Canadian Investor Protection Fund

2007 Annual Report Summary

Investor Protection for Investment Dealer Insolvency

~ Message from the Chair ~

Evolving to Meet the Need

My inaugural year as Chair of the CIPF's Board of Directors has been both exciting and rewarding. It is indeed exhilarating to work in the investment industry given the proposed consolidation of Market Regulation Services Inc. and the Investment Dealers Association of Canada (IDA) and our proposed relationship with this combined entity and the Canadian Securities Administrators (CSA). Further, it is gratifying to be part of an organization that is successfully responding to the challenging environment by continuously evolving to meet the needs of our Members and their customers.

CIPF Restructuring

The year's highlights include the near finalization of CIPF's restructuring journey. We anticipate that within the first half of 2008, we will relinquish the oversight role relating to investment dealers that CIPF has been performing on behalf of the CSA. This will allow us to focus on our primary mandate to maintain adequate resources to compensate customers in cases where a Member becomes insolvent.

CIPF Fund

During the first half of 2007, we continued to review the Fund size to ensure that we had adequate resources to deal with customer claims if a Member fails. This analysis made it clear that client net equity is the principal factor which potentially exposes the Fund to a call on the Fund. Client net equity has increased significantly during the past few years and the Fund size must keep pace with the potential exposure. In this regard, we increased the Fund resources by securing an insurance policy that would pay up to $100 million in any one year with a $100 million deductible. This optimizes our ability to respond to a multiple event occurrence, at the most reasonable cost. Our total available resources including the lines of credit of $100 million and the insurance policy exceed $500 million.

New Assessment Model

The development and introduction of a new assessment model in 2007 is crucial to our desire for risk management excellence. Unlike our past assessment method, which was based simply on a flat percentage of a Member's gross annual revenue, our new model introduces differential assessments. This model assesses each Member according to its risk relative to its peers, taking into consideration the amount of customer assets under its control. This assessment approach has a two year implementation phase which allows Members to transition to this risk based architecture. The model will reward Members that have instituted good controls and governance and provide an incentive for Members to better understand and—if necessary—improve their individual risk profiles which in turn reduces the risk to the Fund. Simply put, it's fairer and more effective.

Corporate Governance

Setting the standard for sound corporate governance also remained a priority. During the year, we developed a competency matrix to ensure the Board as a whole provides the various competencies needed to effectively oversee our organization. As well, we reduced the number of Directors from 12 to 10, a change that reflects our restructuring.

A Word of Thanks

On behalf of my fellow Board members, I would like to take this opportunity to extend my thanks and appreciation to John McCrea, CIPF's former Chair, and Tom Cumming, who completed their terms on CIPF's Board in the fall of 2007. As well, I extend my condolences to the family of Director Giovanni Giarrusso, who died this past summer. Each of these individuals brought much that was of value to our organization.

I also extend my thanks to the members of our current Board and to CIPF President and CEO Rozanne Reszel and her staff. I look forward to continuing to work alongside all of my colleagues as together we pursue a course that best serves our Members and their clients.

Michael G. Greenwood

~ Our Mission ~

To contribute to the security and confidence of customers of Canadian investment dealers by maintaining adequate resources to return assets to customers in cases where a Member becomes insolvent.

~ REPORT FROM THE PRESIDENT AND CEO ~

A BUSY AND PRODUCTIVE YEAR

As we continued to address our strategic priorities and evolve our organization to better serve our Members and their clients, 2007 proved to be a busy and productive year at CIPF.

NEW ASSESSMENT MODEL INTRODUCED

Much of our energy was focused on the development and implementation of our new assessment model. Approved by our Board in June and effective in July, the new model assesses risk presented to our Fund by each Member. To introduce the new tool, which will be phased in over a two year period, Barbara Love, CIPF's Vice-President and Secretary, and I spent three months travelling across the country. We met with Members in groups and individually as well as with several CSA Chairs and other partners to provide information and answer questions about what we believe to be a more effective and fairer assessment model. We had a very positive response from the vast majority of Members.

RISK MANAGEMENT EXCELLENCE

As part of our focus on excellence in risk management, we further developed our Enterprise Risk Management framework, a process that included the identification of a number of underlying risks. Specific committees of the Board have taken on the responsibility for monitoring each of these risks.

FOCUS ON TECHNOLOGY

Mitigating risk is also the impetus behind our business continuity plan, which was certified in 2007. This plan ensures that our technology systems are such that CIPF has the ability to resume key operations in the event of major disruptions. In recognition of the important role technology plays as part of the support CIPF provides to our Members, we commenced a technical upgrade to the Securities Industry Regulatory Financial Filings (SIRFF) platform.

COMMUNICATIONS STRATEGY

As we reach the end stage of our restructuring journey—which we anticipate will be complete by mid-2008—we began to develop a communications strategy that will enable us to better communicate with our Members and the greater investment community regarding CIPF's mandate and coverage policies.

WORKING WITH OUR PARTNERS

Given the global nature of the investment industry, working collaboratively with other industry partners is crucial. In 2007, we continued our discussions with other Canadian protection plans and compensation funds in order to address issues of common interest and share best practices. In February, we executed a Memorandum of Understanding (MOU) with the Financial Services Compensation Scheme (FSCS) in the United Kingdom. Similar to our agreement with the Securities Investor Protection Corporation in the United States, the CIPF-FSCS MOU establishes a framework for keeping each other apprised of relevant news, programs and changes in legislation and, should the need arise, for communicating with customers of our Members residing in those countries.

MEETING THE CHALLENGE OF MARKET UNCERTAINTY

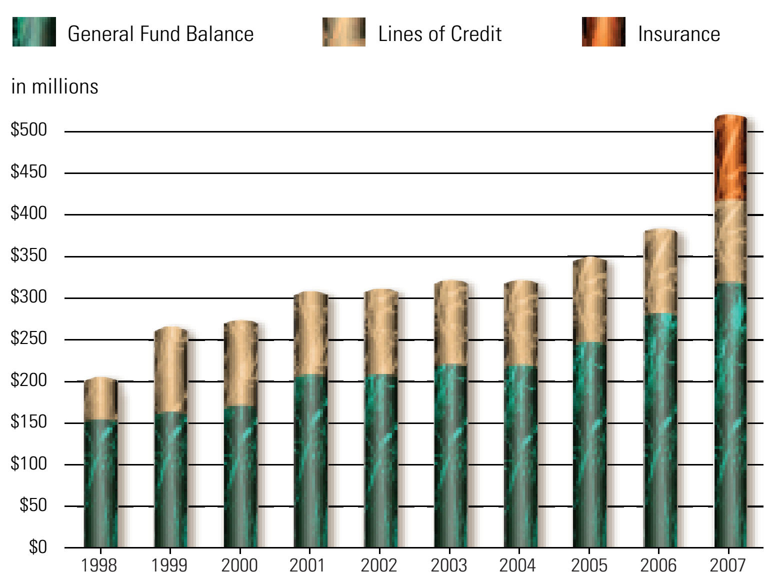
Recent market volatility along with concerns regarding issues including Asset Backed Commercial Paper are reminders that vigilance must be an ongoing priority. That said, I am pleased to report that despite challenges, there were no new insolvencies among our Members last year. Our staff continued to support the efforts of trustees of previously insolvent estates in recovering assets and when necessary supporting litigation processes.

It has been a pleasure to work alongside Michael Greenwood who became Chair of CIPF at the end of 2006. Michael's energy and enthusiasm—as well as the wise counsel of our Board and the professionalism of my colleagues—are proving invaluable as we continue to diligently work on behalf of our Members and their customers.

Rozanne E. Reszel

~ GROWTH OF CIPF RESOURCES 1998 – 2007 ~

At CIPF, we are committed to growing the Fund over time. By doing so, we ensure that we maintain the resources needed to compensate investors who may suffer losses as a result of the insolvency of a CIPF Member. In 2007, CIPF significantly increased the Fund resources by arranging insurance that provides recovery of amounts paid in excess of $100 million up to a limit of $100 million in any one year due to a Member insolvency. The combined available resources, including the lines of credit and the insurance policy, totalled $513 million at December 31, 2007.



Summarized Balance Sheet

December 31	2007	2006
Assets		
Cash	**$ 164,405**	$ 174,839
Prepaid insurance and recoverables	**585,398**	63,255
Investments	**316,231,454**	276,157,013
Member assessments receivable	**2,519,773**	8,396,197
Capital assets	**269,400**	310,454
	$ 319,770,430	$ 285,101,758
Liabilities		
Payables and accruals	**$ 294,462**	$ 336,768
Employee future benefits	**3,877,976**	3,565,076
Provision for claims and related expenses	**2,538,000**	3,252,000
Deferred lease inducements	**145,113**	169,298
	6,855,551	7,323,142
Fund balances		
Investment in Capital Assets	**269,400**	310,454
General		
Cumulative excess of revenues over expenses (excluding unrealized gains and losses) and interfund transfers	**309,827,431**	277,468,162
Cumulative net unrealized gains and losses on investments	**2,818,048**	-
	312,645,479	277,468,162
	$ 319,770,430	$ 285,101,758

Summarized Statements of Revenues and Expenses and General Fund Balance

Year ended December 31	2007	2006
Revenues		
Regular assessments and assessments for capital deficiencies	**$ 21,925,856**	$ 29,923,282
Investment income	**12,823,061**	10,632,524
	34,748,917	40,555,806
Expenses		
Operating expenses	**4,911,420**	4,638,661
Excess of revenues over expenses before other items	**29,837,497**	35,917,145
Net provision (recoveries) for claims	**(2,328,603)**	1,264,497
Excess of revenues over expenses	**$ 32,166,100**	$ 34,652,648
General Fund balance, beginning of year	**$ 277,468,162**	$ 242,848,285
Transitional adjustments on adoption of new accounting policy	**2,538,440**	-
Reclassification to earnings and unrealized gain arising during year	**550,970**	-
Transfer for capital asset additions	**(78,193)**	(42,771)
Excess of revenues over expenses	**32,166,100**	34,652,648
General Fund balance, end of year	**$ 312,645,479**	$ 277,468,162

Note: For detailed and complete financial statements, please visit our website at www.cipf.ca

Auditors' Report on Summarized Financial Statements

To the Board of Directors of the Canadian Investor Protection Fund

The accompanying Summarized Balance Sheet and Summarized Statements of Revenues and Expenses and General Fund Balance are derived from the complete financial statements of the **Canadian Investor Protection Fund** as at December 31, 2007 and for the year then ended on which we expressed an opinion without reservation in our report dated February 8, 2008. The fair summarization of the complete Balance Sheet and Statements of Revenues and Expenses and General Fund Balance is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the Summarized Balance Sheet and the Summarized Statements of Revenues and Expenses and General Fund Balance.

In our opinion, the accompanying summarized financial statements fairly summarize, in all material respects, the related complete Balance Sheet and Statements of Revenues and Expenses and General Fund Balance in accordance with the criteria described in the Guideline referred to above.

The Summarized Balance Sheet and Summarized Statements of Revenues and Expenses and General Fund Balance do not contain all the disclosures required by Canadian Generally Accepted Accounting Principles. Readers are cautioned that these Summarized Balance Sheet and Summarized Statements of Revenues and Expenses and General Fund Balance may not be appropriate for their purposes; reference should be made to the complete financial statements.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 8, 2008

~ Commentary on Financial Results ~

New Accounting Pronouncements

As required by the Canadian Institute of Chartered Accountants (CICA), on January 1, 2007 the Fund adopted CICA Handbook Section 3855, *Financial Instruments—Recognition and Measurement* and Section 3861, *Financial Instruments—Disclosure and Presentation*. The impact of the new standards resulted in transitional adjustments of $2.5 million to increase investments and the General Fund balance to record investments at market value at January 1, 2007. As required by the implementation of the new standards, the comparative financial statements have not been restated.

Balance Sheet

Total assets of $319.8 million are comprised primarily of investments at market value of $316.2 million and assessments receivable of $2.5 million. Total assets increased by $34.7 million. CIPF had a General Fund balance at December 31, 2007 of $312.6 million, an increase of $35.2 million over the prior year. The Investment in Capital Assets Fund was $0.3 million at December 31, 2007.

$313 million

The Fund had a value of $313 million at the end of 2007. $32 million in assessments, interest income net of expenses, and recoveries was added during the year.

Revenues and Expenses

CIPF's revenue net of expenses was $32.2 million for the year ended December 31, 2007, a decrease of $2.5 million over the previous year.

As explained in the letters from the Chair and the President and CEO, the new assessment model became effective in July 2007. The result is that assessment income for the year of $21.9 million, comprised of $17.0 million for the first two quarters and $4.9 million for the last two quarters, was $8.0 million lower than in 2006. The new assessment methodology is being implemented over a two year period during which Members will pay the lesser of either a fixed percent of revenue or the new differential approach calculated on client net equity. As reported by Member firms, client net equity was $1,336 billion at December 31, 2007, an increase of $80.5 billion from the previous year.

$1.3 trillion

At December 31, 2007, there were 203 CIPF Members across Canada and total client net equity of $1.3 trillion was reported.

Included in 2007 revenues is $0.1 million in additional assessments made to Members that incur capital deficiencies. The assessments for capital deficiencies were slightly higher than in 2006.

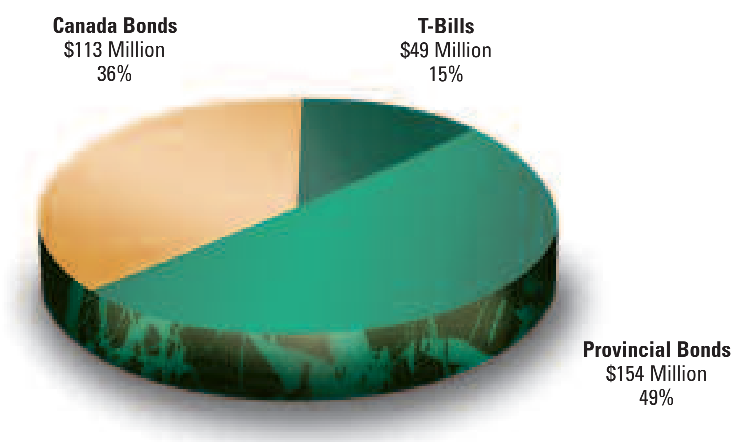
Investment income of $12.8 million for 2007 was higher than the 2006 investment earnings of $10.6 million as a result of higher average investment holdings. This reflected the growth of the Fund due to assessments and interest income. The average yield to maturity based on market value of the portfolio at December 31, 2007 is 4.18%.

Operating expenses of $4.9 million in 2007 increased by $0.3 million or 5.9% over 2006. Operating expenses included the cost of the new insurance policy obtained to provide additional Fund resources.

A recovery of $2.3 million for claims was recorded during 2007 compared to the provision in 2006 of $1.3 million.

~ CIPF Investment Portfolio of $316 Million as at December 31, 2007 ~

CIPF investments had a market value of $316 million at December 31, 2007. In accordance with an investment policy that is regularly reviewed by the CIPF Board of Directors, all investments are Canadian or Provincial government guaranteed. A minimum of 15% of the portfolio is invested in short-term instruments to meet liquidity needs and the maximum term to maturity of any instrument is 11 years.



~ CIPF's Role ~

In 1969, the Canadian investment industry established CIPF to ensure that client assets are protected, within defined limits, if a CIPF Member becomes insolvent. A total of 203 investment dealers across Canada were Members of CIPF at December 31, 2007. It is the responsibility of each Member to include the CIPF logo on client contracts and statements.

Due to consolidation of regulatory organizations, CIPF has moved from having five sponsoring self regulatory organizations to three, one of which — the IDA — has the sole responsibility for admitting Members and the primary responsibility for financial examination of CIPF Members. In 2008, we expect the CSA to approve a new Industry Agreement whereby the IDA will become CIPF's sole sponsoring organization.

~ What CIPF Does ~

The role of CIPF is to return the eligible assets belonging to customers of Members who have suffered or may suffer financial loss solely as a result of the insolvency of a Member. Eligible claims may include the return of securities, cash balances, and certain other property, such as segregated insurance funds, received, acquired or held by the Member in an account for the customer. CIPF does not cover customers' losses that result from other causes such as changing market values of securities, unsuitable investments or the default of an issuer of securities. Claims that are eligible for coverage are normally settled by ensuring that the trustee has sufficient assets to transfer the customer accounts to another Member.

Returning Investor Assets

Since 1969, there have been 17 Member insolvencies. All eligible customers have had their assets returned to them by CIPF. In total, CIPF has paid $36 million for net claims and expenses.

~ CIPF's Fund ~

On the rare occasions when an investment dealer insolvency occurs, CIPF has a substantial Fund to ensure obligations to the investment dealer's customers are met. CIPF determines the size of the Fund and the amount each investment dealer contributes to it. In 2007, CIPF adopted a new assessment model, which uses client net equity and considers the probability of loss presented by each Member to determine how much individual firms must contribute to the Fund. At December 31, 2007, the Fund balance was $313 million. Last year, CIPF significantly increased the Fund resources by securing a $100 million insurance policy. CIPF also has lines of credit totalling $100 million with two Canadian chartered banks, providing the Fund with total resources of $513 million.

~ What CIPF Covers ~

CIPF's Board of Directors has discretion concerning the validity of claims and payment of claims. However, the Board makes decisions based on the CIPF Coverage Policy, which defines customers eligible for protection, the date at which the financial loss is determined and establishes limits of coverage.

Most investors have two accounts, a general account and a separate retirement account, each of which are eligible for $1,000,000 coverage. If an investor has several general accounts, such as cash, margin, and $US accounts, they are combined into one account for coverage purposes. Similarly, retirement accounts such as RRSP, RRIF, LIF, and LIRA accounts are combined into one account for coverage purposes. For a more detailed explanation of the Coverage Policy, including examples, please refer to the Explore CIPF Coverage area of the website.

We are pleased to report that since CIPF was founded in 1969, all eligible claims have been paid — a testament to both the resources of the Fund and CIPF's commitment to serving investors.

Addressing Customer Loss

As stipulated by the Bankruptcy and Insolvency Act, all customers share proportionately according to their net equity in the assets that make up the customer pool fund. If there is a shortfall, CIPF coverage is available to eligible customers. Refer to CIPF's website for further information regarding how customer loss is determined.

~ Committed to Sound Governance ~

CIPF is committed to behaving ethically and abiding by the principles of sound corporate governance. The Board of Directors has the responsibility for setting the standard of good governance. Either directly or through Board committees, CIPF's 10-person Board determines policies and governs operations. The Board's Governance and Nominating Committee, for instance, establishes and implements a process for the identification of individuals qualified to become board members and annually reviews a succession plan for the Chair and the chair of each committee. The Committee also monitors corporate governance developments and best practices, develops and recommends corporate governance principles, and conducts a biennial evaluation of the performance of the Board as a whole. On an annual basis, all CIPF Directors are required to officially acknowledge their adherence to CIPF's Code of Conduct.

~ Focus on Investor Education ~

In partnership with other Canadian compensation funds, CIPF sponsors a web portal, www.financeprotection.ca, to assist investors with questions about financial compensation.

Investor knowledge is key to ensuring that individuals ask for and receive adequate information to meet their investing needs and be informed about industry procedures for opening accounts, executing orders and maintaining custody of customer assets. All investors are encouraged to carefully review the documentation they receive when opening an account and executing investment transactions to ensure that they understand the legal entity they are dealing with, the nature of the investment they are making and the location of their investment assets. Queries concerning accounts should be promptly addressed to the Member, preferably in writing. Questions concerning CIPF can be sent directly to CIPF via the website: www.cipf.ca, by mail, telephone or fax.

For further information about CIPF, please visit the website at: www.cipf.ca, or phone toll-free: 1-866-243-6981

~ Board of Directors ~

December 31, 2007

Michael G. Greenwood, CBV[2,4,5]
- *Chair & Industry Director at large (Former President & Chief Operating Officer, Canaccord Capital Corporation)*
- *Chairman and Chief Executive Officer, Pacific Rodera Energy Inc.*

Rozanne E. Reszel, CFA, FCA[2,3,4]
- *President & Chief Executive Officer*

PUBLIC DIRECTORS

Marcel de la Gorgendière, QC[1,5]
- *Former Chair, Saskatchewan Securities Commission*

Jean Guertin[2,4]
- *Honorary Professor, HEC Montréal*

Hon. Aldéa Landry, CM, PC, QC[4,5]
- *Former Cabinet Minister and Deputy Premier of New Brunswick*

Michael White, FCA[1,2]
- *President, Co-operators Investment Counselling Limited*

INDUSTRY DIRECTORS

Christopher J. Hodgson[1,2]
- *Vice-Chair & Industry Director at large*
- *Bourse de Montréal Inc. Appointee*
- *Executive Vice-President, Head of Domestic Personal Banking, The Bank of Nova Scotia*

William R. Fulton, CA[2,3,5]
- *Investment Dealers Association of Canada Appointee*
- *President, Private Client Group, TD Waterhouse Canada Inc.*

Ian S. Brown, CA[4,5]
- *TSX Group of Companies Appointee*
- *Former Senior Managing Director, Raymond James Ltd.*

[To Be Announced]

OFFICERS

Michael G. Greenwood, CBV
- *Chair & Industry Director at large*

Rozanne E. Reszel, CFA, FCA
- *President & Chief Executive Officer*

Barbara D. Love, CA, CFA
- *Vice-President & Secretary*

Linda G. Pendrill, CA
- *Chief Financial Officer*

COUNSEL

Borden Ladner Gervais LLP

AUDITORS

Grant Thornton LLP

[1] *Member of the Audit Committee* [2] *Member of the Finance, Investment and Human Resources Committee*
[3] *Member of the Minimum Standards Committee* [4] *Member of the Governance and Nominating Committee*
[5] *Member of the Claims Committee*

CANADIAN INVESTOR PROTECTION FUND
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