

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the integrity of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Ontario Securities Commission is committed to full and open disclosure of its operations and maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The preparation of financial statements involves the use of estimates based on management's judgement on transactions which will conclude in future periods.

The Board of Directors ensures that management fulfills its responsibility for financial information and internal control. The financial statements have been reviewed by the Audit and Finance Committee and approved by the Board of Directors. The Auditor General's Report, which follows, outlines the scope of the Auditor's examination and opinion.



David Wilson
Chair and Chief Executive Officer

May 12, 2006



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

AUDITOR'S REPORT

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2006 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



J. R. McCarter, CA
Auditor General

May 12, 2006
Toronto, Ontario

BALANCE SHEET

As at March 31

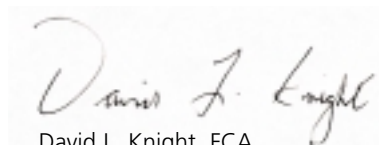
	2006	2005
ASSETS		
CURRENT		
Cash	\$ 55,900,077	\$ 36,588,846
Accounts receivable	1,469,999	1,486,721
Prepaid expenses	337,761	361,776
	<u>57,707,837</u>	<u>38,437,343</u>
DESIGNATED SETTLEMENTS (Note 3)	4,700,795	2,501,008
FUNDS IN TRUST (Note 4)	8,865,176	5,998,785
RESERVE FUND ASSETS (Note 5)	32,000,000	32,000,000
CAPITAL ASSETS (Notes 6, 13(b))	4,017,062	4,022,511
	<u>\$107,290,870</u>	<u>\$ 82,959,647</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 9,927,782	\$ 8,441,504
Current portion of obligation under capital leases (Note 13(b))	139,215	-
	<u>10,066,997</u>	<u>8,441,504</u>
NON-CURRENT		
Obligation under capital leases (Note 13(b))	295,931	-
Other long term liabilities (Note 7(b))	1,231,788	1,114,747
	<u>11,594,716</u>	<u>9,556,251</u>
DESIGNATED SETTLEMENTS (Note 3)	4,700,795	2,501,008
FUNDS IN TRUST (Note 4)	8,865,176	5,998,785
SURPLUS		
OPERATING		
General (Notes 8, 9)	50,031,939	32,805,359
Reserve (Note 5)	32,000,000	32,000,000
	<u>82,031,939</u>	<u>64,805,359</u>
CONTRIBUTED		
	98,244	98,244
	<u>82,130,183</u>	<u>64,903,603</u>
	<u>\$107,290,870</u>	<u>\$ 82,959,647</u>

Investor Education Fund (Note 10)
 Commitments and Contingencies (Notes 11,13)
 See accompanying notes to Financial Statements.

ON BEHALF OF THE BOARD OF THE COMMISSION



David Wilson
 Chair



David L. Knight, FCA
 Commissioner

STATEMENT OF OPERATIONS AND OPERATING SURPLUS

For the year ended March 31

	2006	2005
REVENUES		
Fees (Note 8)	\$ 79,977,793	\$ 78,444,824
Rebate of fees (Note 8)	—	(14,935,360)
Investment income	1,872,001	1,534,933
Miscellaneous (Note 9)	1,199,757	710,907
	<u>83,049,551</u>	<u>65,755,304</u>
EXPENSES		
Salaries and benefits (Note 12)	48,871,068	44,286,613
Administrative	5,262,735	5,648,855
Occupancy (Note 13(a))	4,569,769	4,036,881
Professional services (Note 12)	3,826,706	3,231,901
Amortization	2,329,622	3,266,928
Other	963,071	1,158,059
	<u>65,822,971</u>	<u>61,629,237</u>
EXCESS OF REVENUES OVER EXPENSES	17,226,580	4,126,067
OPERATING SURPLUS, BEGINNING OF PERIOD	64,805,359	60,679,292
OPERATING SURPLUS, END OF PERIOD	<u>\$ 82,031,939</u>	<u>\$ 64,805,359</u>
Represented by:		
General	\$ 50,031,939	\$ 32,805,359
Reserve	32,000,000	32,000,000
	<u>\$ 82,031,939</u>	<u>\$ 64,805,359</u>

See accompanying notes to Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended March 31

	2006	2005
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess of revenues over expenses	\$ 17,226,580	\$ 4,126,067
Adjustment for gain on disposal of capital assets	(29,608)	–
Adjustment for amortization	2,329,622	3,266,928
	<u>19,526,594</u>	<u>7,392,995</u>
Changes in non-cash working capital:		
Accounts receivable	16,722	(59,013)
Prepaid expenses	24,015	104,147
Accounts payable and accrued liabilities	1,486,278	363,954
Obligation under capital leases	435,146	–
Other long term liabilities	117,041	186,687
	<u>2,079,202</u>	<u>595,775</u>
	<u>21,605,796</u>	<u>7,988,770</u>
Cash flows from investing activities		
Proceeds from sale of capital assets	144,625	–
Purchase of capital assets	(2,439,190)	(2,052,416)
	<u>(2,294,565)</u>	<u>(2,052,416)</u>
NET INCREASE IN CASH POSITION	19,311,231	5,936,354
CASH POSITION, BEGINNING OF PERIOD	36,588,846	30,652,492
CASH POSITION, END OF PERIOD	<u>\$ 55,900,077</u>	<u>\$ 36,588,846</u>

See accompanying notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2006

1. NATURE OF THE CORPORATION

The Ontario Securities Commission (the "Commission") is a corporation without share capital and functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Investments

Investments are carried at cost, which approximates market value.

b) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition, as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Leasehold improvements	over term of lease

c) Revenues

Fees are recognized when earned which is normally upon receipt.

Recoveries of costs of investigations are recorded as offsets to the relevant expense upon date of decision, unless management determines there is significant doubt as to ultimate collection, in which case recovery is recognized when cash is received.

d) Employee Benefit Plan

The Commission provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multiemployer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan.

The Commission also maintains supplementary unfunded pension plans for certain full-time members as described in note 7(b). The Commission accrues its obligations and the related costs under these supplemental unfunded pension plans. The transitional obligation and actuarial gains or losses are being amortized over the average remaining service period of active members, or over the life expectancy of inactive members, expected to receive benefits under these plans. For purposes of valuation, the actuarial liability and the current service cost is determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

The costs of post-retirement non-pension benefits are not included in the Statement of Operations and Operating Surplus as described in note 14(c).

e) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

3. DESIGNATED SETTLEMENTS

The Commission has reached a number of settlement agreements arising from enforcement proceedings where monies from these settlements are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine. The balance includes a settlement for \$1,900,000, which is subject to the approval of the responsible Minister as required under the provision of the *Securities Act* in effect at the time the settlement was approved. The accumulated funds are held in a segregated bank account. As at March 31, 2006, the accumulated balance is determined as follows:

	2006	2005
Opening balance	\$ 2,501,008	\$ 2,000,711
Settlements	2,166,560	787,105
Uncollected Settlements written off	(89,400)	–
Interest	122,627	46,751
Payments – Investor Education Fund	–	(333,559)
Closing balance	\$ 4,700,795	\$ 2,501,008
Represented by:		
Cash	\$ 4,655,125	\$ 2,406,850
Receivables	45,670	94,158
	\$ 4,700,795	\$ 2,501,008

4. FUNDS HELD IN TRUST

During the year, the Commission received \$2,662,845 from the operator of the System of Electronic Data Analysis and Retrieval (“SEDAR”), representing the accumulated surplus from the operations of SEDAR, bringing the total received to \$8,606,532 since its inception. As at March 31, 2006, interest earned on these funds was \$258,644. 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:

- i) The development or enhancement of SEDAR;
- ii) The development or enhancement of the System of Electronic Disclosure by Insiders (“SEDI”);
- iii) To permit a reduction in the SEDAR Fee Schedule;
- iv) The application towards a previous year’s Shortfall, as described in note 11(a).

5. RESERVE

- a) As part of the approval of its self-funded status, the Commission was allowed to establish a \$20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. The accumulated funds, at March 31, 2006, have been invested in three month and one year Government of Ontario treasury bills with the Ontario Financing Authority.
- b) In the May 2, 2000 Budget, the Minister of Finance announced that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors.

Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. Draft legislation supporting this initiative was released for comment by the Ministry of Finance in April 2001. At March 31, 2006, legislation has not yet been introduced.

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2006

The Commission received approval from the Ministry of Finance to retain \$12.0 million, which may only be used toward implementation costs of the proposed merger and is subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

- i) The monies will be paid to the Consolidated Revenue Fund, in part or in full, if not required to fund the costs of the merger; and
 - ii) While retained by the Commission, the monies will be invested with the Ontario Financing Authority.
- c) Reserve fund investments are carried at cost as described in Note 2(a). The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the Commission.

6. CAPITAL ASSETS

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Office furniture	\$ 3,382,744	\$ 2,727,926	\$ 654,818	\$ 621,511
Office equipment	295,047	293,448	1,599	46,089
Computer hardware and related applications	12,954,873	10,945,106	2,009,767	2,332,452
Leasehold improvements	7,221,572	5,870,694	1,350,878	1,022,459
	<u>\$ 23,854,236</u>	<u>\$ 19,837,174</u>	<u>\$ 4,017,062</u>	<u>\$ 4,022,511</u>

7. PENSION PLANS

- a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2006 was \$2,498,157 (2005 – \$2,294,755) and is included in salaries and benefits.
- b) The unfunded supplemental pension plans for the Commission's current and former Chair and Vice-Chairs had an accrued benefit obligation of \$1,217,986 at March 31, 2006 (2005 – \$966,712) and an accrued benefit liability of \$1,231,788 (2005 – \$1,114,747). The Commission's related expense for the year was \$169,999 (2005 – \$186,687) and is included in salaries and benefits. Benefits totaling \$52,958 were paid during the year (2005 – \$0). The average remaining service period of the active members covered by these plans ranges from .25 to 3.88 years at March 31, 2005 (2004 – 1.85 to 4.88 years); the 2005 figures were used for amortization purposes in fiscal 2006. The average life expectancy of the non-active member was 22.48 years at March 31, 2005 (2004 – 23.32 years). The significant actuarial assumptions adopted at March 31, 2006 include a discount rate of 5.0% (2005 – 5.5%) and a rate of compensation increase ranging from 2.1% to 3.0%, as applicable (2005 – 2.1% to 3.0%).

8. FEES

The Commission's fee regime is designed to generate fees that reflect the Commission's cost of providing services to market participants. The fee regime is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of Commission staff resources expended in undertaking certain activities requested of staff by market participants.

Under this fee model, the Commission sets fees estimated to reflect the cost of regulation over a three-year horizon. In 2005, the Commission issued a one-time rebate of fees of \$14,935,360 to expedite the return of surplus to the market participants who funded it. The forecasted General Operating Surplus of \$39,500,000 at March 31, 2006 was used to establish a reduced level of participation fees for the following three-year cycle beginning in fiscal 2007.

Details of fees received for the year ended March 31, 2006 are as follows:

	2006	2005
Participation Fees	\$ 65,758,682	\$ 64,008,748
Activity Fees	12,126,591	12,436,046
Late Filing Fees	2,092,520	2,000,030
Total	<u>\$ 79,977,793</u>	<u>\$ 78,444,824</u>

9. ENHANCEMENTS TO SEDI

During the year, the Commission received a payment from CDS Inc. ("CDS") in the amount of \$964,106. This is a return of the \$1.0 million contribution made to CDS last fiscal year for the enhancement of SEDI, less expenses incurred. The funds were returned as CDS is not involved in the current phase of the enhancements.

The returned amount is included in miscellaneous revenue. Expenses of \$70,783 were incurred by the Commission in the year for SEDI enhancements. The Commission has committed the remaining amount of the refund of \$893,323, plus an additional \$1.0 million of its general surplus generated from late fees, earned up to March 31, 2006, for the enhancement of SEDI.

10. INVESTOR EDUCATION FUND

- a) The Investor Education Fund (the "Fund") was incorporated by letters patent of Ontario dated August 3, 2000 as a non-profit corporation without share capital. The Fund is managed by an independent Board of Directors and its purpose is to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. The Commission oversees the Fund as the sole voting member. The Fund is exempt from income taxes.

The Fund has not been consolidated in the Commission's financial statements. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2006 and 2005 and for the two years ended March 31, 2006 are as follows:

INVESTOR EDUCATION FUND

	2006	2005
Financial Position		
Total assets	\$ 4,095,205	\$ 5,790,235
Total liabilities	276,959	\$ 258,235
Invested in capital assets	788,002	843,804
Available for Fund purposes	3,030,244	4,688,196
Total net assets	3,818,246	5,532,000
	4,095,205	\$ 5,790,235
Results of Operations		
Total contributions and interest income	\$ 120,886	\$ 454,897
Total expenses	1,834,640	1,724,547
Deficiency of revenue over expenses	\$ (1,713,754)	\$ (1,269,650)
Cash flows		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	\$ –	\$ 333,559
Cash receipts from third parties	–	59,625
Investment income received	119,996	123,827
Cash paid for initiatives and expenses	(1,416,093)	(1,411,793)
Cash paid for capital purchases	(342,871)	(441,100)
Net decrease in cash position	(1,638,968)	(1,335,882)
Cash position, beginning of period	4,935,262	6,271,144
Cash position, end of period	\$ 3,296,294	\$ 4,935,262

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2006

- b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:
- i) The Board of the Commission authorizes transfers of the Commission's Designated Settlements to the Fund in accordance with the Minister's approval and its own authority under the *Securities Act*. In 2006, the Board of the Commission did not authorize any such transfers to the Fund (2005 – \$333,559).
 - ii) The Commission has a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

For the period ended March 31, 2006, the Commission incurred costs totalling \$553,162 (2005 – \$480,417) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, \$128,234 is owing to the Commission as of March 31, 2006 (2005 – \$120,333).

11. COMMITMENTS AND CONTINGENCIES

- a) The Commission has committed to paying 45.1% of annual shortfalls resulting from the operations of SEDAR, where SEDAR operating costs exceed revenues. SEDAR is an electronic filing and payment system jointly used by the members of the Canadian Securities Administrators (CSA) for the transmission, receipt, acceptance, review and dissemination of documents filed in an electronic format. The system is operated by an external agency on behalf of the CSA under an agreement signed on August 1, 2004. The Alberta Securities Commission, the British Columbia Securities Commission and L'Autorité des marchés financiers have also committed to paying a specified percentage of any annual SEDAR deficit. In the current year, there were no SEDAR deficits.
- b) The Commission is involved in various legal actions arising from the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time, however Management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on the Commission's financial position.

12. RECOVERY OF COSTS OF INVESTIGATIONS

In 2006, the Commission applied \$417,327 (2005 – \$482,790) in recoveries of the costs of investigations against salaries and benefits and \$684,173 (2005 – \$260,710) against professional services.

13. LEASE OBLIGATIONS

- a) Operating

The Commission is committed to operating lease payments as follows:

2007	\$ 4,829,902
2008	\$ 4,809,922
2009	\$ 4,879,178
2010	\$ 4,908,698
2011	\$ 4,946,157
Thereafter	\$ 6,985,566

b) Capital

During the year, the Commission entered into capital lease agreements for computer equipment. Leases that substantially transfer all of the benefits and risks of ownership of property to the Commission, or otherwise meet the criteria for capitalizing a lease under Canadian generally accepted accounting principles, are accounted for as capital leases. An asset is recorded at the time the capital lease is entered into, together with its related obligation to reflect its purchase and financing. Computer equipment recorded under capital leases are amortized on the same basis as computer hardware and related applications as described in note 2(a). The total interest expense recorded on the lease obligations is \$6,135 (2005 – \$0). The following is a schedule of future minimum lease payments for the capital leases, which expire on or before March 31, 2009:

Year Ending March 31	
2007	\$ 157,499
2008	168,879
2009	146,242
Total minimum lease payments	472,620
Less: Amount representing interest at 6%:	37,474
Balance of the obligation	\$ 435,146

14. TRANSACTIONS WITH PROVINCE OF ONTARIO

In the course of normal operations, the Commission entered into transactions with the Province of Ontario as follows:

- a) The *Securities Act* states that when ordered to do so by the responsible Minister, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in note 8 and the Commission's plans to set fees in three-year cycles, the Commission is not required to make quarterly remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the Commission are subject to appropriate terms and conditions to be agreed with the Ministry.
- b) The Commission has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.
- c) Costs of post-retirement non-pension employee benefits are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus.

15. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to current presentation.

OSC Website: www.osc.gov.on.ca

The OSC website features content for consumers, dealers and advisers, public companies and others. Specific sections have been created about the Commission's governance structure, policy and regulation, enforcement, market regulation, investment funds and international affairs. You can also find news releases, speeches and selected frequently used forms. This annual report is posted online in the 'About the OSC' section of the homepage.

OSC Bulletin

The OSC Bulletin is the official record of OSC activity, including, for example, orders and rulings, reasons for decision, news releases and other public notices, requests for comment, and approvals of rules and instruments. The Bulletin is published weekly in print format. The Bulletin is published on behalf of the OSC by Thomson Carswell.

Thomson Carswell publishes a paper copy of the Bulletin and maintains an archive of the OSC Bulletin on an Internet subscription service entitled securities.pro. For subscription information, contact Carswell at 416-609-3800, toll-free (in Canada and the U.S.) at 1-800-387-5164, or by e-mail at: carswell.customerrelations@thomson.com.

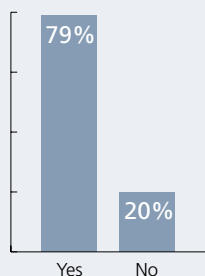
To see the 12 most recent issues of the OSC Bulletin, go to www.oscbulletin.carswell.com.

Investor Education Fund: www.investorED.ca

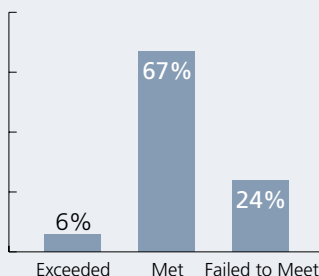
The Investor Education Fund offers trustworthy and unbiased investment education to the general public via www.investorED.ca and to students through its Taking Stock In Your Future Teacher program. We also provide funding support to not-for-profit and community organizations. The Investor Education Fund was established by the Ontario Securities Commission and is funded through OSC enforcement settlements. The Fund operates separately from the OSC with its own Board of Directors.

OSC Website

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Did the OSC website exceed, meet or fail to meet your needs and expectations?



■ Inquiries Line

Source: 2006 OSC Stakeholder Satisfaction Survey

OSC Inquiries & Contact Centre

The OSC Inquiries & Contact Centre responds to those contacting us by e-mail or telephone, and handles initial reviews of written complaints against registrants and public companies.

The Contact Centre operates from 8:30 a.m. to 5:00 p.m., Monday to Friday, and can be reached at:

e-mail: inquiries@osc.gov.on.ca
telephone: (416) 593-8314 (Toronto calling area), 1-877-785-1555 (toll-free)
fax: 416-593-8122
mail: Ontario Securities Commission
20 Queen Street West, Suite 1903,
Toronto ON, M5H 3S8

You can also file a complaint by using the online form in the "For the Consumer" section of www.osc.gov.on.ca.

To send tips on potential violations of Ontario securities laws, use our TIPS form: www.osc.gov.on.ca/Tips/tips_form.jsp

OSC

ONTARIO SECURITIES COMMISSION

2006 Annual Report

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www.osc.gov.on.ca



Ontario

As the regulatory body responsible for overseeing the capital markets in Ontario, the Ontario Securities Commission administers and enforces the provincial *Securities Act*, the provincial *Commodity Futures Act* and administers certain provisions of the provincial *Business Corporations Act*. The OSC is a self-funded Crown Corporation accountable to the Ontario Legislature through the Minister responsible for securities regulation.