Management's Discussion and Analysis

The financial statements present the results of the Ontario Securities Commission (OSC) for the year ended March 31, 2005 with 2004 comparatives and accompanying notes. Unless otherwise specified, references to years, for example 2004, refer to the fiscal years of the OSC ended March 31. The following comments analyse the factors which affected the OSC's operations during 2005 as well as the factors that reasonably may be expected to affect future operations and results.

This document should be read in conjunction with the financial statements. Certain statements included in this annual report are forward looking and are subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Factors which could cause results or events to differ from current expectations are described in the risks and uncertainties section. Readers should note that some assumptions, although reasonable at the time of publication, are not guarantees of future performance.

Overview

The Ontario Securities Commission is a corporation without share capital. The OSC functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the OSC is exempt from income taxes. The OSC's operations are funded through fees paid by securities market participants. Employee compensation and occupancy costs account for 78.4% of OSC expenditures.

The *Securities Act* requires the OSC to complete a Memorandum of Understanding with the responsible Minister to outline the ongoing roles, responsibilities and accountability relationships between the two parties. The OSC and the Minister of Finance signed a Memorandum of Understanding in May 2003. This Memorandum of Understanding was affirmed on November 3, 2004 by the new Minister responsible for the OSC.

The OSC maintains accounting and internal control systems to provide reasonable assurance that its financial information is complete, reliable and accurate and that its assets are adequately protected. The Board of Directors, in conjunction with the Audit and Finance committee, has an oversight role to ensure the integrity of the reported information.

Analysis of Operating Results

Excess of Revenue over Expenditures

Excess of revenue over expenditures for 2005 was $4.1 million (2004 – $21.6 million). This is the net result following a $14.9 million rebate of fees to market participants. The general operating surplus as at March 31, 2005 was $32.8 million (2004 – $28.7 million).

Actual Results Compared to Budget

Our budget forecast was for an excess of revenue over expenditures of $6.2 million in 2005. Our actual excess was $4.1 million. Revenues were $13.4 million higher than budget, but this was more than offset by a rebate of fees of $14.9 million and expenses were $0.5 million more than budget.

2005 Actual versus Budget

	Actual	Budget	Variance Favourable/(Unfavourable)	Variance
Revenues	$ 80,690,664	$ 67,294,000	$ 13,396,664	19.9%
Rebate of fees	(14,935,360)	–	(14,935,360)	N/A
Revenues (net of rebate of fees)	65,755,304	67,294,000	(1,538,696)	(2.3%)
Expenses	61,629,237	61,134,000	(495,237)	(0.8%)
Excess of Revenue	$ 4,126,067	$ 6,160,000	$ (2,033,933)	(33.0%)
Capital Expenditures	$ 2,052,416	$ 1,680,000	$ (372,416)	(22.2%)

Revenue

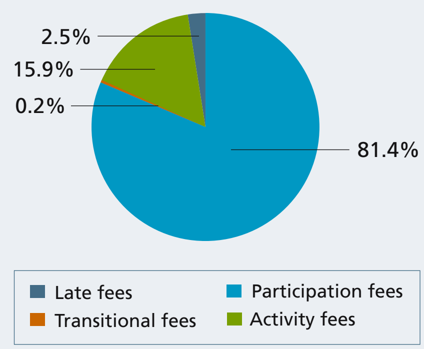
The OSC introduced a new, restructured fee schedule effective March 31, 2003. A primary objective of the new schedule was to ensure that the fees more accurately reflect the OSC's cost of providing services to market participants. The fee schedule requires the payment of "participation fees" and "activity fees".

Participation fees are designed to reflect the benefit derived by market participants from participating in Ontario's capital markets. Reporting issuers, registrant firms and unregistered investment fund managers are required to pay participation fees annually. Participation fees replace most of the continuous disclosure filing fees and other activity fees charged to market participants under the previous fee regime. The participation fee is based on a measure of the market participant's size, which is intended to serve as a proxy for the market participant's use of the Ontario capital markets. The amounts of the participation fees are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities. Participation fee levels are based on a tiered structure. As the market size of a market participant increases, they move through various tiers which have increasingly higher fees. The breadth of the tiers is set sufficiently wide to minimize movement through tiers due to market fluctuations. This tiered design limits volatility in OSC revenues due to market changes.

Activity fees are designed to represent the direct cost of OSC staff resources used in undertaking certain activities requested of staff by market participants; for example, the review of prospectuses and applications for discretionary relief or the processing of registration documents. Activity fees are charged only for tasks undertaken by staff at the request of the market participant. Activity fees are charged for a limited number of activities only and are flat rates based on the average cost to the OSC of providing the service.

The *Securities Act* states that, when ordered to do so by the responsible Minister, the OSC shall pay into the Consolidated Revenue Fund such of its surplus funds as determined by the Minister. The Minister has confirmed that the OSC is no longer required to remit its surpluses. Any deficits will be funded either through surpluses previously generated or generated in the future, or from the OSC's reserve. Under the new fee model, the OSC plans to set fee levels every three years. Fees will be adjusted to offset accumulated deficits or surpluses. Since the introduction of the revised fee structure, the OSC has collected more fees than anticipated. In an effort to expedite the return of surplus to the market participants who funded it, the Commission authorized a one-time rebate of fees of $14.9 million which was paid in March 2005.

Figure 1 – OSC Fees by Type



In 2005, total fees collected under the *Securities Act* and the *Commodity Futures Act* grew by $3.6 million or 4.8% to $78.4 million.

	% of Total Fees	2005	2004	Change	% Change
Activity fees	15.9	$ 12,436,046	$ 11,765,826	$ 670,220	5.7
Participation fees	81.4	63,833,602	33,880,566	29,953,036	88.4
Transitional fees	0.2	175,146	26,826,132	(26,650,986)	-99.3
Late fees	2.5	2,000,030	2,382,418	(382,388)	-16.1
Total fees	100.0	78,444,824	74,854,942	3,589,882	4.8
Rebate of fees		(14,935,360)	–	(14,935,360)	N/A
Investment income		1,534,933	1,672,727	(137,794)	-8.2
Miscellaneous		710,907	84,973	625,934	736.6
Total revenues		$ 65,755,304	$ 76,612,642	$ (10,857,338)	-14.2

Fees

Activity fees accounted for 15.9% of total fees. Activity fees for issuers rose 16.5% or $1.3 million due to growth in applications under Rule 45-501 (Exempt Distributions). Activity fees for registrants fell 17.5% or $654K mainly due to fewer registrations of officers and new directors. Activity fees reflect the cost of providing various services (registration, applications for exemption, prospectus review etc.) to market participants. The fees have been set to recover the costs incurred by the OSC to provide each service. Activity fee volumes are the most variable component of our fees.

Participation fees are the largest revenue source, accounting for 81.4% of fees. Actual fees collected exceeded budget by $10.4 million. National Instrument 51-102 became effective in April 2004. The rule reduced the amount of time for filings by larger issuers from 140 to 90 days. The transition to the shorter filing time resulted in a one-time revenue impact as some issuers paid participation fees twice during 2005. Registrant participation fees rose by 15% to $25.9 million. Two factors explain this increase, growth in the size of firms, which generates higher fees, and a 12% increase in the number of firms registered.

Transitional fees pertained to some fees still due under the previous fee schedule (e.g., remaining fees related to mutual fund prospectus proceeds) or that occurred in situations where market participants were required to make partial year payments as part of the transition to the new fee schedule. Transitional fees declined from 35.8% of total fees in 2004 to 0.2% of fees, or $175K, as the period for transition to the new fee schedule ended.

Late fees accounted for 2.5% of fees. These fees were established to encourage timely regulatory filings (such as insider reports) and are expected to decline over time. Fees collected declined by 16% to $2.0 million (2004 – $2.4 million) but still exceeded budget by $1.0 million. Fees for late SEDI insider filings generated 56% of total late fees. The total number of transactions decreased reflecting improved compliance with filing timelines.

Other Revenue

Investment income generated by deposits and other investments declined 8.2% to $1.5 million. The negative impact of lower interest rates more than offset the impact of higher than expected cash balances. Interest on cash balances generated $715K (2004 – $659K). These balances earn interest at a rate of 1.75% below the prime rate or 0.25% below bankers' acceptance. Investments in short and mid term instruments with the Ontario Financing Authority generated $820K (2004 – $1.0 million). The average rate of return on these instruments was 2.57% which was 54 basis points lower than in 2004.

Miscellaneous fees grew from $85K to $711K. Key components of the increase were $456K received from the Autorité des marchés financiers for their portion of the NRD contribution made in 2003 and $138K in royalties from the publisher of the OSC Bulletin.

Expenses

Total expenses for 2005 (Figure 2) increased 12.1% to $61.6 million (2004 – $55.0 million) against a budget of $61.1 million.

2005 Actual versus 2005 Budget

Salaries and benefit spending exceeded budget by $54K. However, salaries and benefit spending would have been significantly under budget had $1.2 million in unbudgeted severance costs not occurred. The OSC recovered $456K less in enforcement costs than expected. Expenses recovered as part of enforcement settlements are recorded as an offset to salaries and benefits and professional services, depending on the nature of costs recovered. The OSC made a $1.0 million payment to develop enhancements that will make the SEDI system more user friendly. This payment was not anticipated at the time the budget was set.

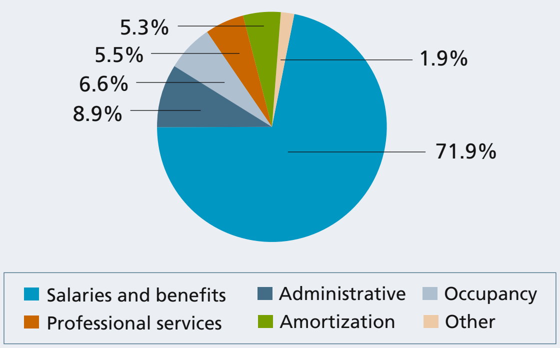
Offsetting these areas where spending exceeded budget were the following areas where spending was lower than anticipated:

- training ($239K) and travel ($237K) were lower, as planned activities were deferred due to other workload priorities;
- Commission expenses ($130K), as hearing activity was lower than planned and delays occurred in filling Commissioner vacancies;
- communications spending ($318K) on shared CSA investor education initiatives was deferred due to budget constraints in other jurisdictions. Translation of our website was also slower than expected;
- lower than planned professional services spending ($544K) occurred because contingencies for CSA shared projects were not used, costs to conduct lease negotiations were below budget, and funds budgeted for work on mutual fund governance were not required as this project ended up being completed late in 2004.

2005 Actual versus 2004 Actual

	% of Total Expenses	2005	2004	Change	% Change
Salaries and benefits	71.9	$ 44,286,613	$ 40,147,154	$ 4,139,459	10.3
Administrative	8.9	5,461,581	4,561,661	899,920	19.7
Occupancy	6.6	4,036,881	3,972,891	63,990	1.6
Professional services	5.5	3,419,175	1,957,490	1,461,685	74.7
Amortization	5.3	3,266,928	3,233,401	33,527	1.0
Other	1.9	1,158,059	1,098,577	59,482	5.4
Total expenses	100.0	$ 61,629,237	$ 54,971,174	$ 6,658,063	12.1

Figure 2 – OSC Expenses by Type



The key contributors to the expenditure increase were as follows:

Salaries and Benefits costs increased by 10.3% to $44.3 million (2004 – $40.2 million) and accounted for 71.9% of the OSC's total expenditures. Key contributors to this increase were annual salary adjustments ($1.4 million), higher benefits costs ($550K), increased staffing levels ($700K million) and higher severance costs ($1.2 million). The OSC had 376 permanent employees on board (9.4% positions vacant) at the end of the year compared to 352 (10.9% positions vacant) at the end of 2004.

Administrative costs accounted for 8.9% (2004 – 8.3%) of the OSC's total expenditures. Expenditures on administrative costs increased by 19.7% to $5.5 million (2004 – $4.6 million). Spending for training increased by 40% to $662K (2004 – $470K). Mutual Reliance Review System (MRRS) training, which occurs with CSA counterparts every other year, accounted for one third of the increase. Management skills training programs were completed and overall staff participation levels in training increased. Commission related expenses rose 19% to $758K (2004 – $635K). The number of proceedings before the Commission increased by one to thirty-one. The number of hearing days increased 37% to eighty-two (2004 – 60). During 2005, two vacant Commissioner positions were filled resulting in higher costs. Communications costs were 20% lower at $1.2 million (2004 – $1.5 million). Savings occurred due to a decision to reduce the use of the Ontario Gazette and communicate more through our website, lower costs for CSA shared investor education initiatives, and reductions in stakeholder surveys and printing and postage. A $1.0 million payment was made to CDS towards improving the SEDI user interface.

Professional Services costs increased 74.7% from $2.0 million to $3.4 million and accounted for 5.5% (2004 – 3.6%) of the OSC's total expenditures.

	($ millions) 2005	2004
Actual costs	3.7	3.0
Recoveries of costs	0.3	1.0
Net Professional Services	3.4	2.0

The increase in actual costs related to increased enforcement work. Approximately $1 million in net professional services was for enforcement-related matters including the use of specialized external legal and forensic accounting resources.

The OSC is a member of the Canadian Securities Administrators (CSA), which is a forum composed of provincial securities regulators. Total CSA spending on projects was $1.9 million in 2005 (2004 – $1.8 million), of which the OSC contributed $755K (2004 – $854K). Professional services include costs to operate CSA offices (allocated on a formula basis) as well as our portion of costs for all professional services costs incurred on joint CSA projects.

Management's Discussion and Analysis

A central secretariat co-ordinates all CSA projects, including the development of harmonized securities policies and rules. A CSA systems office has also been established to manage the CSA's business relationships with third party technology providers. In 2005, the OSC contributed $175K (2004 – $38K) to the cost of the CSA Secretariat and $208K (2004 – $119K) to the cost of the systems office.

Key initiatives funded through this process included:

National Registration System	$68K
Uniform securities transfer legislation	$63K
Joint Forum initiatives	$39K
Investor education initiatives	$36K
National cease trade order system	$36K
Straight through processing	$32K

Amortization costs accounted for approximately 5.3% (2004 – 5.9%) of the OSC's total expenses. Amortization expenses increased to $3.3 million (2004 – $3.2 million).

Occupancy costs accounted for approximately 6.6% (2004 – 7.2%) of the OSC's total expenditures. Expenditures on occupancy increased $64K or 1.6% to $4.0 million.

Other costs, which reflect travel and related expenses, increased $59K or 5.4% to $1.2 million and accounted for 1.9% (2004 – 2.0%) of the OSC's total expenditures. Increased costs to support our international work with IOSCO were the main source of this increase.

Liquidity and Financial Position

Liquidity

The OSC has sufficient liquidity to finance its operations and capital purchases. Our cash position improved by $5.9 million in 2005. Cash flows from operations were $7.4 million. Purchases of capital assets used $2.1 million.

As at March 31, 2005, the OSC held $36.6 million (2004 – $30.7 million) in cash, had current assets of $38.4 million (2004 – $32.5 million) and current liabilities of $8.4 million (2004 – $8.1 million) for a current ratio of 4.6:1 (2004 – 4.5:1). Our general surplus increased by $4.1 million, reflecting our excess revenues over expenses.

Accounts receivable

Accounts receivable rose $59K to $1.5 million. Outstanding late fees increased 17.0% to $936K (2004 – $800K) and accounted for 67% of accounts receivable. Other key receivables are $377K (2004 – $388K) interest receivable and $120K from the Investor Education Fund (2004 – $106K).

Reserve

The new OSC fee structure has reduced the potential for significant fluctuations in revenues arising from market volatility. Revenue generation remains a source of risk for the OSC as all revenues are still correlated to market activity to some extent. To manage this uncertainty, the OSC has a $20 million reserve as an operating contingency for revenue shortfalls or unexpected expenditures. The OSC has an additional $12 million reserve that may only be used to offset costs incurred related to the proposed merger of the OSC with the Financial Services Commission of Ontario.

The rate of return on investments is low as the funds are invested in treasury bills. The prime investment consideration for the reserve is the protection of capital and the appropriate liquidity to meet unanticipated cash flow needs. The OSC takes income generated by the reserve into general operations.

Capital transactions

Capital expenditures of $2.1 million (2004 – $1.4 million) were made during 2005. About two thirds of the purchases were technology related ($1.4 million), including equipment purchased for increased staff complement and replacement of computer equipment to ensure the currency of our technology base. The balance of capital spending was on leasehold improvements and furniture for additions to and consolidation of our leased space. Capital assets declined 23% to $4.0 million as amortization exceeded capital additions by $1.2 million.

Liabilities

Accounts payable and accrued liabilities increased 4.5% to $8.4 million (2004 – $8.1 million). Key accrual increases included general payables ($869K), bonuses and severance ($745K) and vacations ($113K). The key offset was a $1.1 million reduction in our payroll accrual which reflected fewer work days to accrue for.

The accrued benefit liability represents future obligations relating to supplementary pension plans. The unfunded supplemental pension plans had an accrued benefit obligation of $967K (2004 – $735K) at March 31, 2005. The OSC's related expense for the year was $187K (2004 – $115K) and is included in salaries and benefits. The increase reflects full versus partial year costs for a Vice Chair in 2005.

In support of the development of the Mutual Fund Dealers Association (MFDA), the OSC guaranteed 61% of a total $12 million line of credit as assistance during start-up of MFDA operations. The Alberta Securities Commission and the British Columbia Securities Commission also guaranteed a specific percentage of the total indebtedness. As the MFDA is now fully operational, a release from the loan guarantee was obtained November 26, 2004.

Designated settlements

In 2005, the OSC approved $787K in designated settlements arising from enforcement proceedings. Designated settlement funds are allocated to or for the benefit of third parties such as the Investor Education Fund which the Commission established five years ago. Its objectives are to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. A Board of Directors governs the Investor Education Fund and is responsible for developing criteria for, and approving, the disbursement of funds.

The OSC currently holds $2.5 million in designated settlements. Amendments to the *Securities Act* in December 2004 removed the requirement for Ministerial approval of allocations of designated settlement funds. The Minister retained the right to impose guidelines for the allocation process. Allocation of all designated settlements exceeding $1 million that were collected before the amendment, continue to require approval from the Minister. The OSC is currently seeking Ministerial approval to transfer these designated settlement balances to third parties.

Funds in trust, CSA

During the year, the Commission received $5,943,687 from the operator of the SEDAR electronic filing system, representing the accumulated surplus from the operations of SEDAR from its inception. Interest earned on these funds was $55,098. These funds are to be held by the Commission in accordance with agreements amongst the Commission, the Alberta Securities Commission, the British Columbia Securities Commission and L'Autorité des marchés financiers, and shall be used towards one or more of the following actions:

- development or enhancement of SEDAR;
- development or enhancement of the System of Electronic Disclosure by Insiders;
- to permit a reduction in the SEDAR Fee Schedule;
- for application towards a previous year's shortfall.

Risks and Uncertainties

People risk

As a knowledge-based entity our ability to attract and retain people is critical to our success. We track a range of measures (e.g., turnover, compensation surveys) to manage this risk. Knowledge management is a key focus and we continue to pursue initiatives to improve our ability to retain corporate memory and to ensure effective knowledge transfer.

Systems risk

Controlling access to our data is a critical component of our operations. Given the nature of the data stored by the OSC, the risk of external parties accessing our data is an important and ongoing challenge. We regularly review our systems security measures to identify potential vulnerabilities. External vendors experienced in gaining access to internal computer systems are periodically contracted to test our internal and external system security measures.

Business continuity

The OSC has a Business Continuity Plan (BCP) to ensure the continuation of critical regulatory services should the OSC face a significant disruption to its operations. Detailed business continuity plans are in place for each priority business function. Each plan includes documented recovery procedures including manual workarounds and mitigation strategies. Offsite recovery services and facilities are in place and were successfully tested during 2005. We are currently finalizing our plan to include strategies to recover and resume our operations for disruptions that could render our offices unusable for an extended period.

Internal audit

The OSC has an internal audit program to identify and address key risks that could impact the achievement of our business objectives. In 2005, our third party internal auditors completed reviews of our project management and budgeting and forecasting processes. No major risk exposures were identified and implementation of the recommended process improvements is underway. Our auditors also re-assessed our risk universe and developed a new two-year audit plan based on this information. Upcoming audit projects include reviews of OSC registration processes, our enforcement case management process and our self regulatory organizations (SRO) oversight process.

Risk-based compliance

Risk-based approaches are being used for disclosure review and compliance. As a result, fewer reviews are undertaken, but each review, on average, is carried out in more depth. Enforcement also uses a risk-based approach to ensure cases that are brought forward are subject to consistent scrutiny, involve significant breaches of Ontario securities law, and give appropriate consideration to Commission priorities.

National approaches to securities regulation

The ongoing national discussions on approaches to securities regulation in Canada could have a material impact on OSC operations. Failing substantial progress toward the establishment of such a single securities regulator by October 2005, the recommendation of the Standing Committee on Finance and Economic Affairs, is for the Ontario Government to take the necessary steps to separate the adjudicative function of the Commission from its other roles. If implemented, this change would have a material impact on our operations.

Reliance on CDS Inc.

CDS Inc. operates a number of major systems on behalf of the CSA and the OSC. In 2005, 90% (2004 – 90%) of fee revenue was collected through the System for Electronic Document Analysis and Retrieval (SEDAR)(54%) and the National Registration Database (NRD)(36%) systems. No material change is expected in the volume of fees collected through these systems. CDS Inc. recovers its costs to operate these systems by charging user fees to filers.

CSA members are signing off a new operating agreement for SEDAR. The NRD system was launched on March 31, 2003. The current operating agreement for the NRD expires March 2009. The System for Electronic Disclosure by Insiders (SEDI) became fully operational in May 2003. The current operating agreement for SEDI runs until May 2010. If CDS becomes unwilling or unable to operate one or all of these systems, the OSC and the CSA will need to ensure the continued operation of these systems.

2005 Outlook

Our 2005/2006 Statement of Priorities sets out our priorities and proposed initiatives for the upcoming year. The document is available at www.osc.gov.on.ca. The proposed 2005/2006 budget will allow us to move toward achievement of the following goals:

- Providing vigorous, fair and timely enforcement;
- Taking actions that better reflect the needs of the retail investor;
- Promoting a harmonized, simplified securities regulatory system for Canada;
- Contributing to Canada's role as an active and respected player in the global capital market.

The 2005 – 2006 OSC budget essentially reflects a breakeven position.

2006 Budget versus 2005 Actual

	2006 Budget	2005 Actual	Variance	Variance
			Favourable/(Unfavourable)	
Revenues	$ 67,062,000	$ 80,690,664	$ (13,628,664)	(16.9%)
Rebate of fees	–	(14,935,360)	14,935,360	N/A
Revenues (net of rebate of fees)	67,062,000	65,755,304	1,306,696	2.0%
Expenses	66,963,000	61,629,237	(5,333,763)	(8.7%)
Excess of Revenue	$ 99,000	$ 4,126,067	$ (4,027,067)	(97.6%)
Capital	$ 2,989,000	$ 2,052,416	$ (936,584)	(45.6%)

In 2005, $80.7 million was collected in revenue before the fee rebate. OSC revenues are expected to be $67.1 million or 17% lower in 2006. Lower revenues are expected for the following reasons:

- National instrument 51-102 reduced the due date for filings (and fee payments) by larger issuers from 140 days to 90 days. As a result, an additional $10.4 million was collected as some issuers paid two participation fees during 2005. The impact of these double payments will not re-occur in 2006.
- Registrant participation fees are projected to fall $800K or about 3%.
- Late fees are very difficult to predict as they are dependent solely on compliance levels of market participants. Planned improvements to SEDI are expected to assist with compliance with filing due dates. The expected impact is a $500K reduction in late fees.
- Investment income is forecast to fall by $200K due to reduced funds under investment.

The budget does not anticipate a material change in the level of market activity. Although our fee structure is designed to reduce the potential for significant fluctuations in revenues arising from market volatility, the potential for material market fluctuations due to world events is an ongoing source of risk that could have a negative impact on OSC revenues.

The OSC remains committed to ensuring that fees paid by issuers and registrants reflect the projected costs to regulate each group. We are currently developing a proposed fee schedule for the three year period ending 2009. We are reviewing each service activity and its related cost in order to set new activity fees. Participation fees will be set at levels to generate a cumulative deficit equal to the surplus collected from market participants as at March 31, 2006.

The OSC budgeted net operating expenditures to increase 8.7% to $67.0 million for 2006 (2005 – $61.6 million). The key budget increases are salaries and benefits costs of $4.5 million and professional services of $1.3 million.

Salaries and benefits costs are projected to rise 10.2% to $48.8 million (2005 – $44.3 million). This increase reflects the following:

- a decision to increase approved staffing from 390 to 408 including seven additional staff in enforcement and four additional staff in investment funds.
- annual performance increments to salaries of current staff, additional bonus requirements arising from staff growth and the impacts of various in-year staff changes and vacancies.
- benefits associated with the salary changes above and higher costs for our health plan.

Administrative costs are expected to decline by $750K. The $1.0M payment toward upgrading SEDI will not re-occur in 2005/2006. This decrease is offset by planned increases for various communications initiatives $135K and staff training $96K.

Occupancy costs are projected to rise 17.3% to $4.7 million (2005 – $4.0 million) due to higher lease-related operating costs and additional space.

Amortization costs are expected to decline 18.0% to $2.7 million for 2005 (2005 – $3.3 million) reflecting a reduced capital base.

Professional services costs are projected to rise 21% to $4.1 million for 2006 (2005 – $3.4 million). About half of the increase relates to higher expected cost for litigation support on a number of large enforcement cases. Costs for CSA shared projects are expected to rise by $300K.

Other expenses are forecast to increase 16% to $1.34 million (2005 – $1.16 million). Increased travel costs for various CSA initiatives (Passport, Harmonized Registration) and IOSCO related travel are the key sources of the increase.

The 2006 capital budget is $3.0 million, 46% higher than the $2.0 million spent in 2005. Additional accommodations for new staff will require spending for leasehold improvements ($1.0) million and related furniture ($400K). The remaining capital expenditures are information technology-related reflecting our continued commitment to maintaining state of the art information technology capabilities.