



# Canadian Securities Regulation Regime Transition Office

## **ANNUAL REPORT** 2009-2010



CANADIAN SECURITIES TRANSITION OFFICE

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LE BUREAU DE TRANSITION  
CANADIEN EN VALEURS MOBILIÈRES



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July 30, 2010

The Honourable James M. Flaherty  
Minister of Finance  
Department of Finance  
140 O'Connor Street  
Ottawa, ON K1A 0G5

Dear Minister:

We are pleased to submit to you the first Annual Report of the Canadian Securities Regulation Regime Transition Office (Transition Office). This report contains an overview of the Transition Office's mandate and activities for the first 12 months of operations, as well as the financial results from the date of its inception on July 13, 2009 to March 31, 2010.

Since the establishment of the Transition Office, we have worked to fulfill our mandate of assisting in the establishment of a Canadian securities regulation regime and a regulatory authority. In particular, we consulted with stakeholders, submitted to you a draft *Securities Act*, and delivered to you and the participating provinces and territories the *Transition Plan for the Canadian Securities Regulatory Authority*.

We wish to thank our Advisory Committee of Participating Provinces and Territories for its time and input into our work, as well as the Participating Regulators Committee and Legal Advisory Committee. We will continue to consult with them and other stakeholders as we turn to implement the activities described in the Transition Plan.

We would also like to acknowledge the dedication and contribution of the Transition Office's staff in helping us achieve the goals we set for our first year. We believe strongly in the benefits of the Canadian Securities Regulatory Authority we have proposed. It is very rewarding for everyone in our organization to be playing a role in its creation.

Yours sincerely,



Douglas M. Hyndman  
*Chair and Chief Executive Officer*



Bryan P. Davies  
*Vice-Chair*



## OVERVIEW OF THE TRANSITION OFFICE

The Canadian Securities Transition Office (Transition Office) was established by the Government of Canada in July 2009 to lead and manage the transition from the current system of provincial and territorial regulators to a single, national securities regulator.

Douglas M. Hyndman serves as Chair and Chief Executive Officer, Bryan P. Davies as Vice-Chair and Lawrence E. Ritchie as the Executive Vice-President and Senior Policy Advisor. Full and part-time staff of the Transition Office are located in Toronto and Vancouver.

## MANDATE AND OBJECTIVES

Under the *Canadian Securities Regulation Regime Transition Office Act*, the Transition Office has a mandate to assist in the establishment of a Canadian securities regulatory authority. In carrying out that mandate, the Transition Office must consult with stakeholders, develop a transition plan and undertake any other activity that the Minister may direct. During the fiscal year, the Minister requested the Transition Office lead the development of national securities legislation.

In keeping with our mandate, we established the following three objectives for the first year of operations:

- consult with stakeholders on the development of national securities legislation and a transition plan
- develop national securities legislation
- develop a transition plan

We delivered on each of these objectives. The next section of this report describes the activities we engaged in during the first year of operations to do so.







# REPORT ON ACTIVITIES

## I. CONSULTATIONS WITH STAKEHOLDERS

Our consultation activities support the Transition Office mandate. During our first year of operations, they were a vital component in helping meet our objectives of developing national securities legislation and the *Transition Plan for the Canadian Securities Regulatory Authority* (the Transition Plan). We focussed our consultations on issues related to these two deliverables.

In addition to the Advisory Committee of Participating Provinces and Territories, which was established pursuant to the *Securities Regulation Regime Transition Office Act*, we established the Participating Regulators Committee and the Legal Advisory Committee. These committees provided input and advice in the development of a draft *Securities Act* (the Draft Act) and the Transition Plan. Each is described in more detail below.

We also had roundtable discussions and meetings with, and gave presentations to, a variety of stakeholders, including investors, capital markets participants, representatives of provincial governments and law enforcement officials.

All of these activities assisted tremendously in refining our ideas for a national securities regulation regime and the transition to a national regulator.

### 1) Committees

We met regularly with each of our committees over the past year to ensure we considered a wide range of perspectives in advancing our transition mandate.

#### *i) Advisory Committee of Participating Provinces and Territories*

The Government of Canada has invited all thirteen of Canada's provinces and territories to participate in the transition planning process. So far, ten have agreed to do so by nominating members to the Advisory Committee of Participating Provinces and Territories and by providing input on the work of the Transition Office. These jurisdictions are British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island, Saskatchewan, and Yukon. The original members of the Advisory Committee were nominated by their respective provincial and territorial governments, and appointed by the Governor in Council in October 2009.

The mandate of the Advisory Committee is to provide advice to the Transition Office on matters related to the transition to a Canadian securities regulatory regime and a Canadian regulatory authority. Advisory Committee members bring the perspectives of their respective provincial and territorial governments and an understanding of the interests of investors and market participants in their regions.



Members of the committee are:

<b>British Columbia</b>	Peter M. Brown
<b>New Brunswick</b>	William E. Belliveau
<b>Newfoundland and Labrador</b>	Winston Morris
<b>Northwest Territories</b>	Gary I. MacDougall
<b>Nova Scotia</b>	Dawn A. Russell
<b>Nunavut</b>	Louis L. Arki
<b>Ontario</b>	James D. Hinds
<b>Prince Edward Island</b>	Yousef Hashmi *
<b>Saskatchewan</b>	Dale G. Linn
<b>Yukon</b>	Frederik J. Pretorius

\* Replaced deceased member Paul Jelley, effective May 17, 2010.

We met in person with the Advisory Committee seven times between October 2009 and June 2010. Meetings typically covered a full range of matters in relation to the Draft Act and the Transition Plan.

## *ii) Participating Regulators Committee*

The Participating Regulators Committee is made up of the heads of the securities regulators from each of the participating provinces and territories and in some cases, the executive directors of the regulators. The mandate of the Participating Regulators Committee is to ensure regular and substantive communication between the Transition Office and participating regulators, providing a forum for the Transition Office to consult with participating regulators and their staff on the Draft Act and the Transition Plan.

This forum enables the Transition Office to draw on the experience and expertise of participating regulators, while at the same time providing an open line of communication to allow participating regulators to stay abreast of the Transition Office's work and help keep their staff informed.

Members of the committee are:

<b>British Columbia</b>	<b>Northwest Territories</b>
Brenda Leong	Gary I. MacDougall
Chair and Chief Executive Officer	Superintendent of Securities
British Columbia Securities Commission	Department of Justice
	Government of the Northwest Territories
<b>New Brunswick</b>	<b>Nova Scotia</b>
David G. Barry	Leslie O'Brien
Chair and Chief Executive Officer	Chair
New Brunswick Securities Commission	Nova Scotia Securities Commission
Rick Hancox	Bill Slattery
Executive Director	Executive Director
New Brunswick Securities Commission	Nova Scotia Securities Commission
<b>Newfoundland and Labrador</b>	<b>Nunavut</b>
Doug Connolly	Louis L. Arki
Director, Financial Services Regulation Division	Superintendent of Securities
Department of Government Services	Department of Justice
Government of Newfoundland and Labrador	Government of Nunavut

## **Ontario**

David Wilson  
Chair and Chief Executive Officer  
Ontario Securities Commission

Peggy Dowdall-Logie  
Executive Director and  
Chief Administrative Officer  
Ontario Securities Commission

## **Prince Edward Island**

Katharine Tummon  
Superintendent of Securities  
Consumer, Corporate and  
Insurance Services Division  
Office of the Attorney General  
Government of Prince Edward Island

## **Saskatchewan**

David Wild  
Chair  
Saskatchewan Financial Services Commission

## **Yukon**

Frederik J. Pretorius  
Superintendent of Securities  
Department of Community Services  
Government of Yukon

We had 15 meetings with this committee and members of their staff by conference call, videoconference and in person, between October 2009 and June 2010. The committee provided advice and input on the Draft Act as well as feedback on the Transition Plan.

### *iii) Legal Advisory Committee*

The purpose of the Legal Advisory Committee is to advise the Transition Office on policy matters related to securities regulation. Members of the committee are securities law experts who were previously members of the Legal Advisory Committee to the Expert Panel on Securities Regulation.

Members of the committee are:

Philip Anisman	Barrister & Solicitor
Richard Balfour	Torys LLP
Patrick Finnerty	Blakes LLP
Mitchell Gropper	Farris Vaughan Wills & Murphy LLP
Glorianne Stromberg	Barrister & Solicitor (retired)

We met with the Legal Advisory Committee eight times between October 2009 and June 2010 to obtain advice and input on the Draft Act.

## **2) Roundtables**

During the fiscal year, we had roundtable discussions with a variety of stakeholders, including investors, academics, former regulators, capital markets participants, lawyers, accountants and other professionals, to obtain input on key issues related to the development of the Draft Act. These issues included enforcement, the adjudicative tribunal to be established under the new regulator and the governance structure of the new organization.

We also had a roundtable discussion with investor representatives to obtain their views on the mandate, structure and composition of the investor panel that we have recommended be part of the new organization. In April 2010, we published a report on this roundtable.



### 3) Meetings, Presentations and Other Consultations

In an effort to keep market participants apprised of our work and obtain input on the Draft Act, we met with, gave presentations to, and solicited input from, a wide range of stakeholders during the fiscal year. These included:

- representatives of provincial governments, law enforcement officials, members of the RCMP and lawyers practising in the areas of securities and administrative law, to discuss issues related to enforcement and adjudication;
- representatives of self-regulatory organizations (SROs) and recognized entities, to solicit their views on SRO oversight;
- representatives of recognized entities such as the Canadian Public Accountability Board, to discuss specific market issues;
- industry associations such as the Investment Industry Association of Canada, the Investment Counsel Association of Canada, the CFA Institute and Advocis, to provide them with an overview of our mandate and work and solicit their views on the governance structure of the new regulator;
- former regulators and members of panels that have studied the issue of a national regulator to discuss issues related to the governance structure and adjudicative tribunal of the new organization; and
- lawyers specializing in securities and administrative law to provide their feedback on a confidential basis regarding the Draft Act.

### 4) Future Consultations

In order to meet our objectives, during our first year of operations, our consultations were limited in scope to the development of the Draft Act and the Transition Plan. In the coming year, consultation will continue to be a critical aspect of our work, however we are now in a position to consult more broadly on all aspects of our mandate. This means that we will consult with federal, provincial and territorial governments, investors, market participants and other stakeholders regarding the implementation of the activities described in the Transition Plan, including the organization and effective operation of the Investor Advisory Panel.

## II. DEVELOPMENT OF NATIONAL SECURITIES LEGISLATION

Over the past year, the Transition Office led the development of the Draft Act in consultation with the participating provinces and territories and key stakeholders, as described in Section I above. The Departments of Finance and Justice of the Government of Canada also provided ongoing support and advice throughout its development.

The Transition Office submitted the Draft Act to the Minister in spring 2010. On May 26, 2010, following government review and approval, the Minister of Finance released the proposed Canadian *Securities Act* (the Proposed Act) and the Government of Canada referred it to the Supreme Court of Canada for an opinion as to whether it is within the legislative authority of Parliament.

In the coming year, the Transition Office will continue to move the regulation regime process forward by leading the development of regulations to accompany the Proposed Act.

## III. DEVELOPMENT OF A TRANSITION PLAN

Over the past year, we developed the Transition Plan in consultation with the participating provinces and territories and key stakeholders, as described in Section I above.

In November 2009, the Transition Office awarded competitively tendered contracts to two consulting firms to assist with developing the Transition Plan and with its implementation, contingent on its endorsement by governments: Deloitte LLP and Pricewaterhouse Coopers (PwC). Deloitte is the lead consulting firm for the overall project and for work related to the Transition Plan. PwC and Deloitte will assist with the implementation.

On July 12, 2010, we delivered the Transition Plan to the Minister of Finance and to the participating provinces and territories. The Plan was released to the public on July 13, 2010.

The Transition Plan sets out a roadmap for the establishment of a new national regulator, the Canadian Securities Regulatory Authority (CSRA), and a vision for its regulatory approach, as well as recommendations regarding the governance structure, organization design and implementation. It envisions further development and implementation planning with the goal of beginning CSRA operations in July 2012.

The Transition Plan is intended to form the basis of agreements between the federal government and provinces and territories, and we expect that the details of the transition process will continue to evolve through dialogue with provinces and territories and through ongoing consultations.



## NEXT STEPS

To begin the next phase of the transition project, we anticipate provinces and territories will sign development agreements by fall 2010, to formalize their intention to continue to work with the Transition Office and participate in developing the CSRA. Under these agreements, participating jurisdictions will provide detailed information and assign regulatory and ministry staff to share their technical and operational expertise regarding the processes and functions required to establish the CSRA.

The next phase will also involve more detailed planning and continued consultation work as we move toward implementing the CSRA. It will include work to prepare an initial set of regulations that complement the fundamental provisions of the Proposed Act.

We look forward to continuing our work in cooperation with the Government of Canada and participating provinces and territories.







## FINANCIAL RESULTS

The Transition Office's financial results cover an 8½ month operating period from July 13, 2009 to March 31, 2010. During that time, the Transition Office received funding of \$5.4 million from the Government of Canada and had operating expenses of \$4.3 million, leaving a surplus of \$1.1 million for the period. The Transition Office closed the period with cash of \$2.1 million and net financial assets of \$0.8 million.

In addition to delivering on our mandate for consultations, leading development of the proposed Canadian *Securities Act*, and development of the Transition Plan, the Transition Office also took steps following our establishment to put in place the staff, processes and infrastructure necessary to enable operation as a standalone entity. The organization had a complement of 17 full-time and part-time staff at March 31, 2010, with offices located in Toronto and Vancouver.

Operating expenses for the 8½ months totalled \$4.3 million. Expenditures included: staff compensation and benefits; professional fees; outsourced service costs; travel and consultation hosting expenses; information technology and telecommunications infrastructure; and office occupancy and administration expenses. Operating expenses were \$1.1 million lower than the Transition Office's budget of \$5.4 million for the period. Key factors included fewer staff positions and later timing of staff additions, lower staff and committee travel expenses, and capitalization of acquired tangible assets that were included in the budget as operating expenses.

The *Canadian Securities Regulation Regime Transition Office Act* provides a total budgetary allocation of \$33 million to fund the operations of the Transition Office during the 3-year term of its mandate. The Government of Canada has provided \$13.3 million in funding for the operations of the Transition Office in fiscal 2010/11, bringing to \$18.7 million the total funding received to date by the Transition Office.





## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the financial statements of the Canadian Securities Regulation Regime Transition Office (Transition Office) and other financial information in this annual report is the responsibility of the Transition Office's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the public sector. Where required, management's best estimates and judgements have been applied in the preparation of these financial statements.

Management fulfils its financial reporting responsibilities by maintaining financial and management control systems and practices designed to provide reasonable assurance that transactions are duly authorized, assets are safeguarded, proper records are maintained, accurate financial information is prepared on a timely basis, and the Transition Office complies with all statutory requirements.

These financial statements have been audited by the Auditor General of Canada, and her report is included herein.



Douglas M. Hyndman  
*Chair and Chief Executive Officer*



Jay G. Whitwham  
*Chief Financial Officer*

Vancouver, Canada  
July 2, 2010







## AUDITOR'S REPORT

To the Canadian Securities Regulation Regime Transition Office and the Minister of Finance

I have audited the statement of financial position of the Canadian Securities Regulation Regime Transition Office as at March 31, 2010 and the statements of operations and accumulated surplus, statement of changes in net financial assets, and cash flow for the period from July 13, 2009 to March 31, 2010. These financial statements are the responsibility of the Transition Office'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 Transition Office as at March 31, 2010 and the results of its operations and its cash flows for the period from July 13, 2009 to March 31, 2010 in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions of the Transition Office that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Canadian Securities Regulation Regime Transition Office Act*.

Nancy Y. Cheng, FCA  
Assistant Auditor General  
for the Auditor General of Canada

Ottawa, Canada  
2 July 2010



## FINANCIAL STATEMENTS AND NOTES

### Statement of Financial Position

As at March 31, 2010

*(in thousands of dollars)*

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#### Financial assets

Cash	2,094
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#### Liabilities

Accounts payable and accrued liabilities	1,272
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Deferred rent (note 5)	32
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<b>Total liabilities</b>	<b>1,304</b>
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<b>Net financial assets</b>	<b>790</b>
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#### Non-financial assets

Tangible capital assets (note 4)	226
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Prepaid expenses	80
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<b>Total non-financial assets</b>	<b>306</b>
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<b>Accumulated surplus</b>	<b>1,096</b>
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Contractual obligations (note 6)

*The accompanying notes form an integral part of these financial statements.*

Approved by:

Douglas M. Hyndman  
Chair and Chief Executive Officer

Bryan P. Davies  
Vice-Chair

## Statement of Operations and Accumulated Surplus

From date of inception of July 13, 2009 to March 31, 2010

<i>(in thousands of dollars)</i>	<b>Budget</b>	<b>Actual</b>
<b>Operating expenses</b>		
Compensation and benefits	2,275	1,816
Consulting services	1,800	1,801
Travel and consultation hosting	645	294
Occupancy	210	232
Information management	205	57
Administration	140	47
Telecommunications	125	30
Amortization	-	27
<b>Total operating expenses</b>	<b>5,400</b>	<b>4,304</b>
<b>Government of Canada funding (note 3)</b>	<b>5,400</b>	<b>5,400</b>
<b>Net results of operations</b>	<b>-</b>	<b>1,096</b>
<b>Accumulated surplus at beginning of period</b>		<b>-</b>
<b>Accumulated surplus at end of period</b>		<b>1,096</b>

*The accompanying notes form an integral part of these financial statements.*



## Statement of Changes in Net Financial Assets

### From date of inception of July 13, 2009 to March 31, 2010

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*(in thousands of dollars)*

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#### Items affecting net financial assets

Increase in accumulated surplus	1,096
Acquisition of tangible capital assets	(253)
Amortization of tangible capital assets	27
Increase in prepaid expenses	(80)

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<b>Net financial assets at end of period</b>	<b>790</b>
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*The accompanying notes form an integral part of these financial statements.*



## Statement of Cash Flow

From date of inception of July 13, 2009 to March 31, 2010

*(in thousands of dollars)*

### Operating activities

Cash received from Government of Canada	5,400
Cash paid for:	
Compensation and benefits	1,313
Facilities, services and supplies	1,769
Total cash paid	3,082
<b>Cash provided by operating activities</b>	<b>2,318</b>

### Capital activities

Acquisition of tangible capital assets	(224)
<b>Cash at end of period</b>	<b>2,094</b>

*The accompanying notes form an integral part of these financial statements.*



## Notes to the Financial Statements

From date of inception of July 13, 2009 to March 31, 2010

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### 1. Authority and Operations

The Canadian Securities Regulation Regime Transition Office (the Transition Office) was created under the *Canadian Securities Regulation Regime Transition Office Act* (the Act), which came into force on July 13, 2009. The purpose of the Transition Office is to assist in the establishment of a Canadian securities regulation regime and a Canadian regulatory authority.

The Transition Office has a 3-year mandate expiring on July 12, 2012. The Act provides that the mandate of the Transition Office may be extended to July 12, 2013 by the Governor in Council, acting on the recommendation of the Minister of Finance.

The principal operations of the Transition Office to date include:

- i) consulting with the Advisory Committee of Participating Provinces and Territories and with stakeholders, including investor representatives and capital market participants, on specific issues related to developing proposed securities legislation and a transition plan for establishing a Canadian securities regulator;
- ii) leading the development of a draft *Securities Act* for the approval of the Minister of Finance, with the support of the Department of Finance and Department of Justice; and
- iii) developing a transition plan, which will be a roadmap for establishing a Canadian securities regulator and integrating regulators of the participating jurisdictions into a new agency with a common organizational structure.

The Government of Canada is entitled to any residual interest in the Transition Office and will assume any risks and obligations upon its dissolution.

### 2. Significant Accounting Policies

#### (a) Basis of presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for the public sector.

#### (b) Government of Canada funding

Aggregate funding of \$33 million is authorized under the Act for the operations and expenditures of the Transition Office during the term of its mandate, with such funding to be paid out of the Consolidated Revenue Fund on the requisition of the Minister of Finance. Funding provided by the Government is recognized in the Statement of Operations in the period it becomes receivable.

#### (c) Operating expenses

Operating expenses of the Transition Office are recorded when goods have been received and/or services have been rendered.

**(d) Tangible capital assets**

All tangible capital assets having an initial cost of \$2,000 or more are recorded at their acquisition cost. Tangible assets include computers (hardware and software), telecommunications equipment, office furniture and leasehold improvements. Amortization of tangible assets is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

Computers (hardware and software)	-	3 years
Telecommunications equipment	-	3 years
Office furniture	-	5 years
Leasehold improvements	-	period of lease

**(e) Measurement uncertainty**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and expenses reported in the financial statements. At the time of preparation of these financial statements, management believes the estimates and assumptions to be reasonable. Actual results could differ significantly from those estimated. The most significant management estimate is the useful life of tangible capital assets.

**(f) Future accounting changes**

In May 2010, the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants issued a re-exposure draft proposing amendments to address interpretation and application issues with current Public Sector Accounting Handbook section PS 3410, Government Transfers. The re-exposure draft is open to comment until September 15, 2010, and changes would not become effective until April 1, 2012. The future accounting implications of this new standard on the Transition Office are not expected to be significant.

**3. Government of Canada Funding**

The Government of Canada provided funding of \$5.4 million to the Transition Office during the period. Cash balances held by the Transition Office are maintained on deposit with a major Canadian financial institution.



## 4. Tangible Capital Assets

<i>(in thousands of dollars)</i>	Computers and Telecom Equipment	Office Furniture	Leasehold Improvements	Total
<b>Cost</b>				
Acquisitions	167	57	29	<b>253</b>
Closing balance	167	57	29	<b>253</b>
<b>Accumulated amortization</b>				
Amortization	24	2	1	<b>27</b>
Closing balance	24	2	1	<b>27</b>
<b>Net book value</b>	<b>143</b>	<b>55</b>	<b>28</b>	<b>226</b>

## 5. Deferred Rent

The Transition Office has entered into a lease agreement for office premises that includes a rent-free period. The total payments due over the term of the lease are aggregated, with this aggregate amount being recognized to expense on a straight-line basis over the lease term, including the rent-free period. The balance shown as deferred rent represents the cumulative amount by which rent recognized as expense on a straight-line basis exceeds actual rent paid as at March 31, 2010.

## 6. Contractual Obligations

The Transition Office has agreements for the lease of office premises and equipment. Under these agreements, the Transition Office is obligated to make the following annual payments:

<i>(in thousands of dollars)</i>	2010-11	2011-12	2012-13	Total
Lease payments	494	454	274	<b>1,222</b>

Payments noted above include operating costs and property taxes for leased office premises, which are subject to adjustment annually based on the Transition Office's proportionate share of the actual costs incurred by the Landlord.



**Vancouver:**

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701 West Georgia Street Suite 1650  
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V7Y 1E4

**Toronto:**

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Toronto, ON  
M5K 1G8

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**Toll-free:** 888-697-5390

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CANADIAN SECURITIES TRANSITION OFFICE

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