462
Canadian Imperial Bank of Commerce, 4.4%, due August 26, 2008	190,000	198,255
Government of Canada, 4.25%, due September 1, 2008	184,000	185,408
Province of Ontario, 5.7%, due December 1, 2008	130,000	142,149
Canadian Housing Trust, 4.1%, due December 15, 2008	190,000	196,890
Province of New Brunswick, 5.25%, due June 2, 2009	134,000	138,776
Province of New Brunswick, 6.38%, due June 15, 2010	130,000	138,280
Government of Canada, 4.25%, due September 1, 2009	200,000	206,800
	1,515,000	1,582,870
Amortization of premium	-	(29,591)
Cash held in brokers' account	-	363,926
	\$ 1,515,000	\$ 1,917,205

Notes to Financial Statements

Year ended December 31, 2006

4. Capital assets:

	Cost	Accumulated amortization	2006 Net book value	2005 Net book value
Office equipment	\$ 16,774	\$ 15,980	\$ 794	\$ 1,211
Furniture and fixtures	11,551	9,710	1,841	3,145
Computer equipment	78,648	58,092	20,556	33,518
	\$ 106,973	\$ 83,782	\$ 23,191	\$ 37,874

5. Fair value of financial assets and financial liabilities:

The fair value of the Board's cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts.

The fair value of investments at December 31, 2006 is \$1,898,475 (2005 - \$1,827,584) based on published listings of market values. The fair value of the advances to TRACC at December 31, 2006 is approximately \$163,000.

The fair value of the accrued processing fees is not possible to estimate given the uncertainty of timing related to processing and related payment.