Ontario

MINISTRY OF FINANCE

Public Accounts of ONTARIO

2004-2005

FINANCIAL STATEMENTS OF CROWN CORPORATIONS, BOARDS, COMMISSIONS

Volume 2

TABLE OF CONTENTS

MINISTERIAL RESPONSIBILITY FOR
GOVERNMENT ENTERPRISES, ORGANIZATIONS, TRUSTS & OTHER

Minister of Agriculture and Food
- Agricorp

Ministry of Attorney General
- Legal Aid Ontario
- The Public Guardian and Trustee for the Province of Ontario

Minister of Consumer and Business Services
- Ontario Racing Commission

Minister of Culture
- The Centennial Centre of Science and Technology
- Ontario Trillium Foundation
- Royal Ontario Museum

Minister of Economic Development and Trade
- Liquor Control Board of Ontario
- Ontario Immigrant Investor Corporation
- Ontario Lottery and Gaming Corporation

Ministry of Education
- Education Quality and Accountability Office

Minister of Energy
- Hydro One Inc.
- Independent Electricity System Operator
- Ontario Energy Board
- Ontario Power Generation

Minister of Environment
- Ontario Clean Water Agency

Minister of Finance
- Deposit Insurance Corporation of Ontario
- Losses deleted from the accounts
- Motor Vehicle Accident Claims Fund
- Ontario Electricity Financial Corporation
- Ontario Financing Authority
- Ontario Strategic Infrastructure Financing Authority
- Ontario Securities Commission
- Pension Benefit Guarantee Fund
- Provincial Judges Pension Fund
- Revenue remissions

Minister of Health and Long-Term Care
- Cancer Care Ontario
- Smart Systems for Health

Minister of Labour
- Workplace Safety and Insurance Board

Chair of Management Board of Cabinet (Management Board Secretariat)
- Ontario Pension Board
- Ontario Realty Corporation

Minister of Municipal Affairs and Housing
- Ontario Housing Corporation

Minister of Natural Resources
- Algonquin Forestry Authority

Minister of Northern Development and Mines
- Northern Ontario Heritage Fund Corporation
- Ontario Northland Transportation Commission

Minister of Tourism and Recreation
- Metropolitan Toronto Convention Centre Corporation
- Ontario Place Corporation
- Niagara Parks Commission

Minister of Training, Colleges and Universities
- Ontario Educational Communications Authority (TV Ontario)

Minister of Transportation
- Greater Toronto Transit Authority
- Toronto Area Transit Operating Authority

A GUIDE TO PUBLIC ACCOUNTS

1. SCOPE OF THE PUBLIC ACCOUNTS

The 2004-2005 Public Accounts of the Province of Ontario comprise the **Annual Report and Financial Statements** and three volumes:

Volume 1 contains the ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2 contains the financial statements of significant provincial corporations, boards and commissions that are part of the government's reporting entity and other miscellaneous financial statements.

Volume 3 contains detailed schedules of payments made by ministries to vendors and transfer payment recipients.

2. A GUIDE TO VOLUME 2 OF THE PUBLIC ACCOUNTS

The financial statements of the selected crown corporations, boards and commissions are for fiscal periods ending within the Province's own fiscal period April 1, 2004 to March 31, 2005. They are presented in the same detail as the approved, audited financial statements and as nearly as possible in the same form. The statements have been presented in the order shown in the Table of Contents (Volume 2a contains Government Business Enterprises; Volume 2b contains Other Government Organizations, Trusts and Miscellaneous Statements). In addition, a listing is provided which groups the crown corporations, boards and commissions by ministerial responsibility.

GOVERNMENT BUSINESS ENTERPRISES

Algonquin Forestry Authority
Year ended March 31, 2005

Management's Responsibility for Financial Information

Management and the Board of Directors of the Algonquin Forestry Authority are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgements.

The Algonquin Forestry Authority is dedicated to the highest standards of integrity in its business. To safeguard the Authority's assets, the Authority has a sound and dynamic set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the *Algonquin Forestry Authority Act*.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal control. The Board of Directors meets regularly to oversee the financial activities of the Authority and at least annually to review the financial statements and the external auditors' report thereon, and recommends them to the Minister of Natural Resources for approval.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

Tim Doyle C.A.
Treasurer

Carl Corbett R.P.F.
General Manager

Office of the Auditor General of Ontario

Bureau du vérificateur général de l'Ontario

AUDI ALTERAM PARTEM

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Members,
Algonquin Forestry Authority,
and to the Minister of Natural Resources

I have audited the statement of financial position of the Algonquin Forestry Authority as at March 31, 2005 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority'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 Authority as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 3, 2005

Gary R. Peall, CA
Deputy Auditor General

Algonquin Forestry Authority
Statement of Financial Position
Year Ended March 31

	2005	2004
Assets		
Current		
Cash and cash equivalents	**$ 2,136,856**	$ 1,821,859
Temporary investments	**2,560,143**	1,852,319
Receivables	**4,560,048**	4,706,996
Inventory	**592,083**	387,788
Prepaids	**5,411**	5,580
	9,854,541	8,774,542
Capital assets (Note 4)	**1,097,227**	1,385,230
	$ 10,951,768	$ 10,159,772
Liabilities		
Current		
Payables and accruals	**$ 816,324**	$ 1,227,979
Contractors' performance holdbacks	**84,256**	74,588
Due to Consolidated Revenue Fund	**540,039**	481,748
	1,440,619	1,784,315
Deferred contributions (Note 5)	**163,520**	68,769
Deferred contributions related to forest renewal activity (Note 6)	**76,282**	53,349
Obligation for employee future benefits (Note 7)	**399,954**	365,678
	639,756	487,796
Net assets		
Invested in capital assets	**1,097,227**	1,385,230
Restricted - Forest Renewal Fund (Note 3)	**2,579,679**	2,484,870
Unrestricted - General Fund	**5,194,487**	4,017,561
	8,871,393	7,887,661
	$ 10,951,768	$ 10,159,772

On behalf of the Board

Director Director

See accompanying notes to the financial statements.

Algonquin Forestry Authority
Statement of Operations
Year Ended March 31

	General Fund	Forest Renewal Fund	**Total 2005**	Total 2004
Revenue				
Product sales	$ 26,437,511	$ ---	**$26,437,511**	$ 25,344,839
Forest renewal activity	---	1,188,275	**1,188,275**	1,366,773
Standing timber sales	777,915	---	**777,915**	410,299
Other	291,995	54,018	**346,013**	493,092
	27,507,421	1,242,293	**28,749,714**	27,615,003
Expenditure				
Direct program costs	20,293,553	823,582	**21,117,135**	21,307,979
Crown timber stumpage charges	3,979,138	---	**3,979,138**	3,650,173
Public access road maintenance	234,630	---	**234,630**	334,066
Wood measurement	121,586	---	**121,586**	126,276
Operations planning	101,063	---	**101,063**	150,683
	24,729,970	823,582	**25,553,552**	25,569,177
Operating income	2,777,451	418,711	**3,196,162**	2,045,826
Administrative and other				
Salaries and benefits	1,105,978	290,708	**1,396,686**	1,331,304
Depreciation and amortization	453,889	40,791	**494,680**	520,524
Office supplies and expenses	111,369	426	**111,795**	94,125
Public relations	59,079	---	**59,079**	29,603
Office rent	27,226	16,920	**44,146**	44,418
Staff travel and training	32,211	5,312	**37,523**	39,824
Insurance	21,981	10,536	**32,517**	25,794
Consulting, legal and miscellaneous	18,860	—	**18,860**	8,026
Directors' allowances and expenses	17,144	---	**17,144**	24,594
	1,847,737	364,693	**2,212,430**	2,118,212
Net income (loss) for the year	$ 929,714	$ 54,018	**$ 983,732**	$ (72,386)

See accompanying notes to the financial statements.

Algonquin Forestry Authority
Statement of Changes in Net Assets
Year Ended March 31

	Invested In Capital Assets	Restricted - Forest Renewal Fund	Unrestricted - General Fund	**2005** **Total**	2004 Total
Balance, beginning of year	$ 1,385,230	$ 2,484,870	$ 4,017,561	**$ 7,887,661**	$7,960,047
Net income (loss) for the year	---	54,018	929,714	**983,732**	(72,386)
Depreciation and amortization	(494,680)	40,791	453,889	**---**	---
Investment in capital assets	206,677	---	(206,677)	**---**	---
Balance, end of year	$ 1,097,227	$ 2,579,679	$ 5,194,487	**$ 8,871,393**	$7,887,661

See accompanying notes to the financial statements.

Algonquin Forestry Authority
Statement of Cash Flows
Year Ended March 31

	2005	2004
Cash and cash equivalents derived from (applied to)		
Operating		
Net income (loss) for the year:		
General Fund	$ 929,714	$ (127,374)
Forest Renewal Fund	54,018	54,988
Add (deduct): non-cash items		
Depreciation and amortization	494,680	520,524
Gain on sale of capital assets	(8,770)	(15,319)
	1,469,642	432,819
Change in non-cash operating working capital	(400,874)	668,178
	1,068,768	1,100,997
Financing		
Deferred contributions	117,684	(268,866)
Obligation for employee future benefits	34,276	23,966
	151,960	(244,900)
Investing		
Acquisition of temporary investments	(707,824)	(49,866)
Acquisition of capital assets	(206,677)	(175,544)
Proceeds on sale of capital assets	8,770	19,081
	(905,731)	(206,329)
Increase in cash and cash equivalents	314,997	649,768
Cash and cash equivalents, beginning of year	1,821,859	1,172,091
Cash and cash equivalents, end of year	$ 2,136,856	$ 1,821,859

See accompanying notes to the financial statements.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2005

---

1. Purpose of the organization

The Authority is responsible for forest management in Algonquin Provincial Park. The Authority is a Crown Agency which was established by the Ontario government on January 4, 1975 under the Algonquin Forestry Authority Act, 1974. The Authority is exempt from income taxes under the Income Tax Act.

---

2. Significant accounting policies

Basis of accounting

The Authority's financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants.

Fund accounting

The General Fund accounts for the Authority's profit generating and administrative activities. The Forest Renewal Fund accounts for the forest management activities, including silvicultural work.

Revenue recognition

The Authority follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Revenue from product and standing timber sales and forest renewal charges are recognized when the wood is delivered. Consulting and other income is recognized as revenue when earned.

Temporary investments

Temporary investments consist of short term treasury bills and are recorded at the lower of cost or market. The fair value of the Authority's temporary investments approximate their carrying value due to their short term maturity.

Inventories

Inventories are valued on the first in, first out basis at the lower of cost or net realizable value.

Capital assets

Capital assets are recorded at cost. Depreciation is provided on a straight-line basis, using rates of 10% per annum for furniture, fixtures, technical equipment, buildings and leasehold improvements, 20% per annum for data processing equipment, and 25% per annum for automotive equipment. The cost of bridges and access roads is amortized over the estimated number of operating seasons for which the bridges and roads are to be used, with a maximum amortization period of 10 years. Forest renewal assets are depreciated and amortized at the same rates as the assets mentioned above.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, balances with banks and short term deposits with original maturities of three months or less.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2005

2. Significant accounting policies (cont'd)

Use of estimates

In preparing the Authority's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Forest Renewal Fund

Effective April 1, 1997, the Authority entered into a 20-year agreement with the Ministry of Natural Resources to perform forest management activities, including silvicultural work. Funding, on a cost recovery basis, for these activities is derived from stumpage charges levied under the Crown Forest Sustainability Act and grants from the Forestry Futures Fund.

The agreement also provided for a transfer of $1,500,000 from unrestricted net assets to the Forest Renewal Fund, which took place during 1998. The Authority is required to maintain, at a minimum, this amount in the Forest Renewal Fund.

4. Capital assets

	Cost	Accumulated Depreciation	**2005 Net Book Value**	2004 Net Book Value
Bridges and access roads	$ 5,298,962	$ 4,589,822	**$ 709,140**	$ 956,548
Buildings	283,496	156,838	**126,658**	150,055
Forest renewal assets	508,038	403,116	**104,922**	90,761
Automotive equipment	302,951	207,411	**95,540**	98,336
Data processing equipment	181,502	150,285	**31,217**	52,209
Furniture and fixtures	83,358	63,349	**20,009**	23,432
Technical equipment	192,282	183,660	**8,622**	11,386
Leasehold improvements	40,459	39,340	**1,119**	2,503
	$ 6,891,048	$ 5,793,821	**$ 1,097,227**	$ 1,385,230

5. Deferred contributions

Deferred contributions represent unspent resources externally restricted for public access road maintenance received from the Ministry of Natural Resources in the current period and which relate to expenses of future periods. Changes in the deferred contributions balance are as follows:

	2005	2004
Beginning balance	**$ 68,769**	$ 24,319
Add: amount received in the year	**331,000**	380,000
Less: amount spent on road maintenance and related depreciation costs in the year	**(236,249)**	(335,550)
Ending balance	**$ 163,520**	$ 68,769

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2005

6. Deferred contributions related to forest renewal activity

Deferred contributions related to forest renewal activity represent unspent resources externally restricted by the Ministry of Natural Resources for Forest Renewal Fund activities. They consist of funds from Forest Renewal charges billed to customers received in the current period that relate to expenses of future periods. Changes in the deferred contributions balance are as follows:

	2005	2004
Beginning balance	**$ 53,349**	$ 366,665
Add: amount received in the year	**1,211,208**	1,053,457
Less: amount spent on forest renewal activity in the year	**(1,188,275)**	(1,366,773)
Ending balance	**$ 76,282**	$ 53,349

7. Employee future benefits

The Authority provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario, which is a multi-employer defined benefit plan providing pension benefits. This plan is accounted for as a defined contribution plan as there is insufficient information available to apply defined benefit plan accounting. The Authority's contributions related to the pension plan for the year were $93,203 (2004 - $ 87,191) and are included in salaries and benefits in the Statement of Operations.

The Authority also provides termination benefits to qualifying employees. All full-time employees qualify for a severance payment equal to one week of salary for each year of continuous service with the Authority, to a maximum of one half of the employee's annual salary. The total obligation for severance payments vested amounts to $399,954 at year-end (2004 - $365,678).

The cost of other non-pension post-retirement benefits is the responsibility of the Ontario Management Board Secretariat and accordingly is not accrued or included in the Statement of Operations.

8. Remuneration of appointments

Total remuneration of the Board members of the Authority was approximately $ 4,950 during the fiscal year (2004 - $6,890).

HYDRO ONE INC.
MANAGEMENT'S REPORT

The Consolidated Financial Statements, Management's Discussion and Analysis ("MD&A") and related financial information presented in this Annual Report have been prepared by the management of Hydro One Inc. ("Hydro One" or the "Company"). Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada and applicable securities legislation. The MD&A has been prepared in accordance with National Instrument 51-102, Part 5.

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements and MD&A have been properly prepared within reasonable limits of materiality and in light of information up to February 11, 2005.

In meeting the responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal control and internal audit. The system of internal control includes a written corporate conduct policy; implementation of a risk management framework; effective segregation of duties and delegation of authorities; and sound and conservative accounting policies that are regularly reviewed. This structure is designed to provide reasonable assurance that assets are safeguarded and that reliable information is available on a timely basis. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Finance Committee of the Hydro One Board of Directors.

The Consolidated Financial Statements have been examined by Ernst & Young LLP, independent external auditors appointed by the Hydro One Board of Directors. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report, which appears on page 21, outlines the scope of their examination and their opinion.

The Hydro One Board of Directors, through its Audit and Finance Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Finance Committee of Hydro One met periodically with management, the internal auditors, and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit and Finance Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

The Company's President and Chief Executive Officer, and Chief Financial Officer have certified Hydro One's annual Consolidated Financial Statements and annual MD&A filed under provincial securities legislation pursuant to Multilateral Instrument 52-109.

On behalf of Hydro One Inc.'s management:

Tom Parkinson	Beth Summers
President and Chief Executive Officer	Chief Financial Officer

hydroOne

HYDRO ONE INC.
AUDITORS' REPORT

To the Shareholder of Hydro One Inc.:

We have audited the Consolidated Balance Sheets of Hydro One Inc. (the Company) as at December 31, 2004 and December 31, 2003, and the Consolidated Statements of Operations, Retained Earnings and Cash Flows of the Company for each of the years in the two-year period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and December 31, 2003, the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2004, in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Toronto, Canada

February 11, 2005

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31 (Canadian dollars in millions)	**2004**	**2003**
Revenues		
Transmission *(Note 14)*	1,262	1,298
Distribution *(Note 14)*	2,874	2,734
Other	17	26
	4,153	4,058
Costs		
Purchased power *(Note 14)*	1,987	1,872
Operation, maintenance and administration	771	795
Depreciation and amortization *(Note 4)*	480	454
	3,238	3,121
Regulatory recovery *(Note 3)*	91	-
Income before financing charges and provision for payments in lieu of corporate income taxes	1,006	937
Financing charges *(Note 5)*	331	348
Income before provision for payments in lieu of corporate income taxes	675	589
Provision for payments in lieu of corporate income taxes *(Notes 6 and 14)*	177	193
Net income	498	396
Basic and fully diluted earnings per common share *(Canadian dollars) (Note 13)*	4,798	3,779

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year ended December 31 (Canadian dollars in millions)	**2004**	**2003**
Retained earnings, January 1	654	502
Net income	498	396
Dividends *(Note 13)*	(265)	(244)
Retained earnings, December 31	887	654

See accompanying notes to Consolidated Financial Statements.

hydroOne

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS

December 31 (Canadian dollars in millions)	**2004**	**2003**
Assets		
Current assets:		
Accounts receivable (net of allowance for doubtful accounts - $18 million; 2003 - $18 million) *(Note 14)*	707	616
Materials and supplies	47	45
	754	661
Fixed assets *(Note 7)*:		
Fixed assets in service	14,940	14,362
Less: accumulated depreciation	5,475	5,175
	9,465	9,187
Construction in progress	348	278
	9,813	9,465
Other long-term assets:		
Deferred pension asset *(Note 11)*	534	584
Regulatory assets *(Note 8)*	443	421
Goodwill	133	133
Long-term accounts receivable and other assets	25	20
Deferred debt costs	23	22
	1,158	1,180
Total assets	11,725	11,306

See accompanying notes to Consolidated Financial Statements.

hydroOne

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (continued)

December 31 (Canadian dollars in millions)	**2004**	**2003**
Liabilities		
Current liabilities:		
Bank indebtedness	9	37
Accounts payable and accrued charges *(Note 14)*	630	620
Accrued interest	44	38
Short-term notes payable *(Note 9)*	40	25
Long-term debt payable within one year *(Note 9)*	539	472
	1,262	1,192
Long-term debt *(Note 9)*	4,613	4,539
Other long-term liabilities:		
Regulatory liabilities *(Note 8)*	576	587
Employee future benefits other than pension *(Note 11)*	654	597
Environmental liabilities *(Note 12)*	74	69
Long-term accounts payable and accrued charges	22	31
	1,326	1,284
Total liabilities	7,201	7,015
Contingencies and commitments *(Notes 10, 16 and 17)*		
Shareholder's equity *(Note 13)*		
Preferred shares (authorized: unlimited; issued: 12,920,000)	323	323
Common shares (authorized: unlimited; issued: 100,000)	3,314	3,314
Retained earnings	887	654
Total shareholder's equity	4,524	4,291
Total liabilities and shareholder's equity	11,725	11,306

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:

R. Burak

E Mercier

Rita Burak
Chair

Eileen Mercier
Chair, Audit and Finance Committee

hydroOne

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (Canadian dollars in millions)	**2004**	**2003**
Operating activities		
Net income	498	396
Adjustments for non-cash items:		
Depreciation and amortization (net of removal costs)	446	417
Amortization of discount	62	60
Retail settlement variance accounts	29	21
Regulatory recovery *(Note 3)*	(91)	-
	944	894
Changes in non-cash balances related to operations *(Note 15)*	(33)	138
Net cash from operating activities	911	1,032
Investing activities		
Capital expenditures	(727)	(597)
Other assets	19	3
Net cash used in investing activities	(708)	(594)
Financing activities		
Long-term debt issued	540	1,250
Long-term debt retired	(472)	(879)
Short-term notes payable	15	(554)
Dividends paid	(265)	(244)
Termination of forward sale	-	(12)
Other	7	(1)
Net cash used in financing activities	(175)	(440)
Net change in cash and cash equivalents	28	(2)
Cash and cash equivalents, January 1	(37)	(35)
Cash and cash equivalents, December 31 *(Note 15)*	(9)	(37)

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

Hydro One Inc. (Hydro One or the Company) was incorporated on December 1, 1998, under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the Province). The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario. These businesses are regulated by the Ontario Energy Board (OEB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries: Hydro One Networks Inc. (Hydro One Networks), Hydro One Remote Communities Inc. (Hydro One Remote Communities), Hydro One Brampton Inc. (Hydro One Brampton), Hydro One Telecom Inc., Hydro One Delivery Services Company Inc., Hydro One Network Services Inc. (Hydro One Network Services), 1316664 Ontario Inc., formerly Ontario Hydro Energy Inc. (Ontario Hydro Energy), and Hydro One Markets Inc. (Hydro One Markets).

Effective January 1, 2003, Hydro One Networks and Hydro One Network Services were combined. Hydro One Network Services, the former Ontario Hydro Energy and Hydro One Markets will be dissolved pursuant to the *Business Corporations Act* (Ontario).

Basis of Accounting

The Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP).

Rate-setting

The rates of the Company's electricity transmission and distribution businesses are subject to regulation by the OEB. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods than would be the case had the Company been unregulated. Specific regulatory assets and liabilities are disclosed in Note 8.

On December 9, 2004, the OEB issued its decision on the prudence of various regulatory deferral accounts incurred prior to December 31, 2003, plus related interest. As a result of the OEB's decision, the proportion of our regulatory assets subject to potential future OEB disallowance has been significantly reduced. However, regulatory asset amounts included in approved accounts that were recognized after December 31, 2003 have not yet been reviewed by the OEB. Similarly, the Company's deferred distribution-related pension expenditures have not yet been reviewed by the OEB for prudence. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made.

Revenue Recognition and Allocation

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as power is transmitted and delivered to customers.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution tariff rates and are recognized as electricity is delivered to customers. The Company estimates the monthly revenue for the period based on wholesale power purchases because customer meters are not generally read at the end of each month. Unbilled revenue included within accounts receivable as at December 31, 2004 amounted to $318 million (2003 - $286 million).

Distribution revenue also includes an amount relating to rate protection for rural residential and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB. The current legislation provides rate protection for prescribed classes of rural residential and remote consumers by reducing the electricity rates that would otherwise apply.

Segment revenues for transmission, distribution and other also include revenue related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Corporate Income and Capital Taxes

Under the *Electricity Act, 1998*, Hydro One is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) as modified by the *Electricity Act, 1998*, and related regulations.

The Company provides for payments in lieu of corporate income taxes relating to its regulated businesses using the taxes payable method as directed by the OEB. Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of Hydro One at that time. The Company provides for payments in lieu of corporate income taxes relating to its unregulated businesses using the liability method.

Materials and Supplies

Materials and supplies represent spare parts and construction material held for internal construction and maintenance of fixed assets. These assets are carried at lower of average cost or net realizable value.

Fixed Assets

Fixed assets are capitalized at cost, which comprises materials, labour, engineering costs, overheads, depreciation on service equipment and the approved allowance for funds used during construction applicable to capital construction activities within regulated businesses, or interest applicable to capital construction activities within unregulated businesses.

Fixed assets in service consist of transmission, distribution, communication, administration and service assets and easements. Fixed assets also include future use assets such as land and capitalized development costs associated with deferred capital projects. During 2003, Hydro One adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3110, *Asset Retirement Obligations*. This accounting standard requires the Company to determine the fair value of the future expenditures required to settle legal obligations to remove fixed assets. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated fixed asset.

Some of the Company's transmission and distribution assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Company expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If, at some future date, it becomes possible to estimate the

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

fair value cost of removing assets that the Company is legally required to remove, an asset retirement obligation will be recognized at that time.

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware and grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, such as transformers, circuit breakers and switches.

Distribution

Distribution assets comprise assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

Communication

Communication assets include the fibre-optic and microwave radio system, optical ground wire, towers, telephone equipment and associated buildings.

Administration and Service

Administration and service assets include administrative buildings, major computer systems, personal computers, transport and work equipment, tools, vehicles and minor fixed assets.

Easements

Easements include statutory rights of use to transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other amounts related to access rights.

Construction in Progress

Overhead costs, including corporate functions and services costs, are capitalized on a fully allocated basis. Financing costs are capitalized on fixed assets under construction based on the allowance for funds used during construction (2004 - 7.0%; 2003 - 7.4%).

Depreciation

The capital costs of fixed assets are depreciated on a straight-line basis, except for transport and work equipment and personal computers, which are depreciated on a declining balance basis.

Depreciation rates for the various classes of assets are based on their estimated service lives. The average estimated remaining service lives and service life ranges of fixed assets are:

	Estimated service lives (years)	
	Range	Average
Transmission	12 - 100	57
Distribution	15 - 75	41
Communication	7 - 40	21
Administration and service	5 - 50	42

Depreciation rates for easements are based on their contract life. The majority of easements are held in perpetuity and not depreciated.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In accordance with group depreciation practices, the original cost of normal fixed asset retirements is charged to accumulated depreciation, with no gain or loss reflected in results of operations. Gains and losses on sales of fixed assets and losses on premature retirements are charged to results of operations as adjustments to depreciation expense. Depreciation expense also includes the costs incurred to remove fixed assets where an asset retirement obligation, as defined in CICA Handbook Section 3110, has been recognized.

The estimated service lives of fixed assets are subject to periodic review. Any changes arising from such a review are implemented on a remaining service life basis from the year the changes can first be reflected in rates.

Goodwill

Goodwill represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is evaluated for impairment on an annual basis, or more frequently if circumstances require. Under CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*, goodwill impairment is assessed based on a comparison of the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill, with any write-down of the carrying value of goodwill being charged against the results of operations.

The Company has determined that goodwill is not impaired. All of the goodwill is attributable to the distribution business segment.

Deferred Debt Costs

Deferred debt costs include the unamortized amounts of debt issuance costs. Deferred debt costs are amortized on an annuity basis over the period to maturity of the debt.

Derivative Financial Instruments

The Company periodically uses interest rate swap contracts to manage interest rate risks. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on an accrual basis. The Company does not engage in derivative trading or speculative activities.

Discounts, Premiums and Hedging

Discounts, premiums and hedging gains and losses are amortized over the period of the related debt and are presented net with long-term debt.

Employee Future Benefits

Employee future benefits provided by Hydro One include pension, group life insurance, health care and long-term disability.

In accordance with the OEB's rate orders, pension costs are recorded when employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act* (Ontario). Actuarial valuations are conducted at least every three years. Pension costs are also calculated on an accrual basis. Pension costs are actuarially determined using the projected benefit method prorated on service and based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases, on the actuarial present value of accrued pension benefits. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are valued using fair values. Past service costs from plan amendments and all actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefits other than pension are recorded on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

management's best estimates. Past service costs from plan amendments and actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefit costs are attributed to labour and charged to operations or capitalized as part of the cost of fixed assets.

Environmental Costs

Hydro One recognizes a liability for estimated future expenditures associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyl (PCB) contaminated mineral oil from electrical equipment, based on the net present value of these estimated future expenditures. As the Company anticipates that the related expenditures will continue to be recoverable in future rates, a regulatory asset has been recognized to reflect the future recovery of these costs from customers. Hydro One reviews its estimates of future environmental expenditures on an ongoing basis.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the year. Actual results could differ from estimates, including changes as a result of future decisions made by the OEB or the Province.

3. REGULATORY RECOVERY

The *Electricity Pricing, Conservation and Supply Act, 2002,* suspended a previously approved rate increase related to annual low-voltage services costs for embedded local distribution companies and direct customers. The associated costs are charged annually to the Company's results of operations. Subject to future OEB approval, the *Electricity Pricing, Conservation and Supply Act, 2002,* also allowed for establishment of a regulatory deferral account to record suspended low voltage services amounts to be recovered from future customers. Due to uncertainty of recovery, amounts recorded in this regulatory deferral account between May 1, 2002 and December 9, 2004 were not previously recognized as regulatory assets. Similarly, the Company did not reflect certain other costs, such as interest, as regulatory assets in prior years' financial statements.

On May 31, 2004, Hydro One applied for recovery of approximately $156 million included within various regulatory deferral accounts prior to December 31, 2003. The requested recovery primarily included the low voltage services amounts not previously recognized as regulatory assets, as well as interest on all of the requested balances. As a result of the oral and written evidence submitted by Hydro One, the OEB issued a decision on December 9, 2004 regarding the prudence of the distribution-related deferral account balances included in the application. The OEB approved all but approximately $12 million of the requested amount for recovery over the period ending April 30, 2008. As a result of this successful regulatory recovery, the Company recorded an increase in its regulatory asset balance, which primarily reflects future recovery of costs that had been previously charged to results of operations without recognition of corresponding revenue.

The regulatory recovery consists of the following components:

Year ended December 31 (Canadian dollars in millions)	**2004**
Low voltage services – 2002	17
Low voltage services – 2003	25
Low voltage services – 2004	23
Interest accretion	18
Other	8
	91

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. DEPRECIATION AND AMORTIZATION

Year ended December 31 (Canadian dollars in millions)	2004	2003
Depreciation of fixed assets in service	370	339
Fixed asset removal costs	34	37
Amortization of regulatory and other assets	76	78
	480	454

5. FINANCING CHARGES

Year ended December 31 (Canadian dollars in millions)	2004	2003
Interest on short-term notes payable	1	6
Interest on long-term debt payable	286	306
Amortization of discount	62	60
Other	7	3
Less: Interest capitalized on construction in progress	(23)	(20)
Interest earned on investments	(2)	(7)
	331	348

6. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for payments in lieu of corporate income taxes (PILs) differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. A reconciliation between the statutory and effective tax rates is provided as follows:

Year ended December 31 (Canadian dollars in millions)	2004	2003
Income before provision for PILs	675	589
Federal and Ontario statutory income tax rate	36.12%	36.62%
Provision for PILs at statutory rate	244	216
(Decrease) increase resulting from:		
Net temporary differences:		
Regulatory recovery	(33)	-
Pension contribution in excess of pension expense	(23)	-
Interest capitalized for accounting purposes but deducted for tax purposes	(8)	(7)
Capital cost allowance in excess of depreciation and amortization	(7)	(16)
Employee future benefits other than pension expense in excess of cash payments	9	9
Environmental expenditures	(6)	(8)
Charge for staff reduction program lower than cash payments	-	(9)
Other	(9)	(10)
Net temporary differences	(77)	(41)
Permanent differences:		
Large corporations tax	16	17
Other	(6)	1
Net permanent differences	10	18
Provision for PILs	177	193
Effective income tax rate	26.22%	32.77%

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Future income taxes relating to the regulated businesses have not been recorded in the accounts as they are expected to be recovered through future revenues. As at December 31, 2004, future income tax liabilities of $224 million (2003 - $152 million), based on substantively enacted income tax rates, have not been recorded.

7. FIXED ASSETS

December 31 (Canadian dollars in millions)	Fixed Assets in Service	Accumulated Depreciation	Construction in Progress	Total
2004				
Transmission	7,833	2,753	249	5,329
Distribution	5,066	1,884	55	3,237
Communication	744	309	31	466
Administration and service	816	471	13	358
Easements	481	58	-	423
	14,940	5,475	348	9,813
2003				
Transmission	7,609	2,635	193	5,167
Distribution	4,828	1,817	61	3,072
Communication	645	273	15	387
Administration and service	790	394	9	405
Easements	490	56	-	434
	14,362	5,175	278	9,465

Financing costs are capitalized on fixed assets under construction, including allowance for funds used during construction on regulated assets and interest on unregulated assets, and were $23 million in 2004 (2003 - $20 million).

8. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-making process. Hydro One has recorded the following regulatory assets and liabilities (see Notes 2 and 3):

December 31 (Canadian dollars in millions)	**2004**	**2003**
Regulatory assets:		
Employee future benefits other than pension	168	209
Regulatory asset recovery account	121	103
Environmental	89	83
Pension	34	-
Low voltage services	26	-
Other	5	26
Total regulatory assets	443	421
Regulatory liabilities:		
Deferred pension	534	584
Export and wheeling fees	19	-
Retail settlement variance accounts	14	-
Other	9	3
Total regulatory liabilities	576	587

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Regulatory assets

Employee future benefits other than pension

Employee future benefits other than pension are recorded using the accrual method as required by Canadian GAAP. The OEB has allowed for the recovery of past service costs, which arose on the adoption of the accrual method, in the revenue requirement on a straight-line basis over a 10-year period. As a result, in 1999 Hydro One recorded a regulatory asset, with an original balance of $419 million, to reflect this regulatory treatment. This regulatory asset has a remaining recovery period of 4 years (2003 - 5 years) and does not earn a return.

Regulatory asset recovery account (RARA)

On December 9, 2004 the OEB issued a decision on the prudence of the distribution-related deferral account balances sought by Hydro One in its May 31, 2004 application. Recoverable amounts represent balances incurred prior to December 31, 2003, plus associated interest. The OEB ordered that the approved balances be aggregated into a single regulatory account to be recovered on a straight-line basis over the period ending April 30, 2008. The RARA includes distribution business low voltage services amounts, deferred environmental expenditures incurred in 2001 and 2002, deferred market ready expenditures, retail settlement variance amounts, and other amounts primarily consisting of accrued interest.

Environmental

Hydro One provides for estimated future expenditures required to remediate past environmental contamination. Because such expenditures are expected to be recoverable in future rates, the Company has recognized the net present value of these estimated future environmental expenditures as a regulatory asset. This regulatory asset is expected to be amortized to results of operations on a basis consistent with the pattern of actual expenditures expected to be incurred up to the year 2030. During 2004, the Company identified an increased risk associated with potential offsite migration of contamination in storm water run-off from some of its transmission sites. Given the need to address this issue, the Company has adjusted its future land assessment and remediation expenditure estimate and has increased its regulatory asset and offsetting environmental obligation (see Note 12) by approximately $16 million. During 2003, the Company reduced, by $64 million, its estimated long-term liability and offsetting regulatory asset for the management of polychlorinated biphenyls (PCBs). This reduction was due to expected revisions to draft regulations proposed by Environment Canada. The OEB has the discretion to examine and assess the prudence and the timing of recovery of Hydro One's future regulatory expenditures.

Pension

In a July 14, 2004 decision, the OEB approved the Company's establishment of a regulatory deferral account to record the Company's distribution-related pension contributions that would otherwise have been charged to 2004 results of operations. The regulatory asset will also include amounts payable to Inergi LP (Inergi) commencing 2005 in respect of a risk sharing agreement related to the imbalance between pension fund assets and liabilities in respect of transferred staff (see Note 17). The amount related to the distribution business, as determined as at December 31, 2004, was approximately $16 million. In its decision, the OEB concluded that prudently incurred expenditures of this type are generally recoverable as part of a general rate application. The Company will include its request for recovery as part of its next general distribution rate application during 2005.

Low voltage services

The OEB's December 9, 2004 decision allows for delayed recovery of previously approved low voltage system amounts, within the RARA, for the period up to December 31, 2003. Given this decision, the Company has determined that it was highly probable that, at some future date, the OEB will also approve recovery of the low voltage amount attributable to 2004, plus interest. As a result, the Company has recognized a regulatory asset reflecting this probable future recovery.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Regulatory liabilities

Deferred pension

In accordance with the OEB's 1999 transitional rate order, pension costs are recorded in results of operations when employer contributions are paid to the pension plan. The Company's deferred pension asset represents the cumulative difference between employer contributions and pension costs and the deferred pension regulatory liability results from the Company's recognition, as the result of OEB direction, of revenues and expenses in different periods than would be the case for an unregulated enterprise.

Export and wheeling fees

Consistent with the market rules, an export and wheeling fee is collected by the IESO and remitted to Hydro One at the rate of $1 per MW on electricity exported outside of Ontario. The Company expects that amounts collected in respect of this export and wheeling fee, plus interest, will be taken into consideration by the OEB in assessing the revenue requirement of our transmission business as part of the Company's next general transmission rate application.

Retail settlement variance accounts

Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's *Accounting Procedures Handbook*. The OEB's December 9, 2004 decision allows for recovery of retail settlement variance amounts accumulated prior to December 31, 2003, inclusive of interest, within the RARA. The Company anticipates that OEB will include the net balance of this regulatory account attributable to 2004 activity in future rates.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. DEBT

December 31 (Canadian dollars in millions)	**2004**	**2003**
Short-term notes payable	40	25
Long-term debt:		
3.40% notes due 2004	-	235
3.45% notes due 2004	-	237
6.94% debentures due 2005	200	200
4.00% notes due 2005	339	339
4.10% notes due 2006	109	109
4.15% notes due 2006	280	280
4.20% notes due 2006	168	168
4.30% notes due 2006	141	141
4.45% notes due 2007	282	282
4.55% notes due 2007	73	73
4.10% notes due 2007[1]	40	-
4.00% notes due 2008	500	500
3.95% notes due 2009	250	-
7.15% debentures due 2010	400	400
6.40% notes due 2011	250	250
5.77% notes due 2012	600	600
7.35% debentures due 2030	400	400
6.93% notes due 2032	500	500
6.35% notes due 2034	385	200
6.59% notes due 2043	315	250
	5,232	5,164
Less: Long-term debt payable within one year	(539)	(472)
Net unamortized discounts	(73)	(144)
Unamortized hedging losses	(7)	(9)
Long-term debt	4,613	4,539

[1] Step-up coupon, after year 3 from 4.10% to 6.40%, extendable to 2011.

Short-term debt represents promissory notes issued pursuant to the Company's commercial paper program. The notes are denominated in Canadian dollars with varying maturities not exceeding 365 days and with a weighted-average interest rate of 2.3% (2003 - 2.7%).

Hydro One has committed and unused revolving credit agreements with a syndicate of banks in the amount of $750 million maturing in August 2005. If used, interest on the lines of credit would apply based on Canadian benchmark rates. These credit agreements support the Company's commercial paper program.

The Company issues notes for long-term financing under the medium term note program. The maximum authorized principal amount of medium term notes issuable under this program is $2,000 million of which $960 million is remaining and is currently available until July 2005. The Company intends to renew this program.

The long-term debt is subject to covenants that, among other things, limit permissible debt as a percentage of total capitalization, limit ability to sell assets and impose a negative pledge provision, subject to customary exceptions. At December 31, 2004, the Company was in compliance with these covenants.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The long-term debt is unsecured and denominated in Canadian dollars. Such debt is summarized by the number of years to maturity in the following table:

Years to Maturity	Principal Outstanding on Notes and Debentures *(Canadian dollars in millions)*	Weighted Average Interest Rate *(Percent)*
1 year	539	5.1
2 years	698	4.2
3 years	395	4.4
4 years	500	4.0
5 years	250	4.0
	2,382	4.4
6 – 10 years	1,250	6.3
Over 10 years	1,600	6.8
	5,232	5.6

10. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying amounts of all financial instruments, except long-term debt, approximate fair value. The fair value of derivative financial instruments reflects the estimated amount that the Company, if required to settle an outstanding contract, would have been required to pay or would be entitled to receive at year end. The fair value of long-term debt, based on year-end quoted market prices for the same or similar debt of the same remaining maturities, is provided in the following table:

December 31 (Canadian dollars in millions)	**2004**		**2003**	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt[1]	5,232	5,658	5,164	5,466

[1] The carrying value of long-term debt represents the par value of the notes and debentures.

Hydro One enters into forward pay fixed interest rate swap agreements or forward sale agreements of Government of Canada bonds to hedge against the effect of future interest rate movements on long-term fixed rate borrowing requirements. These transactions are accounted for as cash flow hedges of anticipated transactions. In 2004, Hydro One entered into a forward interest rate swap agreement with a notional principal amount of $100 million to lock in the interest rate of a future issuance planned for 2005. During 2003, the Company terminated a forward sale agreement of $250 million in Government of Canada bonds for a net cash payment of $12 million that is being amortized on an annuity basis over the five-year term of the related debt. The Company also has offsetting interest rate swap agreements outstanding with the same counter-party. These agreements mature in 2011 and have notional principal amounts of $167 million (2003 - $167 million) and a net fair value of $nil (2003 - $nil).

As at December 31, 2004, the Company had a pay floating interest rate swap agreement related to a step-up coupon note issuance with an initial maturity date in 2007, and with extended maturity dates up to 2011. The interest rate swap is being accounted for as a fair value hedge. This agreement has a notional principal amount of $40 million.

The Company has no significant counter-party credit risk exposure as the fair value of the interest rate swap contracts was not significant in 2004 (2003 - $nil).

Financial assets create a risk that a counter-party will fail to discharge an obligation, causing a financial loss. As at December 31, 2004, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a significant amount of revenue from any single customer. As at December 31, 2004, there were no significant balances of accounts receivable due from any single customer.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company will continue to use derivative instruments to manage interest rate risk. Derivative financial instruments result in exposure to credit risk, since there is a risk of counter-party default. Hydro One monitors and minimizes credit risk through various techniques including dealing with highly rated counter-parties, limiting total exposure levels with individual counter-parties and entering into master agreements which enable net settlement.

11. EMPLOYEE FUTURE BENEFITS

Hydro One has a contributory defined benefit pension plan covering all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton. Employees of Hydro One Brampton participate in the Ontario Municipal Employees Retirement System (OMERS), a multi-employer public sector pension fund. Current contributions by Hydro One Brampton are estimated at less than $1 million annually.

Plan Allocation

Hydro One's pension plan asset allocation at December 31, 2004 and 2003 was as follows:

	% of Plan Assets	
December 31	**2004**	**2003**
Equity securities	59.2	59.5
Debt securities	36.2	37.3
Other	4.6	3.2
	100.0	100.0

Supplementary Information

The Hydro One pension plan does not hold any direct securities of the Company, but did hold debt securities in the Province of $83 million and $78 million at December 31, 2004 and 2003 respectively.

The Company's pension plan provides benefits based on highest three-year average pensionable earnings. For new management employees who commenced employment on or after January 1, 2004, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are fully indexed to inflation. The measurement date used to determine plan assets and the accrued benefit obligation is December 31. Based on the actuarial valuation filed on September 22, 2004, effective for December 31, 2003, the Company contributed $80 million to its pension plan in respect of 2004, payable one month in arrears, and will contribute a further $80 million in respect of 2005 and 2006, all of which is required to satisfy minimum funding requirements. All of the contributions are expected to be in the form of cash. The Company has previously not been required to contribute to the pension plan because the contribution level, which was established from the last actuarial valuation at December 31, 2000, indicated that the plan had a surplus. Contributions after 2006 will be based on actuarial valuations as at December 31, 2006 and will depend on future investment returns, and changes in benefits or actuarial assumptions.

Total cash payments for employee future benefits made in 2004, consisting of cash contributed by the Company to its funded pension plan and cash payments directly to beneficiaries for its unfunded other benefit plans was $110 million in 2004 (2003- $35 million).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31 (Canadian dollars in millions)	Pension 2004	Pension 2003	Employee Future Benefits other than Pension 2004	Employee Future Benefits other than Pension 2003
Change in accrued benefit obligation				
Accrued benefit obligation, January 1	4,323	4,114	897	820
Current service cost	76	69	24	23
Interest cost	254	264	54	52
Benefits paid	(232)	(238)	(36)	(35)
Plan amendments	-	11	-	-
Net actuarial loss	441	103	27	37
Accrued benefit obligation, December 31	4,862	4,323	966	897
Change in plan assets				
Fair value of plan assets, January 1	3,939	3,607	-	-
Actual return on plan assets	458	562	-	-
Benefits paid	(232)	(238)	-	-
Employer's contributions	74[1]	-	-	-
Employees' contributions	16	14	-	-
Administrative expenses	(12)	(6)	-	-
Fair value of plan assets, December 31	4,243	3,939	-	-
Funded status				
(Unfunded benefit obligation)	(619)	(384)	(966)	(897)
Unamortized net actuarial losses	1,128	940	271	262
Unamortized past service costs	25	28	6	7
Deferred pension asset (accrued benefit liability)	534	584	(689)	(628)
Less: current portion	-	-	35	31
Deferred pension asset (long-term liability)	534	584	(654)	(597)

[1] In January, 2005, the Company made a contribution of $7 million is respect of 2004.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Pension		Employee Future Benefits other than Pension	
Year ended December 31 (Canadian dollars in millions)	**2004**	**2003**	**2004**	**2003**
Components of net periodic benefit cost				
Current service cost, net of employee contributions	60	55	24	23
Interest cost	254	264	54	52
Actual return on plan asset net of expenses	(446)	(556)	-	-
Actuarial loss	441	103	27	37
Plan amendment	-	11	-	-
Other	-	-	(1)	-
Costs arising in the period	309	(123)	104	112
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	174	297	-	-
Actuarial gain	(362)	(7)	(11)	(21)
Plan amendments	3	(9)	1	1
Net periodic benefit cost[2]	124	158	94	92
Charged to results of operations[2]	22	-	56	55
Effect of 1% increase in health care cost trends on:				
Accrued benefit obligation, December 31	-	-	124	123
Service cost and interest cost	-	-	11	10
Effect of 1% decrease in health care cost trends on:				
Accrued benefit obligation, December 31	-	-	(108)	(110)
Service cost and interest cost	-	-	(9)	(8)
Significant assumptions				
For net periodic benefit cost:				
Expected rate of return on plan assets	7.00%	7.25%	-	-
Weighted-average discount rate	6.00%	6.50%	6.18%	6.67%
Rate of compensation scale escalation (without merit)	3.25%	3.50%	3.25%	3.50%
Rate of cost of living increase	2.25%	2.50%	2.25%	2.50%
Average remaining service life of employees *(years)*	12	12	11	12
Rate of increase in health care cost trend[3]	-	-	4.40%	4.40%
For accrued benefit obligation, December 31:				
Weighted-average discount rate	5.75%	6.00%	5.93%	6.18%
Rate of compensation scale escalation (without merit)	3.25%	3.25%	3.25%	3.25%
Rate of cost of living increase	2.75%	2.25%	2.75%	2.25%
Rate of increase in health care cost trend[4]	-	-	4.40%	4.40%

[2] The Company follows the cash basis of accounting. During 2004, pension costs of $81 million (2003 - $nil) were attributed to labour, of which $22 million (2003 - $nil) was charged to operations, $31 million (2003 - $nil) was capitalized as part of the cost of fixed assets, and $28 million (2003- $nil) was attributed to a regulatory asset.

[3] 9.00% in 2004 grading down to 4.40% per annum in and after 2014 (2003 – 9.70% in 2003 grading down to 4.40% per annum in and after 2014).

[4] 8.50% in 2005 grading down to 4.40% per annum in and after 2014 (2003 – 9.00% in 2004 grading down to 4.40% per annum in and after 2014).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. ENVIRONMENTAL LIABILITIES

December 31 (Canadian dollars in millions)	2004	2003
Environmental liabilities, January 1	83	160
Interest accretion	5	8
Expenditures	(15)	(21)
Revaluation adjustment *(Note 8)*	16	(64)
Environmental liabilities, December 31	89	83
Less: current portion	(15)	(14)
	74	69

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2004 and in total thereafter are as follows: 2005 - $15 million; 2006 - $16 million; 2007 - $15 million; 2008 - $15 million; 2009 - $13 million; and thereafter - $39 million.

There are uncertainties in estimating future environmental costs due to potential external events such as changing regulations and advances in remediation technologies. Hydro One continuously reviews factors affecting its cost estimates as well as the environmental condition of the various properties. The actual cost of investigation or remediation may differ from current estimates.

13. SHARE CAPITAL

Common and Preferred Shares

On March 31, 2000, the Company issued to the Province 12,920,000 5.5% cumulative preferred shares with a redemption value of $25.00 per share, and 99,990 common shares, bringing the total number of outstanding common shares to 100,000. The Company is authorized to issue an unlimited number of preferred and common shares.

The preferred shares are entitled to an annual cumulative dividend of $18 million, which is payable on a quarterly basis. The preferred shares are redeemable at the option of the Province at a price of $25.00 per share, representing the stated value, plus any accrued and unpaid dividends if the Province sells a number of the common shares which it owns to the public such that the Province's holdings are reduced to less than 50% of the common shares of the Company. Hydro One may elect, without condition, to pay all or part of this redemption price by issuing additional common shares to the Province. If the Province does not exercise its redemption right, the Company would have the ability to adjust the dividend on the preferred shares to produce a yield that is 0.50% less than the then-current dividend market yield for similarly rated preferred shares. The preferred shares do not carry voting rights, except in limited circumstances, and would rank in priority over the common shares upon liquidation.

Dividends

Common dividends are declared at the sole discretion of the Hydro One Board of Directors, and are recommended by management based on results of operations, financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations.

In 2004, preferred dividends in the amount of $18 million (2003 - $18 million) and common dividends in the amount of $247 million (2003 - $226 million) were declared.

Earnings per Share

Earnings per share is calculated as net income during the year, after cumulative preferred dividends, divided by the weighted-average number of common shares outstanding during the year.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. RELATED PARTY TRANSACTIONS

The Province, OEFC, IESO and Ontario Power Generation Inc. (OPG) are related parties of Hydro One. Transactions between these parties and Hydro One were as follows:

Hydro One received revenue for transmission services from IESO, based on uniform transmission rates approved by the OEB. Transmission revenue for 2004 includes $1,228 million (2003 - $1,255 million) related to these services.

Hydro One received revenue related to the supply of electricity to remote northern communities from the IESO. Distribution revenue for 2004 includes $21 million (2003 - $21 million) related to these services.

Hydro One receives amounts for rural rate protection from the IESO. Distribution revenue for 2004 includes $127 million (2003 - $127 million) related to this program, of which $1 million (2003 - $1 million) was paid to local distribution companies in respect of annexation agreements.

Hydro One purchased power from the IESO administered spot market in the amount of $1,987 million in 2004 (2003 - $1,872 million).

Hydro One has service level agreements with the other successor corporations. These services include field and engineering, logistics and telecommunications services. Revenues related to the provision of construction and equipment maintenance services to the other successor corporations were $11 million (2003 - $13 million), primarily for the transmission business. Operation, maintenance and administration costs related to the purchase of services from the other successor corporations were less than $1 million in 2004 and 2003.

The provision for payments in lieu of corporate income taxes was paid or payable to OEFC and dividends were paid or payable to the Province (see Note 2).

The amounts due to and from related parties as a result of the transactions referred to above are as follows:

December 31 (Canadian dollars in millions)	**2004**	**2003**
Accounts receivable	120	112
Accounts payable and accrued charges	(247)	(195)

Included in accounts payable and accrued charges are amounts owing to the IESO in respect of power purchases of $200 million (2003 - $149 million).

15. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the purposes of the consolidated statements of cash flows, "cash and cash equivalents" refers to the balance sheet item "bank indebtedness."

The changes in non-cash balances related to operations consist of the following:

Year ended December 31 (Canadian dollars in millions)	**2004**	**2003**
Accounts receivable (increase) decrease	(91)	30
Materials and supplies (increase) decrease	(2)	10
Accounts payable and accrued charges increase	10	44
Accrued interest increase (decrease)	6	(15)
Long-term accounts payable and accrued charges (decrease) increase	(9)	5
Employee future benefits other than pension increase	57	57
Other	(4)	7
	(33)	138

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Supplementary information:		
Interest paid	285	333
Payments in lieu of corporate income taxes	207	199

16. CONTINGENCIES

Legal Proceedings

Hydro One is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of management, the outcome of such matters, except as noted below, will not have an adverse effect on the Company's consolidated financial position, results of operations or cash flows.

As a result of Hydro One's acquisition of certain transmission, distribution and energy services assets, liabilities, rights and obligations of Ontario Hydro, Hydro One has succeeded Ontario Hydro as a party in a number of legal proceedings. On September 1, 1995, Torcom Communications Inc. (Torcom) named Ontario Hydro as one of several defendants in a suit seeking damages of $150 million, as well as specific performance of certain agreements and interim injunctive relief. Torcom had sought to purchase certain telecommunication devices belonging to a bankrupt company from the court-appointed receiver. The devices had been installed on Ontario Hydro property under licence to the original owner. Torcom claims that it reached an agreement with Ontario Hydro for the continued placement of the devices on Ontario Hydro property. Torcom alleges Ontario Hydro breached this contract and interfered with its efforts to purchase the devices from the receiver. There has been little activity on the case since 1995, when Ontario Hydro served a demand to particularize the allegations against it. Ontario Hydro did not receive a reply to its demand for particulars and has not yet served a statement of defence. Hydro One believes that there are strong defences to the plaintiff's claims against Ontario Hydro and that it is unlikely that the outcome of the litigation will have a material adverse effect on its business, results of operations, financial position or prospects.

On March 29, 1999, the Whitesand First Nation Band commenced an action in the Ontario Court (General Division), naming as defendants the Province, the Attorney General of Canada, Ontario Hydro, OEFC, OPG and the Company. On May 24, 2001, the Whitesand First Nation Band issued an almost identical claim against the same parties. The reason for the second claim is the procedural defence of the Province that proper notice of the first claim was not given under the *Proceedings Against the Crown Act* (Ontario). These actions seek declaratory relief, injunctive relief and damages in an unspecified amount. The Whitesand Band alleges that since at least the first half of the twentieth century, Ontario Hydro has erected dams, generating stations and other facilities within or affecting the band's traditional lands and that those facilities have caused damage to band members and the lands, including substantial flooding and erosion. The Whitesand Band also claims treaty rights to a share of the profits arising from the activities of these Ontario Hydro facilities, an entitlement to increases in annuity payments established by treaty, and compensation for costs incurred in the course of prior negotiations of band grievances with Ontario Hydro. The Whitesand Band asserts multiple causes of action, including trespass, breach of fiduciary duty, nuisance and negligence. The Company has requested particulars and further and better particulars of the claims, as did the other defendants. As a result of the particulars filed, the Attorney General for Canada brought various motions, which the Company supported, to strike out various claims and for better responses to the particular demands. In September 2003, the Court struck out the claims with leave to amend. Additionally, this case was consolidated with a similar claim by Red Rock First Nation Band which commenced on September 7, 2001 as all procedural issues in both matters were the same. There is now one action in which the claims of both Whitesand and Red Rock are set out. The claims relating to activities of Ontario Hydro (i.e., flooding) are the matters for which OPG would have responsibility pursuant to Transfer Orders under the *Electricity Act, 1998*. In the consolidated claim, Whitesand and Red Rock seek to tie Hydro One into the flooding allegations on the alleged basis of the integrity of the transmission system with the entire electricity system, which includes the method of generating power. Several defendants brought a motion for particulars of the allegations in the consolidated action in September 2004 and it was partially successful. To date, Hydro One has not filed a defense. Hydro One believes that it is unlikely that the outcome of this litigation will have a material adverse effect on its business, results of operations, financial position or prospects.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Transfer of Assets

On April 1, 1999, in connection with the acquisition of its operations, Hydro One acquired and assumed the assets, liabilities, rights and obligations of Ontario Hydro's electricity transmission, distribution and energy services businesses, except for certain transmission, distribution and other assets located on lands held for bands or bodies of Indians under the *Indian Act* (Canada). Transfer of title to these assets did not occur because authorizations originally granted by the Minister of Indian Affairs and Northern Development (Canada) for the construction and operation of these assets could not be transferred without the consent of the Minister and the relevant Indian bands or bodies or, in several cases, because the authorizations had either expired or had never been properly issued. Hydro One manages these assets, which are currently owned by OEFC.

Hydro One has commenced negotiations with the relevant Indian bands and bodies to obtain the authorizations and consents necessary to complete the transfer of these transmission, distribution and other assets. Hydro One cannot predict the aggregate amount that it may have to pay to obtain the required authorizations and consents. Hydro One expects to pay more than $850,000 per year, which was the amount previously paid to these Indian bands and bodies by Ontario Hydro and which was the total amount of allowed costs in the transitional rate orders. If, after taking all reasonable steps, Hydro One cannot otherwise obtain the authorizations and consents from the Indian bands and bodies, OEFC will continue to hold these assets for an indefinite period of time. Alternatively, Hydro One may have to relocate these assets from the Indian lands to other locations at a cost that could be substantial, or, in a limited number of cases, to abandon a line and replace it with diesel generation facilities. In such cases, Hydro One would apply to recover these costs in future rate orders.

17. COMMITMENTS

Agreement with Inergi

Effective March 1, 2002, Cap Gemini Canada Inc. began providing services to Hydro One through Inergi. As a result of this initiative, Hydro One receives from Inergi a range of services including information technology, customer care, supply chain and certain human resources and finance services for a ten-year period. The initial service level price ranges between $90 million and $130 million per year, subject to external benchmarking every three years to ensure Hydro One is receiving a defined competitive and continuously improved price. In connection with this agreement, on March 1, 2002 the Company transferred approximately 900 employees to Inergi, including about 130 non-regular employees.

The annual commitments under the agreement in each of the five years subsequent to December 31, 2004, and in total thereafter are as follows: 2005 - $107 million; 2006 - $105 million; 2007 - $103 million, 2008 - $100 million; 2009 - $96 million; and thereafter - $199 million.

Additionally, the outsourcing agreement with Inergi includes a risk sharing agreement involving either Hydro One or Inergi making a payment related to a future imbalance between pension fund assets and liabilities for transferred staff covered by the Inergi Pension Plan. The risk sharing agreement will be settled based on data available on December 31, 2004 reflecting economic factors and pension fund rates of return. Hydro One is required to pay Inergi approximately $24 million equally over the next three years.

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if Hydro One Networks or Hydro One Brampton fails to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of the bank letters of credit plus the nominal amount of the parental guarantee. As at December 31, 2004, the Company provided prudential support, using a combination of bank letters of credit of $33 million (2003 - $35 million) and parental guarantees of $275 million (2003 - $275 million).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Retirement Compensation Arrangements

Bank letters of credit have been issued to provide security for the Company's liability under the terms of a trust fund established pursuant to the supplementary pension plan for the employees of Hydro One and its subsidiaries. The trustee is required to draw upon the letters of credit if Hydro One is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to secure the Company's liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the bank letters of credit. As at December 31, 2004, Hydro One had bank letters of credit of $80 million (2003 - $69 million) outstanding relating to retirement compensation arrangements.

Operating Leases

The future minimum lease payments under operating leases for each of the five years subsequent to December 31, 2004 and in total thereafter are as follows: 2005 - $6 million; 2006 - $5 million; 2007 - $4 million; 2008 - $3 million; 2009 - $3 million; and thereafter - $nil.

18. SEGMENT REPORTING

Hydro One has three reportable segments:

- The transmission business, which comprises the core business of providing transportation and connection services, is responsible for transmitting electricity throughout the Ontario electricity grid;
- The distribution business, which comprises the core business of delivering and selling electricity to customers; and
- The "other" segment, which primarily consists of the telecommunications business.

The designation of segments is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see Note 2). Segment information on the above basis is as follows:

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31 (Canadian dollars in millions)	**Transmission**	**Distribution**	**Other**	**Consolidated**
2004				
Segment profit				
Revenues	1,262	2,874	17	4,153
Purchased power	-	1,987	-	1,987
Operation, maintenance and administration	356	392	23	771
Depreciation and amortization	241	234	5	480
Income (loss) before regulatory recovery, financing charges and provision for payments in lieu of corporate income taxes	665	261	(11)	915
Regulatory recovery				91
Income before financing charges and provision for payments in lieu of corporate income taxes				1,006
Financing charges				331
Income before provision for payments in lieu of corporate income taxes				675
Capital expenditures	432	288	7	727
2003				
Segment profit				
Revenues	1,298	2,734	26	4,058
Purchased power	-	1,872	-	1,872
Operation, maintenance and administration	382	387	26	795
Depreciation and amortization	228	223	3	454
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	688	252	(3)	937
Financing charges				348
Income before provision for payments in lieu of corporate income taxes				589
Capital expenditures	289	292	16	597

December 31 (Canadian dollars in millions)	**2004**	**2003**
Total assets		
Transmission	6,785	6,589
Distribution	4,845	4,623
Other	95	94
	11,725	11,306

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

19. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2004 Consolidated Financial Statements.

HYDRO ONE INC.
FIVE-YEAR SUMMARY OF FINANCIAL AND OPERATING STATISTICS

Year ended December 31 (Canadian dollars in millions)	2004	2003	2002	2001	2000
Statement of operations data					
Revenues					
Transmission	1,262	1,298	1,317	1,259	1,260
Distribution	2,874	2,734	2,682	2,158	1,703
Other	17	26	32	49	32
	4,153	4,058	4,031	3,466	2,995
Costs					
Purchased power	1,987	1,872	1,858	1,267	859
Operation, maintenance and administration[1]	771	795	832	824	863
Depreciation and amortization	480	454	411	384	348
	3,238	3,121	3,101	2,475	2,070
Regulatory recovery[2]	91	-	-	-	-
Income before financing charges and provision for payments in lieu of corporate income taxes	1,006	937	930	991	925
Financing charges	331	348	353	350	340
Income before provision for payments in lieu of corporate income taxes	675	589	577	641	585
Provision for payments in lieu of corporate income taxes	177	193	233	267	207
Net income	498	396	344	374	378
Basic and fully diluted earnings per common share[3] *(Canadian dollars)*	4,798	3,779	3,258	3,562	3,182

December 31 (Canadian dollars in millions)					
Balance sheet data					
Assets					
Transmission	6,785	6,589	6,638	6,693	6,477
Distribution	4,845	4,623	4,694	4,416	3,434
Other	95	94	90	122	86
Total assets	11,725	11,306	11,422	11,231	9,997
Liabilities					
Current liabilities (including current portion of long-term debt)	1,262	1,192	1,894	1,625	1,049
Long-term debt	4,613	4,539	3,938	4,079	3,972
Other long-term liabilities	1,326	1,284	1,451	1,533	976
Shareholder's equity					
Share capital[4]	3,637	3,637	3,637	3,637	3,759
Retained earnings	887	654	502	357	241
Total liabilities and shareholder's equity	11,725	11,306	11,422	11,231	9,997

[1] Operation, maintenance and administration costs for 2002 included a charge of $25 million for a staff reduction.

[2] As a result of the oral and written evidence submitted by Hydro One, the OEB issued a ruling on December 9, 2004, citing prudence, and approving recovery of amounts previously delayed by the *Electricity Pricing, Conservation and Supply Act, 2002,* relating to regulatory deferral account balances sought by Hydro One in its May 31, 2004 submission.

[3] On March 31, 2000, Hydro One issued to the Province 12,920,000 5.5% cumulative preferred shares and 99,990 common shares.

[4] In December 2001, Hydro One and the Province settled a post-closing adjustment for $122 million, related to the actual net assets acquired from Ontario Hydro, through shareholder's equity.

HYDRO ONE INC.
FIVE-YEAR SUMMARY OF FINANCIAL AND OPERATING STATISTICS (continued)

Year ended December 31 (Canadian dollars in millions)	2004	2003	2002	2001	2000
Other financial data					
Capital expenditures					
Transmission	432	289	260	274	280
Distribution[5]	288	292	286	247	152
Other	7	16	24	45	14
Total capital expenditures	727	597	570	566	446
Ratios					
Net asset coverage on long-term debt[6]	1.88	1.86	1.90	1.88	1.90
Earnings coverage ratio[7]	2.70	2.43	2.35	2.53	2.37
Operating statistics					
Transmission					
Units transmitted *(TWh)*[8]	153.4	151.7	153.2	146.9	146.9
Ontario 20-minute system peak demand *(MW)*[8]	25,204	24,849	25,629	25,269	23,428
Ontario 60-minute system peak demand *(MW)*[8]	24,979	24,753	25,414	25,239	23,301
Total transmission lines *(circuit-kilometres)*	28,643	28,621	28,492	28,387	28,490
Distribution					
Units distributed to Hydro One customers *(TWh)*[8]	28.5	27.9	27.1	21.3	17.6
Units distributed through Hydro One Lines *(TWh)*[8,9]	44.8	44.7	45.1	41.3	40.2
Total distribution lines [10]	123,781	123,297	122,830	122,399	113,880
Customers	1,258,925	1,238,748	1,219,614	1,193,089	957,474
Total regular employees[11]	4,118	3,967	3,933	4,815	4,468

[5] Capital expenditures exclude $468 million in 2001 and $23 million in 2000 associated with acquisitions of local distribution companies.

[6] The net asset coverage on long-term debt ratio is calculated as total assets minus total liabilities excluding long-term debt (including current portion) divided by long-term debt (including current portion).

[7] The earnings coverage ratio has been calculated as the sum of net income, financing charges and provision for payments in lieu of corporate income taxes divided by the sum of financing charges, capitalized interest and cumulative preferred dividends. In respect of 2004, the earnings coverage ratio, exclusive of the regulatory recovery, is 2.46.

[8] System related statistics include preliminary figures for December.

[9] Units distributed through Hydro One lines represent total distribution system requirements and include electricity distributed to consumers who purchased power directly from the IESO. Prior to Open Access in 2002, these consumers purchased power directly from the predecessor of Ontario Power Generation.

[10] Distances for distribution lines are recorded as circuit kilometers for Hydro One Networks and in total wire length in kilometers for Hydro One Brampton.

[11] On March 1, 2002, approximately 770 regular employees were transferred to Inergi (see Note 17).

Liquor Control Board of Ontario

Responsibility for Financial Reporting

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 24, 2005.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General to satisfy itself that each group has properly discharged its respective responsibility.

The financial statements have been audited by the Office of the Auditor General. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:

A.S. Brandt
Chair & Chief Executive Officer

J. C. Browning.

J. Alex Browning
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 24, 2005

Office of the Auditor General of Ontario

Bureau du vérificateur général de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Liquor Control Board of Ontario
and to the Minister of Economic Development and Trade

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2005 and the statements of income and retained income and cash flows for the year then ended. These financial statements are the responsibility of the Board'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 Board as at March 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 24, 2005

J. R. McCarter, CA
Auditor General

LIQUOR CONTROL BOARD OF ONTARIO

Balance Sheet
As at March 31, 2005

	2005 ($ 000)	2004 ($ 000)
ASSETS		
Current		
Cash and cash equivalents	106,273	60,724
Accounts receivable, trade and others	23,700	28,436
Inventories	278,267	270,246
Prepaid expenses	11,371	5,812
	419,611	365,218
Long-term		
Capital assets (Note 5)	223,709	227,504
	643,320	592,722
LIABILITIES AND RETAINED INCOME		
Current		
Accounts payable and accrued liabilities	315,241	298,755
Current portion of accrued benefit obligation (Note 3)	4,981	4,924
	320,222	303,679
Long-term		
Accrued benefit obligation (Note 3)	37,462	35,217
Retained income	285,636	253,826
	643,320	592,722

Commitments and Contingencies (Notes 6 and 8)

See accompanying notes to financial statements.

Approved by:

Chair and Chief Executive Officer

Jean Simpson

Board Member, Chair,
Audit and Governance Review Committee

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Income and Retained Income
Year Ended March 31, 2005

	2005 ($ 000)	2004 ($ 000)
Sales and other income	3,532,171	3,320,681
Cost and expenses		
Cost of sales	1,810,025	1,726,475
Retail stores and marketing	387,410	373,978
Warehousing and distribution	71,131	67,470
Administration	66,092	57,413
Amortization	50,703	49,917
	2,385,361	2,275,253
Net income for the year	1,146,810	1,045,428
Retained income, beginning of year	253,826	248,398
	1,400,636	1,293,826
Deduct		
Dividend paid to the Province of Ontario	1,110,000	1,035,000
Payment to municipalities on behalf of the Province of Ontario (Note 9)	5,000	5,000
	1,115,000	1,040,000
Retained income, end of year	285,636	253,826

See accompanying notes to financial statements.

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Cash Flows
Year Ended March 31, 2005

	2005 ($ 000)	2004 ($ 000)
Cash provided from operations		
Net income	1,146,810	1,045,428
Amortization	50,703	49,917
Loss (Gain) on sale of capital assets	(2,114)	(234)
	1,195,399	1,095,111
Increase in non-cash items		
Working capital	7,642	8,628
Accrued benefit obligation	2,302	2,742
	1,205,343	1,106,481
Cash used for investment activities		
Purchase of capital assets	(47,465)	(53,434)
Proceeds from sale of capital assets	2,671	1,292
	(44,794)	(52,142)
Cash used for financing activities		
Dividend paid to the Province of Ontario	(1,110,000)	(1,035,000)
Payment to municipalities on behalf of the Province of Ontario	(5,000)	(5,000)
	(1,115,000)	(1,040,000)
Increase (decrease) in cash during the year	45,549	14,339
Cash and cash equivalents, beginning of year	60,724	46,385
Cash and cash equivalents, end of year	106,273	60,724

See accompanying notes to financial statements.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements
March 31, 2005

1. NATURE OF THE CORPORATION

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

(d) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

(e) Revenue Recognition

Revenue is recognized when the sale of products is made to customers.

(f) Expense Recognition

Expenses are recognized as incurred, on an accrual basis, in the period to which they relate.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements
March 31, 2005

(g) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. ACCRUED BENEFIT OBLIGATION

The accrued benefit obligation includes accruals for employee termination payments and unfunded workers compensation obligation.

In fiscal 2005, the cost of these employee future benefits was $7.7 million (2004 – $7.5 million) and is included in Cost and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2005 is $42.4 million (2004 – $40.1 million) of which $5.0 million (2004 – $4.9 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the Statement of Income and Retained Income.

4. PENSION PLAN

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are multi-employer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2005, the expense was $14.7 million (2004 – $13.8 million) and is included in Cost and expenses in the Statement of Income and Retained Income.

5. CAPITAL ASSETS

	2005 ($ 000)			2004 ($ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	13,223	—	13,223	13,473
Buildings	318,104	215,520	102,584	94,199
Furniture and fixtures	67,218	42,229	24,989	28,457
Leasehold improvements	194,137	132,660	61,477	64,148
Computer equipment	92,818	71,382	21,436	27,227
	685,500	461,791	223,709	227,504

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements
March 31, 2005

6. LEASE COMMITMENTS

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	($ 000)
2006	37,791
2007	36,040
2008	33,560
2009	30,359
2010	25,882
Thereafter	199,561
	363,193

7. HEDGING

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2005 the Board had $2.5 million (2004 – $4.9 million) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

8. CONTINGENCIES

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

9. PAYMENT TO MUNICIPALITIES

During fiscal 2005, in accordance with Section 5(2) of the *Liquor Control Act, 1990*, the Board was directed by Cabinet to contribute $5 million (2004 – $5 million) to assist municipalities with their glass recycling costs. Cabinet further directed the Board to contribute $5 million in fiscal 2006. In subsequent years, the LCBO's contribution will be determined by methods to be established under Section 30(1) of the *Waste Diversion Act, 2002*.

The Niagara Parks Commission

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of the management of The Niagara Parks Commission.

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting policies. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Commission maintains a system of internal accounting and administrative control that is designed to provide reasonable assurance the financial information is relevant, reliable and accurate and that the Commission's assets are properly accounted for and adequately safeguarded.

The Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The Commission meets periodically with management to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and to satisfy itself that each party is properly discharging its responsibilities.

The financial statements have been audited by Crawford, Smith and Swallow Chartered Accountants LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Commission, the Minister of Tourism and Recreation and the Auditor General. Crawford, Smith and Swallow Chartered Accountants LLP has full and free access to the Commission.

John A. M. Kernahan
General Manager
December 17, 2004

Neil McDougall, CMA
Senior Director, Corporate Services
December 17, 2004

AUDITORS' REPORT

To The Niagara Parks Commission, the Minister of Tourism and Recreation and the Auditor General

Pursuant to the Niagara Parks Act which provides that The Niagara Parks Commission, an agency of the Crown, shall be audited by the Auditor General or an auditor designated by the Lieutenant Governor in Council, we have audited the balance sheet of The Niagara Parks Commission as at October 31, 2004 and the statements of operations, equity and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at October 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Crawford, Smith and Swallow
Chartered Accountants LLP
December 17, 2004, Niagara Falls, Ontario

The Niagara Parks Commission
Balance Sheet ~ as at October 31, 2004

STATEMENT 1

Assets	*(In thousands of dollars)* 2004	2003
	$	$
Current Assets		
Cash	890	1,589
Accounts receivable	2,150	2,755
Inventories		
Saleable merchandise	4,202	4,965
Maintenance and other supplies	1,085	1,326
Prepaid expenses	604	339
	8,931	10,974
Fixed Assets - note 2	128,990	134,326
	137,921	**145,300**

Liabilities and Equity		
Current Liabilities		
Bank overdraft - note 3	2,050	
Bank loan		13,000
Accounts payable	4,349	4,300
Accrued payroll	1,579	1,946
Current portion of long-term financing	86	59
	8,064	19,305
Long-Term Financing - note 4	64	45
Post-Employment Benefits - note 5	2,976	2,931
Commitments - note 9		
Contingencies - note 10		
Equity – Statement 2	126,817	123,019
	137,921	**145,300**

see accompanying notes

Signed on behalf of the Commission:

_______________ Chairman

_______________ Commissioner

The Niagara Parks Commission

Statement of Equity ~ for the year ended October 31, 2004

STATEMENT 2

	(In thousands of dollars)	
	2004	2003
	$	$
Equity, Beginning of Year	123,019	132,015
Net Income (Loss) for the Year - Statement 3	3,798	(8,996)
Equity, End of Year	**126,817**	**123,019**

see accompanying notes

The Niagara Parks Commission

Statement of Operations ~ for the year ended October 31, 2004

STATEMENT 3

	2004	2003
	(In thousands of dollars)	
	$	$
Income		
Gift shops, restaurants and attractions	69,397	57,796
Land rent	5,659	5,572
Commissions, rentals and fees	2,765	2,078
Premium on United States funds – net	460	396
Gain (loss) on disposal of fixed assets – net	(1,979)	22
Sundry income	51	28
	76,353	65,892
Expenses		
Gift shops, restaurants and attractions		
Cost of goods sold	13,446	11,453
Operating expenses	28,637	30,481
Maintenance	12,066	13,443
Administrative and police	7,879	7,922
Marketing and promotion	2,871	2,652
	64,899	65,951
Net Income (Loss) for the Year before Undernoted Items	11,454	(59)
Other Items		
Interest expense - net - note 6	471	587
Depreciation - note 7	7,185	6,936
	7,656	7,523
Net Income (Loss) before Non-Recurring Items	3,798	(7,582)
Non-Recurring Items - note 8		(1,414)
Net Income (Loss) for the Year	**3,798**	**(8,996)**

see accompanying notes

The Niagara Parks Commission

Statement of Cash Flows ~ for the year ended October 31, 2004

STATEMENT 4

	2004 $	2003 $
	(In thousands of dollars)	
Operating Activities		
Net income (loss) for the year	3,798	(8,996)
Charges against income not requiring an outlay of funds		
- change in post employment benefits	45	151
- depreciation	7,185	7,150
- loss on disposal of fixed assets - net	1,979	655
	13,007	(1,040)
Net change in non-cash working capital balances related to operations - note 11	1,026	(714)
Funds provided (used) by operating activities	14,033	(1,754)
Investing Activities		
Fixed asset acquisitions	(3,850)	(5,055)
Proceeds on sale of fixed assets	22	31
Funds used by investing activities	(3,828)	(5,024)
Financing Activities		
Increase (decrease) in bank loan	(13,000)	7,000
Increase in long-term financing	46	104
Funds provided (used) by financing activities	(12,954)	7,104
Increase (Decrease) in Cash Position	(2,749)	326
Cash Position, Beginning of Year	1,589	1,263
Cash Position (Deficiency), End of Year	**(1,160)**	**1,589**
Cash Position (Deficiency)		
Cash	890	1,589
Bank overdraft	(2,050)	
	(1,160)	**1,589**

see accompanying notes

The Niagara Parks Commission
Notes to Financial Statements ~ for the year ended October 31, 2004

1. Significant Accounting Policies

Basis of accounting

The financial statements of The Niagara Parks Commission (the "Commission") are the representations of management prepared in accordance with Canadian generally accepted accounting principles, consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement in the light of available information. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Inventories

Inventories of saleable merchandise are valued at the lower of average cost and net realizable value.

Fixed assets

All fixed assets are recorded at cost. Depreciation has been recorded using the straight-line method, with rates from 2.5 to 20 per cent for buildings, roadways and structures, 10 to 25 per cent for equipment and furnishings and from 8 to 40 per cent for vehicles.

2. Fixed Assets

(In thousands of dollars)

	Cost	Accumulated Depreciation	2004	2003
	$	$	$	$
Land	13,555	–	13,555	13,555
Land improvements	17,091	–	17,091	17,091
Buildings, roadways and structures	142,986	54,405	88,581	91,802
Equipment and furnishings	27,201	18,976	8,225	9,374
Vehicles	7,999	7,240	759	1,210
	208,832	80,621	128,211	133,032
Capital works in progress	779	–	779	1,294
	209,611	**80,621**	**128,990**	**134,326**

3. Bank Overdraft

The bank overdraft facilities, which have a maximum borrowing capacity of $ 15,000,000, provide for two types of loans. There is a variable rate option with a rate which varies with the Bank of Montreal's prime rate and there is a fixed rate operating loan facility available for terms of 30/60/90/180 or 364 days at rates which are set relative to Banker's Acceptance rates. As at October 31, 2004, all borrowings are under the variable rate arrangement.

The Niagara Parks Commission

Notes to Financial Statements ~ for the year ended October 31, 2004

4. Long-Term Financing

(In thousands of dollars)

	2004	2003
	$	$
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 5,279 to August, 2005, secured by equipment with a net book value of $ 95,188	44	104
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 2,779 to March, 2006, secured by equipment with a net book value of $ 83,911	76	–
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 875 to March, 2006, secured by equipment with a net book value of $ 29,579	30	–
	150	104
Less portion due within one year	86	59
	64	**45**

The principal payments of the obligation under capital lease is due as follows:

(In thousands of dollars)

	$
2005	86
2006	41
2007	23

5. Post-Employment Benefits

The Commission provides a defined employee future benefit, payable on termination to certain full-time employees with a minimum of five years of service. The benefit is calculated on the basis of one week's remuneration, at the time of termination, for every year of full-time service provided to the Commission to a maximum of 26 weeks. The accrued benefit liability as at October 31, 2004 is $ 2,955,587 (2003 - $ 2,930,715).

As a result of an actuarial valuation conducted in 2004 for the year ending October 31, 2004, it was determined that an actuarial loss of $ 65,577 existed. The actual obligation as at October 31, 2004 is $ 3,021,164 (2003 - $ 2,930,715). Since the actuarial loss is less than 10% of the actual obligation, no minimum amortization has been recorded for the year.

In addition, certain employees of the Commission are provided with life insurance upon retirement of one times salary provided the employee retires with an unreduced pension OPSEU or PSPP pension which expires on the members 65th birthday. The accrued benefit liability is $ 20,956 (2003 - NIL)

As a result of an actuarial valuation conducted in 2004 for the year ending October 31, 2004, it was determined that an actuarial loss of $ 165,883 existed. The actual obligation as at October 31, 2004 is $ 174,991 (2003 - NIL). The actuarial loss is being amortized over the expected average remaining service lives of the employee group which has been actuarially determined to be 14 years. The unamortized loss as at October 31, 2004 is $ 154,035.

See note 13 for other post-employment benefits.

The Niagara Parks Commission
Notes to Financial Statements ~ for the year ended October 31, 2004

5. Post-Employment Benefits cont'd.

Defined Benefit Plan Information *(In thousands of dollars)*

	2004 $	2003 $
Employee benefit plan assets	–	–
Employee benefit plan liabilities	2,976	2,931
Employee benefit plan deficit	**2,976**	**2,931**
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	2,931	2,780
Expense for the year	388	352
Benefits paid during the year	(343)	(201)
Benefit obligation, end of year	**2,976**	**2,931**

The main actuarial assumptions applied in the valuation of the defined benefit plan are as follows:

Interest (Discount) Rate - The accrued obligation and the expense for the year were determined using a discount rate of 6%.

Salary Levels - Future salary and wage levels were assumed to increase at 4% per annum.

6. Interest Expense *(In thousands of dollars)*

	2004 $	2003 $
Interest income	(56)	(46)
Loan interest expense	527	633
	471	**587**

7. Depreciation *(In thousands of dollars)*

	2004 $	2003 $
Depreciation of income producing assets	4,003	3,857
Depreciation of non-income producing assets	3,182	3,079
	7,185	**6,936**

8. Non-Recurring Items

The Commission undertook a significant organizational restructuring that resulted in the elimination of several positions in 2003. Termination and salary continuance costs related to this matter amounted to $ 550,000.

A comprehensive study for the future direction of the Commission was completed during 2003 rendering certain capital works in progress redundant. The write-off of these capital works in progress and other assets which were obsolete but not fully depreciated amounted to $ 730,000.

The resolution of a disputed water usage and billing matter was finalized during 2003 at a cost of $ 134,000.

The Niagara Parks Commission
Notes to Financial Statements ~ for the year ended October 31, 2004

9. Commitments

The Commission is committed to spending approximately $ 1,930,000 on capital projects in the next year.

10. Contingencies

The Commission is in litigation pertaining to certain claims for which the likelihood of loss is not determinable and the amount not reasonably estimable. Accordingly, no provision for these claims is reflected in the financial statements.

The Commission has an authorized letter of credit in the amount of US $ 161,712.

11. Statement of Cash Flows

Changes in working capital components include:

(In thousands of dollars)

	2004 $	2003 $
Accounts receivable	605	604
Inventories	1,004	(723)
Prepaid expenses	(265)	(48)
Accounts payable and accrued payroll	(318)	(547)
	1,026	**(714)**

Acquisition of fixed assets

During the year, fixed assets were acquired at an aggregate cost of $ 3,848,929 of which $ 124,535 was acquired by means of capital leases. Cash payments of $ 3,724,394 were made to purchase fixed assets.

(In thousands of dollars)

Interest

	2004 $	2003 $
Interest received	**61**	**46**
Interest paid	**511**	**633**

12. Operating Leases

The Commission leases vehicles, equipment and premises under operating leases expiring in various years through 2008. The total obligation under operating leases amounts to approximately $ 1,093,313.

Future payments for each of the next four years are as follows:

(In thousands of dollars)

	$
2005	690
2006	170
2007	156
2008	77

The Niagara Parks Commission
Notes to Financial Statements ~ for the year ended October 31, 2004

13. Other Post-Employment Benefits

The Commission provides pension benefits for all its permanent employees (and to nonpermanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund). These are multi-employer plans established by the Province of Ontario. These plans are accounted for as defined contribution plans, as the Commission has insufficient information to apply defined benefit plan accounting to these pension plans.

The Commission's obligations related to the PSPF and OPSEU Pension Fund was $ 1,368,059 (2003 - $ 1,505,751) and is included in the administrative and general expenses in the Statement of Operations.

The cost of post-employment, non-pension benefits are paid by the Management Board Secretariat and are not included in the Statement of Operations.

See note 5 for details on the Commission's post employment benefits.

14. Financial Instruments and Risk Management

Fair Value

The Commission's financial instruments include cash, accounts receivable, bank borrowings, accounts payable and accrued payroll. The carrying value of these instruments approximates their fair value due to their immediate or short-term liquidity.

Fair value information with respect to long-term financing has been omitted because it it not practicable to determine fair value with sufficient reliability.

Credit Risk

The Commission is exposed to a credit risk by its customers. However, because of the large number of customers, credit risk concentration is reduced to a minimum.

Currency Risk

The Commission realizes approximately 17.56% (2003 - 16.0%) of its sales in foreign currency. Consequently, some assets and revenues are exposed to foreign exchange fluctuations.

Cash Flow Risk

The Commission has a variable rate bank overdraft facilities bearing interest which varies with the prime interest rate. Accordingly, the Commission is exposed to cash flow risks relating to potential fluctuations in market interest rates.

15. Related Party Transactions

The Commission exercises significant influence over the Niagara Parks Foundation (the "Foundation") by virtue of its ability to appoint some of the Foundation's Board of Directors. The Foundation is incorporated under the Ontario Corporations Act and is a registered charity under the Income Tax Act. The purpose of the Foundation is to promote conservation, environmental, historical, performing arts, and musical initiatives within the lands of the Commission. Net resources of the Foundation amounted to $ 54,541 (2003 - $ 44,391). During the year, the Commission expended $ 1,827 (2003 - $ 6,631) on behalf of the Foundation. These amounts expended included computer software, professional fees, and telephone.

The net assets and results of operations of the Foundation are not included in the statements of the Commission. Separate financial statements of the Foundation are available upon request.

16. Surplus Funds

Pursuant to Section 16(2) of the Niagara Parks Act any surplus moneys shall, on the order of the Lieutenant Governor in Council, be paid to the Minister of Finance and shall form part of the Consolidated Revenue Fund.

17. Comparative Figures

Certain comparative figures have been restated to conform with the current year's presentation.

Ontario Clean Water Agency

Manager's Responsibility for Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's best estimates and judgments.

The Ontario Clean Water Agency is dedicated to the highest standards of integrity in its business. To safeguard assets, the Agency has a sound set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the bylaws of the Agency. Internal audits are conducted to assess management systems and practices, and reports are issued to the Senior Management Committee.

The Board of Directors ensures that management fulfills its responsibilities for financial information and internal control. The Board of Directors meets quarterly to oversee the financial activities of the Agency and at least annually to review the financial statements and the external auditor's report thereon, and recommend them to the Minister of the Environment for approval.

The Auditor General has examined the financial statements. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

Dante Pontone
President and CEO

Brenda Baker
Vice President of Finance and Corporate Services

Office of the
Auditor General
of Ontario

AUDI ALTERAM PARTEM

Bureau du
vérificateur général
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Clean Water Agency,
the Minister of the Environment
and to the Minister of Finance

I have audited the balance sheet of the Ontario Clean Water Agency as at December 31, 2004 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency'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 Agency as at December 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 23, 2005

Jim McCarter, CA
Auditor General

ONTARIO CLEAN WATER AGENCY

Balance Sheet
As at December 31, 2004

		(in thousands of dollars)
	2004	**December 31, 2003**
Assets		
Current assets:		
Cash and cash equivalents	13,966	9,419
Accounts receivable, net		
Municipalities and other customers	30,848	25,780
Ministry of the Environment	65	291
Goods and services tax receivable	1,339	1,013
Prepaids	2,640	855
Current portion of investments receivable:		
Water and wastewater facilities (note 3)	2,684	3,080
Facilities under construction (note 4)	8,225	4,374
	59,767	44,812
Non-current assets		
Investments receivable for water and wastewater facilities (note 3 and note 13)	33,383	38,300
Investments receivable for facilities under construction (note 4)	297	5,607
Loans receivable - Top-up loans (note 5)	305	352
Loan receivable - OSIFA (note 6)	120,000	120,000
Provincial assistance advances	-	451
Fixed assets, net (note 7)	6,007	6,973
	159,992	171,683
Total Assets	219,759	216,495

ONTARIO CLEAN WATER AGENCY

Balance Sheet
As at December 31, 2004

	2004	December 31, 2003
	(in thousands of dollars)	
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	20,334	17,692
Current portion of employee future benefits (note 10)	1,000	1,000
	21,334	18,692
Long-term liabilities:		
Municipal contributions payable (note 9)	1,442	1,425
Employee future benefits (note 10)	6,597	6,754
	8,039	8,179
Equity of Ontario:		
Contributed surplus (note 12)	96,855	97,951
Retained earnings	93,531	91,673
	190,386	189,624
Contingencies (note 13)		
Total Liabilities and Equity	219,759	216,495

See accompanying notes to financial statements

On behalf of the Board

Director

Director

ONTARIO CLEAN WATER AGENCY

Statement of Income and Retained Earnings
For the year ended December 31, 2004

(in thousands of dollars)

	2004	2003
Utility Operations Revenues:		
Utility operations	$103,274	$99,119
Fees	1,772	1,920
Total Operating Revenues	105,046	101,039
Operating Expenses:		
Salaries and benefits (note 10 and note 11)	47,186	44,506
Other operating expenses	60,806	61,003
Amortization of fixed assets	1,783	2,095
Fixed asset write-off	-	1,198
Electronic Operating Systems (note 1c)	845	1,700
Total Operating Expenses	110,620	110,502
Net Loss - Utility Operations	(5,574)	(9,463)
Financing Revenues:		
Interest from investments and loans receivable	6,598	7,292
Interest on facilities under construction receivable	45	234
Total Financing Revenues	6,643	7,526
Financing Expenses:		
Interest	19	30
Financing administration expenses	32	32
Amortization of fixed assets	60	60
Total Financing Expenses	111	122
Net Income - Financing	6,532	7,404
Net Income (Loss) for the Year Before Property Transfer Initiative and GST Rebate	958	(2,059)
Property Transfer Initiative (note 14)	(62)	(7)
GST rebate (note 13)	962	-
Net Income (Loss) for the Year	1,858	(2,066)
Retained earnings, opening balance	91,673	93,739
Retained earnings, ending balance	$93,531	$91,673

See accompanying notes to financial statements

ONTARIO CLEAN WATER AGENCY

Statement of Cash Flows
As at December 31, 2004

(in thousands of dollars)

	December 31, 2004	December 31, 2003
Cash provided by (used for)		
Operating activities:		
Net Income (Loss)	**1,858**	(2,066)
Items not affecting cash:		
Amortization of fixed assets	**1,843**	2,155
Fixed asset write-off	**-**	1,198
	3,701	1,287
Changes in non-cash operating working capital		
- Accounts receivable	**(5,394)**	(2,140)
- Prepaids	**(1,785)**	(358)
- Accounts payable and accrued liabilities	**2,642**	(59)
- Ministry of the Environment	**226**	2,209
- Deferred revenue	**-**	(35)
	(4,311)	(383)
Net cash flows from operating activities	**(610)**	904
Financing Activities:		
Decrease in investments receivable for water and wastewater facilities	**5,313**	4,084
Decrease (increase) in investments receivable for facilities under construction	**1,459**	(5,958)
Increase(decrease) in municipal contributions payable	**17**	(8)
(Decrease) increase in future employee benefits payable	**(157)**	350
Decrease in provincial assistance advances receivable	**451**	1,678
Increase in loan receivable - OSIFA	**-**	(120,000)
Decrease in loans receivable - Top-up loan	**47**	200
Changes in contributed surplus	**(1,096)**	(2,379)
Net cash flows from financing activities	**6,034**	(122,033)
Fixed assets - acquired	**(877)**	(1,283)
Increase/(Decrease) in Cash	**4,547**	(122,412)
Cash and Cash Equivalents, Opening Balance	**9,419**	131,831
Cash and Cash Equivalents, Ending Balance	**13,966**	9,419

ONTARIO CLEAN WATER AGENCY
December 31, 2004
Notes to Financial Statements

GENERAL

The Ontario Clean Water Agency (The "Agency") was established on November 15, 1993, under the authority of The Capital Investment Plan Act, 1993 (the "Act").

In accordance with the Act, the Agency's objectives include:

- assisting municipalities to provide water and wastewater services on a cost-recovery basis by financing, planning, developing, building and operating such works and services;

- financing, building and operating water and wastewater facilities on behalf of Ontario on a cost-recovery basis; and

- providing these services to protect human health and the environment, encourage conservation of water resources and support Provincial policies for land use and settlement.

The Agency is exempt from Federal and Provincial income taxes.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants. Included below are those accounting policies that are of significance to the Agency.

(a) Cash and cash equivalents

Cash and cash equivalents are highly liquid investments with original maturities of three months or less when purchased.

(b) Fixed assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost. Amortization is provided using the declining balance method with a half year provision in the year of purchase if the asset is available for use. Fixed assets are being amortized at annual rates as follows:

Automotive equipment	25%
Furniture and fixtures	20%
Computer hardware	33%
Computer software	50%
Machinery and equipment	20%
Leasehold improvements	Life of the lease

ONTARIO CLEAN WATER AGENCY
December 31, 2004
Notes to Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(c) Electronic Operating Systems

As approved by the Board of Directors, the Agency continues to reflect spending on Electronic Operating Systems (OCWAware) as an operating expense in the year in which it is incurred since the Agency does not anticipate recovering these costs from future utility operations.

(d) Investments receivable for facilities under construction

Interest on borrowings and other incremental expenditures relating to facilities are capitalized during the construction period. The rate of interest is set at the start of the fiscal year by using the average one year interest rate of the prior year, paid by the Ontario Financing Authority.

(e) Utility operations

A portion of the contractual arrangements with clients for the operation of water and wastewater treatment facilities provides for the recovery of all costs incurred in their operations plus a management fee. Revenue is recognized at the time such costs are incurred even though agreements may provide for the collection of a portion of those costs in future years. Accordingly, costs incurred in excess of amounts billed to date and to be recovered in future years are classified as "Investments receivable for water and wastewater facilities".

(f) 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.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturities of these instruments. Due to prepayment options, the carrying value of the balance of the financial assets and long-term liabilities approximate their fair value.

ONTARIO CLEAN WATER AGENCY
December 31, 2004
Notes to Financial Statements

3. INVESTMENTS RECEIVABLE FOR WATER AND WASTEWATER FACILITIES

(a) These investments represent the outstanding principal portion of amounts receivable from clients for capital expenditures undertaken by the Agency on their behalf, and recoverable operating costs, if any, not billed. In addition, it includes capitalized interest on certain facilities that will be collected from clients during future years.

(b) The investments receivable are supported by agreements that bear interest at rates between 2.0% and 13.69%. Scheduled principal repayments of the investments are as follows:

(in thousands of dollars)	
2005	$ 2,684
2006	2,856
2007	3,039
2008	3,234
2009	3,441
Thereafter	20,813
	36,067
Less: Current portion	2,684
	$ 33,383

4. INVESTMENTS RECEIVABLE FOR FACILITIES UNDER CONSTRUCTION

"Investments receivable for facilities under construction" represent new water and wastewater facilities or major capital improvements to existing facilities that have been undertaken by the Agency on behalf of its clients. Annually, the net recoverable amount from the customer is transferred to "Investments receivable for water and wastewater facilities". Certain clients pay the entire balance of their amount, accumulated as "facilities under construction", within one year.

ONTARIO CLEAN WATER AGENCY
December 31, 2004
Notes to Financial Statements

5. LOANS RECEIVABLE - TOP-UP LOANS

The Agency made loans to municipalities to finance water and wastewater facilities that have received provincial assistance under the Municipal Assistance Program. The loans were made for terms of up to 25 years at interest rates between 8.1% and 8.85% set by the Province at the time the loan was granted.

6. LOAN RECEIVABLE - OSIFA

On April 15, 2003, the Agency provided a loan of $120 million to the Ontario Strategic Infrastructure Financing Authority (OSIFA), an agency of the provincial government, in exchange for a promissory note which matures on March 1, 2023. The interest on the note is paid quarterly, with a rate set at four basis points below the average monthly Certificate of Deposit Overnight Rate. The market value of the note approximates cost.

7. FIXED ASSETS

(in thousands of dollars)	Cost	Accumulated Amortization	**Net December 31, 2004**	Net December 31, 2003
Furniture and fixtures	$ 1,776	$ 1,244	$ **532**	$ 638
Automotive equipment	164	97	**67**	98
Computer hardware	6,500	5,107	**1,393**	1,377
Computer software	3,252	2,813	**439**	531
Leasehold improvements	6,858	3,470	**3,388**	4,107
Machinery and equipment	504	316	**188**	222
	$ 19,054	$ 13,047	$ **6,007**	$ 6,973

ONTARIO CLEAN WATER AGENCY
December 31, 2004
Notes to Financial Statements

8. LEASE COMMITMENTS

Annual lease payments under operating leases for rental of office equipment, premises and vehicles in aggregate are as follows:

(in thousands of dollars)		
2005	$	1,957
2006		1,667
2007		1,445
2008		1,089
2009		288
	$	6,446

9. MUNICIPAL CONTRIBUTIONS PAYABLE

(in thousands of dollars)		**December 31, 2004**		December 31, 2003
Municipal contributions held for future repairs	$	**1,442**	$	1,425

At December 31, 2004, the Agency held funds that will be used for future repairs amounting to $1.4 million (2003 - $1.4 million). The $1.4 million is included in cash and cash equivalents.

10. NON-PENSION EMPLOYEE FUTURE BENEFITS

The Agency is responsible for the accrued legislated severance and its workers compensation obligations.

The costs of these employee future benefits have been estimated to amount to $7.6 million (2003 - $7.8 million) of which $1.0 million has been classified as current liability. The amount accrued in 2004 was $0.8 million (2003 - $0.7 million) and is included in salaries and benefits expense in the Statement of Income and Retained Earnings.

Included in employee future benefits is an estimated workers compensation obligation in the amount of $1.1 million for the fiscal year ended December 31, 2004. This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board (WSIB) as at December 31, 2003.

ONTARIO CLEAN WATER AGENCY
December 31, 2004
Notes to Financial Statements

10. NON-PENSION EMPLOYEE FUTURE BENEFITS (Cont'd)

The valuation at December 31, 2004 is not expected to be provided by WSIB until after the date of the financial statements preparation. It is management's opinion that the balance at December 31, 2003 will not be materially different. Adjustment to the estimated WSIB obligation cumulative balance, if any, will be made in the year the actual balance is provided by WSIB.

The cost of other post-retirement, non-pension employee benefits is paid by Management Board Secretariat and therefore is not included in the financial statements.

11. PENSION PLAN

The Agency provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) that are both multiemployer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution plans, as the Agency has insufficient information to apply defined benefit accounting to these pension plans. The Agency's contribution related to the pension plans for the period was $2.1 million (2003 - $1.9 million) and is included in salaries and benefits in the Statement of Income and Retained Earnings.

12. CONTRIBUTED SURPLUS

The opening contributed surplus was received from the Province of Ontario in the form of the book value of net assets in excess of obligations assumed.

The adjustments to the opening balance relates to repair and maintenance costs that were agreed to prior to the establishment of the Agency. The funds committed for such repair and maintenance are spent on various undertakings, the largest of these undertakings has a spending limit of $7.5 million for capital repairs as approved by the Agency's Board of Directors. Of the $7.5 million approved, a cumulated $6.0 million has been spent. On other undertakings, a cumulated $4.7 million has been spent. The adjustment also includes a write off of provincial assistance advances.

(in thousands of dollars)	December 31, 2004	December 31, 2003
Opening balance, January 1	$97,951	$100,330
Adjustments to opening balance	(1,096)	(2,379)
	$96,855	$97,951

ONTARIO CLEAN WATER AGENCY
December 31, 2004
Notes to Financial Statements

13. CONTINGENCIES

Litigation

The Agency is the defendant in a number of lawsuits. Most of these claims are covered by insurance after the application of a deductible, ranging from $2,500 to $50,000, depending on when the event of the claim occurred and the nature of the claim. The outcome of the lawsuits cannot be determined at this time. Losses, if any, will be accounted for in the period of settlement.

Goods and Services Tax (GST)

As a result of a GST audit by the Canada Revenue Agency (CRA), the Agency was advised by the CRA that it was entitled to claim a refund for some of the GST on certain purchases, as the Agency had not claimed the full amount of the rebate to which it is entitled. The claim was approved in January 2004 and the refund has been recorded in first quarter of 2004.

Investments Receivable for Water and Wastewater Facilities

In August of 1999, the Agency entered into a loan agreement to finance the construction of a water pipeline. The outstanding loan balance including accumulated interest was $17.3 million at December 31, 2004. The loan agreement specified that repayment would be through sales of water, rather than according to a predetermined schedule. To date, no principal or interest payments have been made. Currently, the pipeline and payments of the outstanding loan is the subject of ongoing discussions amongst various levels of government. If sales of water remain insufficient to make principal and interest payments, under the terms of the loan agreement, effective May 1, 2006, the Agency could take over the marketing of the pipeline from the existing operator. Due to these current uncertainties, the Agency is unable to estimate the potential impairment, if any, of the loan under this loan agreement. As such, no allowance for loan impairment has been provided for in the financial statements.

14. PROPERTY TRANSFER INITIATIVE

In 1997, the Province passed legislation requiring the transfer of ownership of water and wastewater facilities from the Agency to municipalities. The Property Transfer Initiative captures all real estate conveyance costs associated with the title transfers. The transfers have been completed and $4.6 million has been spent.

15. RELATED PARTY TRANSACTIONS

As a result of the relationship of the Agency with the Province, the following related party transactions exist and have been disclosed in the notes to the financial statements:

(a) The Agency received revenue of $1 million during 2004 from the Ministry of the Environment for water, wastewater treatment and other services it provided. The services were provided at the same rate as the other municipalities.

ONTARIO CLEAN WATER AGENCY
December 31, 2004
Notes to Financial Statements

15. RELATED PARTY TRANSACTIONS (Cont'd)

(b) The Agency provided a $120 million loan to the Ontario Strategic Infrastructure Financing Authority (OSIFA), as described in note 6.

(c) The Agency relies on the Management Board Secretariat to process their payroll and administer their benefits. The Management Board Secretariat absorbs these administrative costs.

16. SALARIES

The "Public Sector Salary Disclosure Act, 1996" requires disclosure of Ontario public-sector employees paid an annual remuneration in excess of $100,000. The salary portion of an individual's compensation includes base salary, overtime payments, vacation/lieu time payouts, and incentive and/or lump-sum merit payments. Listed below - by name, position, salary paid and taxable benefits - are those within OCWA whose salary exceeded $100,000 for the year 2004.

Name	Position	Salary Paid	Other Benefits
Atkinson, Daniel	V.P., Operations	110,609.69	192.44
Baker, Brenda	V.P., Finance and Admin.	106,878.96	185.44
Carter, John	Mgr., Project Dev. & Tech. Serv.	113,733.38	189.85
Chiasson, Linda	V.P., Business Development	106,407.73	185.08
Chin, Edward	Mgr. Admin & Procurement	100,346.78	169.71
Clappison, Stephen	Thermal Operator 4	101,676.17	120.15
Ethier, Marc	Regional Manager, MidWest	100,275.55	167.28
Fernandez, Mervyn	Thermal Operator 4	106,940.62	120.15
Kind, Robin	Asst. General Counsel	162,657.99	276.79
Pontone, Dante	President/CEO	118,788.81	203.83
Quarisa, Frank	V.P., Project Dev. & Tech. Serv.	106,551.56	185.41
Rinas, Wilhelm	General Counsel	111,960.60	191.99
Sasaki, Lauren	Legal Counsel	119,839.63	205.49
West, Philip A.	Thermal Operator 3	110,539.92	108.09

Ontario Lottery and Gaming Corporation
Société des loteries et des jeux de l'Ontario

MANAGEMENT'S RESPONSIBILITY FOR ANNUAL REPORTING

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Where required, management has made informed judgements and estimates in accordance with Canadian generally accepted accounting principles.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications, on an ongoing basis. The reports prepared by the internal auditors are reviewed by the Committee. The internal auditors have free independent access to the Committee.

Grant Thornton LLP and KPMG LLP, the independent auditors appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, have examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditors have full and unrestricted access to the Committee.

Duncan Brown
Chief Executive Officer

E.T. Dalton, CA
Senior Vice President,
Business Optimization

May 18, 2005

AUDITORS' REPORT

To the Board of Directors of Ontario Lottery and Gaming Corporation
and to the Ministry of Economic Development and Trade

We have audited the consolidated balance sheet of Ontario Lottery and Gaming Corporation as at March 31, 2005 and the consolidated statements of income, cash flows, changes in due to Province of Ontario and equity in capital assets for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Toronto, Canada

May 18, 2005

Chartered Accountants

Grant Thornton LLP

Sault Ste. Marie, Canada

May 18, 2005

Ontario Lottery and Gaming Corporation

Consolidated Balance Sheet

As at March 31, 2005

(in thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents (Note 2)	$ 603,300	$ 560,193
Accounts receivable	42,150	49,641
Due from Falls Management Company (Note 8)	3,665	4,334
Due from Government of Canada	-	1,432
Prepaid expenses and other	61,897	50,529
Current portion of loans receivable (Note 4)	8,135	10,006
	719,147	676,135
Pre-opening and deferred expenditures (Note 3)	16,834	21,218
Loans receivable (Note 4)	37,144	41,884
Capital assets (Note 5)	2,235,431	1,548,157
Assets contributed to Chippewas of Mnjikaning (Note 6)	17,221	18,303
Cash and short-term investments held for First Nations (Note 7)	116,776	88,603
	$ 3,142,553	**$ 2,394,300**
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 278,593	$ 256,323
Due to operators (Note 8)	45,624	32,298
Due to Chippewas of Mnjikaning (Note 8)	1,398	1,205
Due to Government of Canada	9,655	-
Deferred revenues	18,040	15,410
Current portion of long-term liabilities (Note 9)	168,898	33,271
	522,208	338,507
Due to First Nations (Note 7)	116,776	88,603
Long-term liabilities (Note 9)	642,462	125,871
Equity		
Due to Province of Ontario	218,203	252,827
Reserves (Note 2)	218,834	199,478
Equity in capital assets	1,424,070	1,389,014
	1,861,107	1,841,319
	$ 3,142,553	**$ 2,394,300**

Commitments (Notes 4, 8 and 10)
Contingencies (Note 11)

See accompanying notes to consolidated financial statements.

On behalf of the Board

Timothy Reid, Chair

Louis E. Panontin, Director

Ontario Lottery and Gaming Corporation
Consolidated Statement of Income
Year ended March 31, 2005
(in thousands of dollars)

	2005	2004
Revenues		
Lotteries and bingo	$ 2,333,934	$ 2,276,530
Commercial casinos	1,572,901	1,497,482
Charity casinos and racetrack slot operations	1,947,220	1,956,058
	5,854,055	**5,730,070**
Operating expenses		
Lotteries and bingo	1,652,525	1,630,341
Commercial casinos	1,446,188	1,252,213
Charity casinos and racetrack slot operations	1,028,740	1,020,474
	4,127,453	**3,903,028**
Income before the undernoted	**1,726,602**	**1,827,042**
Interest and other income	25,214	25,778
Interest on long-term debt	-31,472	-11,577
Foreign exchange gain	19,623	16,409
Net income	**$ 1,739,967**	**$ 1,857,652**

Segmented information (Note 12)

See accompanying notes to consolidated financial statements.

Ontario Lottery and Gaming Corporation

Consolidated Statement of Changes in Due to Province of Ontario

Year ended March 31, 2005

(in thousands of dollars)

		2005		2004
Net income	$	1,739,967	$	1,857,652
Add (deduct)				
Capital expenditures, net		(890,730)		(262,202)
Amortization of capital assets		203,455		148,274
Repayments of long-term liabilities		(141,781)		(23,377)
Increase in long-term liabilities		794,000		7,757
Distributions to First Nations		(91,434)		(78,720)
Transfers to reserves, net				
Capital renewals		(8,388)		(22,719)
Operating		(8,419)		(4,530)
Severance		(2,548)		(2,608)
		(145,845)		(238,125)
Current year amount due		1,594,122		1,619,527
Payments to Province of Ontario		(1,628,746)		(1,553,486)
Amount due less payments		(34,624)		66,041
Due to Province of Ontario, beginning of year		252,827		186,786
Due to Province of Ontario, end of year	**$**	**218,203**	**$**	**252,827**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Equity in Capital Assets

Year ended March 31, 2005

(in thousands of dollars)

		2005		2004
Balance, beginning of year	**$**	**1,389,014**	**$**	**1,259,466**
Capital expenditures, net		890,730		262,202
Amortization of capital assets		(203,455)		(148,274)
Repayments of long-term liabilities		141,781		23,377
Increase in long-term liabilities		(794,000)		(7,757)
Balance, end of year	**$**	**1,424,070**	**$**	**1,389,014**

See accompanying notes to consolidated financial statements.

Ontario Lottery and Gaming Corporation
Consolidated Statement of Cash Flows
Year ended March 31, 2005
(in thousands of dollars)

	2005	2004
Cash derived from (applied to):		
Operations		
Net income	$ 1,739,967	$ 1,857,652
Amortization of capital assets	203,455	148,274
Amortization of non-capital assets	16,339	13,934
Loss on disposal of capital assets	148	1,128
Change in non-cash operating working capital:		
Accounts receivable	7,491	(2,810)
Due from Government of Canada	1,432	(264)
Prepaid expenses and other	(11,368)	2,529
Accounts payable and accrued liabilities	22,270	(7,816)
Due to operators	13,326	(5,728)
Due to Chippewas of Mnjikaning	193	(3,679)
Due to Government of Canada	9,655	-
Deferred revenues	2,630	830
	2,005,538	2,004,050
Financing		
Increase in long-term liabilities	794,000	7,757
Repayments of long-term liabilities	(141,781)	(23,377)
	652,219	(15,620)
Investing		
Due from Falls Management Company	669	(4,334)
Pre-opening and deferred expenditures	(10,873)	(5,695)
Issuance of loans receivable	(3,088)	(30,513)
Repayment of loans receivable	9,699	8,896
Capital expenditures	(894,035)	(265,153)
Proceeds on disposal of capital assets	3,158	1,822
Assets contributed to Chippewas of Mnjikaning	-	(69)
	(894,470)	(295,046)
Other		
Payments to Province of Ontario	(1,628,746)	(1,553,486)
Distributions to First Nations	(101,089)	(71,820)
Increase in due to First Nations	9,655	(6,900)
	(1,720,180)	(1,632,206)
Increase in cash and cash equivalents	43,107	61,178
Cash and cash equivalents, beginning of year	560,193	499,015
Cash and cash equivalents, end of year	**$ 603,300**	**$ 560,193**
Supplemental disclosure of cash flow information:		
Cash interest received	$ 10,142	$ 10,780
Cash paid for interest	33,648	10,344

See accompanying notes to consolidated financial statements.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements

Year ended March 31, 2005
(tabular amounts in thousands of dollars)

The Ontario Lottery and Gaming Corporation (the "Corporation") was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is a Crown agency of the Ontario government and is responsible for conducting and managing lottery games, five charity casinos and The Great Blue Heron Charity Casino Slot Machine Facility, sixteen slot operations at racetracks and four commercial casinos in the Province of Ontario.

The Corporation has entered into operating agreements with Windsor Casino Limited, CHC Casinos Canada Limited, Falls Management Company and Great Blue Heron Gaming Company for the operation of Casino Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort and The Great Blue Heron Charity Casino Slot Machine Facility, respectively.

Casino Rama is located on reserve lands of the Chippewas of Mnjikaning First Nation. Under the terms of the Casino Rama Revenue Agreement dated June 9, 2000, Ontario First Nations are entitled to the ongoing net revenues, as defined, of Casino Rama. Upon the ultimate dissolution and wind up of the operation, Ontario First Nations are entitled to the net proceeds from the disposition of the moveable assets, as defined, as well as any remaining undistributed earnings. In addition, under the terms of a 25-year lease (expiring in March 2021) between the Corporation and Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, upon the dissolution and wind up of the casino operation the Corporation is required to surrender to the lessor, Casino Rama Inc., the lands and all improvements, except for the proceeds arising from the disposition of furniture, fixtures and casino gaming assets, which the Ontario First Nations are entitled to. These proceeds will be paid out to the Ontario First Nations in accordance with the Casino Rama Revenue Agreement.

The assets, liabilities and operations of The Great Blue Heron Charity Casino Slot Machine Facility are included in these financial statements. The operating results are included with the results of the charity casinos and racetrack slot operations. These financial statements do not include other operations carried out at The Great Blue Heron Charity Casino.

1. Significant accounting policies

a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its 100 per cent owned subsidiaries, Ontario Gaming Assets Corporation and OLC Services Limited. These subsidiaries were established to purchase capital assets, which are leased to the parent corporation at cost.

In addition, the consolidated financial statements combine the financial position and results of operations of the commercial casinos at Casino Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort ("Fallsview"), and of The Great Blue Heron Charity Casino Slot Machine Facility.

b) Revenue recognition

Revenue from lottery games, for which results are determined based on a draw, is recognized when the draw takes place. Revenue for future draws is deferred and recognized when the draw takes place. Revenue from instant games is recognized when the ticket is activated for play by the retailer. Revenue from sports wagering games and bingo gaming is recognized when the ticket is sold to the consumer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

Gaming revenue from slot and table game operations represents the net win from gaming activities, which is the difference between amounts earned through gaming wagers less the payouts from those wagers.

Non-gaming revenue includes revenue from hotel, food and beverage, entertainment centre and other services and is recognized at the time the services are rendered to patrons. This also includes the retail value of accommodations, food and beverage and other services provided to patrons on a complimentary basis.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2005
(tabular amounts in thousands of dollars)

c) Promotional allowances

Promotional allowances include the retail value of accommodation, food and beverage and other goods and services provided on a complimentary basis to patrons. The player clubs at the casinos and slot facilities allow patrons to earn points based on the volume of play. These points are accrued as a liability based on estimated redemption and are redeemable for complimentary goods and services and/or cash rebates. Promotional allowances include the value of the points as they are earned.

Promotional allowances also include the retail value of coupons (hotel, food and beverage and other goods and services) and other incentives provided to the patrons when these coupons are redeemed. The retail value of these coupons is included in revenue.

The estimated costs of providing these promotional allowances have been included as expenses in the Consolidated Statement of Income.

d) Cash and cash equivalents

Cash equivalents are defined as liquid investments that have a term to maturity at the time of purchase of less than 90 days.

e) Pre-opening and deferred expenditures

Certain expenditures, consisting of compensation, consulting and other costs incurred in connection with the development and opening of gaming sites are deferred and amortized over three years, commencing with site opening.

Expenditures, consisting of compensation, consulting and other costs incurred with the development of a management information system are deferred and amortized over a period not exceeding five years. Other deferred expenditures, incurred as a result of the funding of the construction of facilities for the Chippewas of Mnjikaning, are amortized over the term of the related debt.

f) Capital assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	10 to 50 years
Furniture and fixtures	2 to 10 years
Leasehold improvements	4 to 14 years
Lottery gaming assets	3 to 7 years
Casino and racetrack slot operations gaming assets	2 to 10 years

Capital assets are amortized when brought into operations.

Construction in progress and assets not in use are stated at cost. Costs will be amortized commencing upon completion of the related project. Interest on debt used to finance major additions to capital assets is capitalized during the construction phase. The interest cost is determined using the interest rate on incremental debt incurred by the Corporation to finance these capital assets. Interest capitalized is amortized over the same period as the related asset.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements

Year ended March 31, 2005
(tabular amounts in thousands of dollars)

g) Impairment of long-lived assets

Long-lived assets, including pre-opening and deferred expenditures, assets contributed to Chippewas of Mnjikaning and capital assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset, including cash flows that accrue to the Province of Ontario. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

At March 31, 2005 and March 31, 2004, no impairments in the carrying value of these assets existed.

h) Asset retirement obligations

The Corporation records the fair value of an asset retirement obligation as a liability in the year in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Corporation also records a corresponding asset that is amortized over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

As at March 31, 2005, the Corporation has asset retirement obligations with respect to certain facilities, however the fair value of these amounts cannot be determined at this time due to insufficient information being available regarding the settlement dates for these obligations. As such, no amounts have been recorded in these consolidated financial statements.

i) Assets contributed to Chippewas of Mnjikaning

Assets contributed to Chippewas of Mnjikaning, consisting primarily of funding for the construction of a community centre, senior centre and certain infrastructure facilities, are amortized over the term of the Casino Rama ground lease.

j) Foreign currency translation

Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rates. Consolidated Statement of Income items are translated at the rate of exchange in effect at the transaction date. Translation gains and losses are included in the Consolidated Statement of Income in the period in which they arise.

k) Derivative financial instruments

Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, is party to certain derivative financial instruments, principally interest rate swap contracts, used to manage its exposure to interest rate fluctuations on the non-revolving term loan (Note 9). Casino Rama Inc. does not enter into financial instruments for trading or speculative purposes. The policy adopted is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument. The derivative financial instruments are effective as hedges, both at inception and over the term of the instrument; as the term to maturity, the (notional) principal amount and the interest rate basis in the instruments all match the terms of the portion of the debt instrument being hedged.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2005
(tabular amounts in thousands of dollars)

These instruments are not recognized in the financial statements of the Corporation on inception. Payments and receipts under the interest rate swap contracts are recognized as adjustments to interest expense. In the even of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the Consolidated Statement of Income at the time of extinguishment.

The fair value of the interest rate swap contracts was calculated based on market conditions at year-end, supplemented with a quote from a financial institution. The fair value represents the amount that would be paid to terminate or replace the contracts. There are no present plans to terminate or replace significant portions of the contracts.

l) Concentration of credit risk

The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of cash equivalents, accounts receivable and loans receivable. Cash equivalents consist of deposits with major commercial banks. Accounts receivable include credit provided to retailers of lottery products and patrons of commercial casinos. Loans receivable consist of loans to racetrack operators and municipalities. The Corporation performs ongoing credit evaluations of retailers, patrons, racetrack operators and municipalities and maintains reserves for potential credit losses.

m) Financial instruments

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, due from Falls Management Company, due from/to Government of Canada, loans receivable, cash and short-term investments held for First Nations, accounts payable and accrued liabilities, due to operators, due to Chippewas of Mnjikaning, due to First Nations and long-term liabilities. The fair value of these financial instruments, excluding loans receivable and long-term liabilities, approximates carrying amounts due to the short maturities of these instruments. The fair value of loans receivable approximates carrying value prior to consideration of the allowance for loan losses and is estimated by discounting the future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and similar remaining maturities. The fair value of the long-term liabilities approximates carrying value and is calculated by discounting future cash flows using rates currently available for similar terms and maturities.

n) Guarantees

The Corporation has adopted the disclosure provisions related to the Canadian Institute of Chartered Accountants' Accounting Guideline No. 14 “Disclosure of Guarantees”. There are no guarantees that require disclosure in the financial statements.

o) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates are used in determining, but are not limited to, the valuation of markers receivable, inventory valuation, valuation of loans receivable, the useful lives of all depreciable assets, the recoverability of capital assets, unclaimed prize liability, the players club point provision and the outstanding chip and token liability. Actual results could differ from those estimates.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2005
(tabular amounts in thousands of dollars)

2. Cash and cash equivalents

Cash and cash equivalents include the below-noted amounts, which are held in separate accounts.

	2005	2004
Reserves		
Capital renewals	$117,792	$109,404
Operating	74,109	65,689
Severance	26,933	24,385
	218,834	199,478
Prize funds on deposit	29,685	34,675
Term loan proceeds	24,352	1,660
	$272,871	$235,813

The Corporation has established cash reserves at the commercial casinos in accordance with their respective operating agreements for the following purposes:

i) capital renewals reserves for capital asset additions other than normal repairs or major renovations

ii) operating reserves to satisfy specified obligations in the event that revenue will be insufficient to meet such obligations and

iii) severance reserve to satisfy certain obligations of the Corporation arising from termination or layoff of employees of an operator in connection with the termination of an operator.

Prize funds on deposit are funds set aside representing the estimate of gross prizes outstanding less an estimate for prizes not expected to be claimed by players.

Term loan proceeds represent restricted cash that was to be used for construction purposes at Niagara Fallsview Casino Resort and Casino Rama.

Cash and cash equivalents include bank term deposits amounting to $69,876,000 (2004 – $72,800,000) at an interest rate of 2.35 to 2.45 per cent (2004 – 2.1 to 2.15 per cent).

3. Pre-opening and deferred expenditures

			2005	2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Pre-opening expenditures				
Commercial casinos	$18,143	$10,372	$7,771	$4,581
Charity casinos and racetrack slot operations	22,236	19,475	2,761	5,186
	40,379	29,847	10,532	9,767
Deferred expenditures	25,691	19,389	6,302	11,451
	$66,070	$49,236	$16,834	$21,218

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2005
(tabular amounts in thousands of dollars)

4. Loans receivable

The Corporation has loaned and is committed to loan funds to certain racetrack operators for the purposes of renovating or constructing buildings to accommodate the Corporation's slot machine facilities. Security is provided by mortgages and general security agreements covering the racetrack operators' assets. The loans bear interest based on the bank's prime rate and are repayable over periods ranging from one to ten years. The amounts will be repaid under an agreed upon formula by withholding from commissions that would otherwise be payable to the racetrack operators. The Corporation has also advanced funds to certain municipalities for purposes of infrastructure improvements. The amounts will be recovered from the municipal commissions otherwise payable.

The Corporation's maximum remaining commitment as at March 31, 2005 is $10,400,000 to one racetrack operator and $4,300,000 to two municipalities.

5. Capital assets

			2005	2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$133,752	$ –	$133,752	$133,161
Buildings	1,378,916	95,066	1,283,850	571,966
Furniture and fixtures	536,401	325,643	210,758	164,866
Leasehold improvements	535,544	222,514	313,030	329,376
Lottery gaming assets	161,868	63,278	98,590	88,939
Casino and racetrack slot operation gaming assets	479,120	285,962	193,158	176,733
Construction in progress and assets not in use	2,293	–	2,293	83,116
	$3,227,894	$992,463	$2,235,431	$1,548,157

During the year the Corporation capitalized interest amounting to $2,337,138 (2004 – $9,496,631).

6. Assets contributed to Chippewas of Mnjikaning

			2005	2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Assets contributed to Chippewas of Mnjikaning	$32,337	$15,116	$17,221	$18,303

7. Cash and short-term investments held for First Nations

	2005	2004
Segregated bank account, beginning of year	$73,518	$46,753
Distributions to the segregated bank account during the year	35,238	25,087
Interest earned during the year	2,065	1,678
Segregated bank account, end of year	110,821	73,518
Current distribution due to First Nations	5,955	15,085
	$116,776	$88,603

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2005
(tabular amounts in thousands of dollars)

On June 9, 2000, the Corporation, the First Nations of Ontario and the Province of Ontario entered into a revenue agreement that entitles the Ontario First Nations to the net revenues, as defined, from the operation of Casino Rama. Under the agreement, the Corporation is required to distribute the net revenues from the operation on a monthly basis.

The Casino Rama Revenue Agreement requires that, commencing July 31, 2001, the Corporation retain 35 per cent of the net distributions from Casino Rama in a segregated bank account if the Corporation has not received a joint direction from the Chiefs of Ontario and the Chippewas of Mnjikaning with respect to a new revenue distribution formula. As at March 31, 2005, the Corporation has not received this direction and accordingly has retained 35 per cent of the net distributions in a segregated interest-bearing bank account. This matter is currently the subject of an action brought by the Chippewas of Mnjikaning against the Province of Ontario and the Corporation and until the matter is decided by the Courts or, alternatively, the Chippewas of Mnjikaning and the Chiefs of Ontario reach agreement on a new revenue distribution formula, the Corporation is required to retain these funds.

The payment related to the monthly distribution of the net revenue for March 2005 is included above as Distribution due to First Nations.

8. Related party transactions

a) Under the terms of the development and operating agreements for each of the commercial casinos and The Great Blue Heron Charity Casino Slot Machine Facility each operator is entitled to receive an operator's fee calculated as a percentage of gross revenues and as a percentage of net operating margin, both as defined in each of the related development and operating agreements.

b) Under the terms of the development and operating agreement for Casino Rama, the Chippewas of Mnjikaning receive an annual fee of $4,500,000, adjusted for inflation, relating to provision of ongoing operating services. During the year, $5,269,000 (2004 – $5,170,000) was expensed. Other Chippewas of Mnjikaning charges amounting to $6,506,000 (2004 – $5,954,000) were also incurred during the year in connection with snow removal, water, sewer and emergency services. In addition, under the terms of a ten-year lease expiring July 2006, for the rental of office space, $530,000 (2004 – $626,000) was expensed to a company related to the Chippewas of Mnjikaning. Also, under the terms of an eight-year lease ending July 2011, an annual rental of $313,000, adjusted for inflation, for warehouse space is paid to a company related to the Chippewas of Mnjikaning. During the year, $320,000 was expensed (2004 – $268,000).

On April 30, 2002, an agreement was signed with the Chippewas of Mnjikaning, whereby the Corporation will reimburse the Chippewas of Mnjikaning 75 per cent of the annual operating budget of the fire department, in exchange for fire protection services to the casino complex. This amount is included in other Chippewas of Mnjikaning charges above and is defined in the agreement for the period of April 1, 2000 to July 31, 2011.

The lands used for the Casino Rama complex are leased by Casino Rama Inc. from Her Majesty the Queen in the Right of Canada under a 25-year lease, which expires in March 2021. Annual rent payable under this lease is $3,500,000, adjusted for inflation, and is paid out of the gross revenues of the Casino Rama complex to the Chippewas of Mnjikaning in accordance with instructions from Indian and Northern Affairs Canada as representative for Her Majesty the Queen. During the year, $4,109,000 (2004 – $4,081,000) was expensed. Under the terms of an expansion agreement, additional annual rent of $1,700,000, adjusted annually for inflation, is payable and during the year $1,845,000 (2004 – $1,836,000) was expensed.

c) Under the terms of the development and operating agreement, the Mississaugas of Scugog Island First Nation receive an amount equal to 5 per cent of the gross revenue of The Great Blue Heron Charity Casino Slot Machine Facility in consideration for provision of the lands used for the Slot Machine Facility. During the year, $5,835,000 (2004 – $5,173,000) was paid to the Mississaugas of Scugog Island First Nation.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2005
(tabular amounts in thousands of dollars)

d) Falls Management Company (FMC) is the developer of the Niagara Fallsview Casino Resort (Fallsview). As at March 31, 2005, certain costs relating to the development of Fallsview were incurred by Casino Niagara. These costs were billed to FMC and are reflected on the financial statements as Due from Falls Management Company. During the year payments were made to FMC in the amount of $25,076,000 (2004 – $7,655,000) for development fees relating to the construction of Fallsview.

9. Long-term liabilities

	2005	2004
Casino Rama non-revolving term loan	$125,870	$144,527
Niagara Fallsview Casino Resort loan	685,490	–
Niagara Fallsview construction development liability	–	14,615
	811,360	159,142
Less current portion	168,898	33,271
	$642,462	$125,871

a) Casino Rama

In June 2000, the Corporation entered into an agreement relating to the expansion and renovation of Casino Rama. Under the terms of the agreement, the Chippewas of Mnjikaning were responsible for the development, construction and financing of the expansion project at Casino Rama. In addition, Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, entered into a lending agreement that provides for a $186,560,000 non-revolving term credit facility for the project. The development and operating agreement for Casino Rama requires, among other things, that principal and interest payments be made from the gross revenues of Casino Rama in nineteen quarterly principal installments, beginning June 28, 2002, of $4,664,000 and a final installment of $97,644,000.

The credit facility bears interest at rates ranging between bank prime and bank prime plus 1.5 per cent dependent on conditions outlined in the credit facility agreement. Bank prime at March 31, 2005 is 4.25 per cent (2004 – 4 per cent). Interest paid during the year amounted to $8,854,000 (2004 – $10,324,000). An interest rate swap contract, which matures on June 30, 2007, was entered into on July 6, 2000, with an original notional principal of $125,100,000. The balance under the contract at March 31, 2005, amounted to $88,887,000 (2004 – $102,055,000). The contract results in a fixed rate of 6.68 per cent on the outstanding notional amount. The interest rate risk exposure is limited to the net differential between the variable borrowing rate and the fixed rate under the swap contract, which is approximately 4 per cent at March 31, 2005. The net interest rate receivable or payable under the contract is settled quarterly with the counter party, which is a Canadian chartered bank. The fair value of the interest rate swap contract, which represents the amount that would be paid to terminate or replace the contract as at March 31, 2005, is $5,386,000 (2004 – $9,780,000). Fair value estimates of the interest rate swap contract are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The funds advanced under the credit facility have been secured by certain Casino Rama assets.

b) Niagara Fallsview Casino Resort

In June 2004, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario) for the purchase of the Niagara Fallsview Casino Resort from Falls Management Corporation. The initial loan balance of $794,000,000 plus interest, is repayable over five years. The loan bears interest at a rate of 4.4 per cent per annum and is unsecured.

The Corporation purchased Fallsview from Falls Management Company (FMC), the developer, in June 2004, and FMC was paid $769,745,000. This new facility opened to the public on June 10, 2004.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements

Year ended March 31, 2005
(tabular amounts in thousands of dollars)

The principal loan repayments expected to be made over the next five years are approximately:

2006	$168,898
2007	263,952
2008	163,764
2009	170,867
2010	43,879

10. Commitments

a) Obligations under operating leases

The Corporation has entered into several leases for property and equipment. The future minimum lease payments are approximately:

2006	$16,942
2007	13,649
2008	10,328
2009	9,777
2010	9,136
	59,832
Thereafter	22,423
	$82,255

b) Suppliers

The Corporation has computer hardware and maintenance agreements with future payments of approximately:

2006	$5,950
2007	5,385
2008	4,311
2009	47
	$15,693

c) Casino Windsor

In connection with Casino Windsor, in Windsor, Ontario, and under the terms of an agreement, the Corporation agreed to provide the City of Windsor with a fixed return over 20 years with payments commencing May 1, 1998 in the amount of $2,600,000 per annum for the first ten years and $3,000,000 per annum for the last ten years.

d) Niagara Fallsview Casino Resort

In connection with the Niagara Fallsview Casino Resort (“Fallsview”) in Niagara Falls, Ontario, and under the terms of an agreement, the Corporation agreed to provide the Corporation of the City of Niagara Falls (the City) with payments commencing December 7, 2000 in the amount of $2,600,000 per annum for the first ten years, $3,000,000 per annum for the next ten years and then $3,000,000 per annum, adjusted for Consumer Price Index, as defined in the agreement, thereafter. In addition, the Corporation is obligated to reimburse the City for the Corporation’s share of certain infrastructure costs amounting to $3,770,000.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements

Year ended March 31, 2005
(tabular amounts in thousands of dollars)

11. Contingencies

a) In November 2003, the Ontario First Nations Limited Partnership (the Plaintiff) delivered a statement of claim against the Corporation, Her Majesty the Queen in Right of Ontario and the Chippewas of Mnjikaning First Nation, as defendant parties. The statement of claim alleges that the Province of Ontario wrongfully withheld 20 per cent of the gross revenues from Casino Rama operations. The Plaintiff claims damages in an amount equivalent to 20 percent of the gross revenues of Casino Rama from the time that it opened for operations to the date of judgement plus damages in the amount of $300,000,000. The outcome is undeterminable at this time and no amounts have been accrued in these financial statements.

b) In November 2003, the Chippewas of Mnjikaning First Nation (the Plaintiff) delivered a notice of claim against the Corporation, her Majesty the Queen in Right of Ontario and CHC Casinos Canada Limited, as defendant parties. The Plaintiff alleges to be the legal and beneficial owner of all capital assets purchased for use in the development and operation of Casino Rama and requires all amounts of retail sales tax that have been paid or accrued in respect of purchases of capital assets be reimbursed. The Plaintiff claims damages in the amount of $21,000,000 against the defendant parties, excluding CHC Casinos Canada Limited, and claims that title to all capital assets purchased for use in the development and operation of Casino Rama be transferred to the Plaintiff. The outcome is undeterminable at this time and no amounts have been accrued in these financial statements.

c) The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on these financial statements. Estimates, where appropriate, have been included in these financial statements, however additional settlements, if any, concerning these contingencies will be accounted for as a charge to the Consolidated Statement of Income in the period in which the settlement occurs.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements

Year ended March 31, 2005
(tabular amounts in thousands of dollars)

12. Segmented information

2005	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
Revenues				
Lotteries & bingo	$2,333,934	$ –	$ –	$2,333,934
Slots	–	1,176,316	1,927,407	3,103,723
Tables	–	423,837	62,914	486,751
Non-gaming	–	215,625	33,267	248,892
	2,333,934	1,815,778	2,023,588	6,173,300
Less promotional allowances	–	242,877	76,368	319,245
	2,333,934	**1,572,901**	**1,947,220**	**5,854,055**
Operating expenses				
Non-gaming	–	197,303	33,710	231,013
Gaming and lottery operations	96,031	331,148	268,878	696,057
Lottery prizes	1,225,196	–	–	1,225,196
Commissions	164,219	–	376,669	540,888
Marketing and promotion	49,257	123,999	70,811	244,067
Operators' fees (Note 8a)	–	76,678	6,847	83,525
Amortization	23,705	116,634	79,455	219,794
General and administration	36,570	101,372	72,319	210,261
Facilities	–	136,983	60,424	197,407
Win contribution (Note 14)	–	319,958	23,281	343,239
Payments to Government of Canada (Note 15)	57,547	42,113	36,346	136,006
	1,652,525	**1,446,188**	**1,028,740**	**4,127,453**
Income before the undernoted	**681,409**	**126,713**	**918,480**	**1,726,602**
Interest and other income	3,989	13,059	8,166	25,214
Interest on long-term debt	–	(31,472)	–	(31,472)
Foreign exchange gain (loss)	(3)	15,411	4,215	19,623
	3,986	**(3,002)**	**12,381**	**13,365**
Net income	**$685,395**	**$123,711**	**$930,861**	**$1,739,967**

2004	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
Revenues				
Lotteries & bingo	$2,276,530	$ –	$ –	$ 2,276,530
Slots	–	1,125,333	1,942,085	3,067,418
Tables	–	408,162	59,210	467,372
Non-gaming	–	172,358	29,617	201,975
	2,276,530	1,705,853	2,030,912	6,013,295
Less promotional allowances	–	208,371	74,854	283,225
	2,276,530	**1,497,482**	**1,956,058**	**5,730,070**
Operating expenses				
Non-gaming	–	152,528	29,988	182,516
Gaming and lottery operations	100,641	306,373	259,873	666,887
Lottery prizes	1,220,881	–	–	1,220,881
Commissions	161,474	–	383,079	544,553
Marketing and promotion	43,248	125,048	79,519	247,815
Operators' fees (Note 8a)	–	61,466	6,063	67,529
Amortization	12,109	71,106	78,993	162,208
General and administration	34,808	85,937	66,224	186,969
Facilities	–	110,616	55,529	166,145
Win contribution (Note 14)	–	306,638	20,648	327,286
Payments to Government of Canada (Note 15)	57,180	32,501	40,558	130,239
	1,630,341	**1,252,213**	**1,020,474**	**3,903,028**
Income before the undernoted	**646,189**	**245,269**	**935,584**	**1,827,042**
Interest and other income	3,822	13,865	8,091	25,778
Interest on long-term debt	–	(11,577)	–	(11,577)
Foreign exchange gain	9	13,890	2,510	16,409
	3,831	**16,178**	**10,601**	**30,610**
Net income	**$ 650,020**	**$ 261,447**	**$ 946,185**	**$ 1,857,652**

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements

Year ended March 31, 2005
(tabular amounts in thousands of dollars)

13. Post employment plans

The Corporation provides pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employee's Union Pension Fund (OPSEU Pension Fund), which are multi-employer defined benefit pension plans established by the Province of Ontario. The cost of post-employment benefits is included as part of the pension contributions made by the Corporation to the PSPF and OPSEU Pension Fund and accordingly the Corporation has no additional liability for these future costs. The Corporation's contribution during the year was $16,529,000 (2004 – $15,298,000).

The operators of the commercial casinos have created defined contribution pension plans for their employees. The pension expense for the year amounted to $18,934,000 (2004 – $15,306,000).

14. Win contribution

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from commercial casinos and The Great Blue Heron Charity Casino Slot Machine Facility.

15. Payments to Government of Canada

The Corporation made the following payments to the Government of Canada:

	2005	2004
Payments on behalf of the Province of Ontario	$23,717	$23,212
Goods and Services Tax	112,289	107,027
	$136,006	$130,239

a) Payments on behalf of the Province of Ontario

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b) Goods and Services Tax

As a prescribed Goods and Services Tax (GST) Registrant, the Corporation makes GST remittances to the Federal Government pursuant to the Games of Chance (*GST/HST*) Regulations of the Excise Tax Act. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities. The net tax attributable to gaming activities results in a 14 per cent tax burden on most taxable gaming expenditures incurred by the Corporation. The net tax attributable to non-gaming activities is calculated similar to any other GST registrant in Canada.

16. Comparative amounts

Certain prior year amounts have been reclassified to conform with current year financial statement presentation.

Management's Responsibility

Ontario Northland Transportation Commission

The Ontario Northland Transportation Commission's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financials statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the consolidated financial statements.

The Commission maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The consolidated financial statements have been reviewed by the Commission's Audit and Finance Committee and have been approved by its Governing Board of commissioners. In addition, the consolidated financial statements have been audited by the Ontario Provincial Auditor, whose report follows.

T. Hargreaves
Chair

S. Carmichael
President and CEO

North Bay, Ontario
March 24, 2005

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditors' Report

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development and Mines

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 2004 and the consolidated statements of investment by Province of Ontario, operations and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 24, 2005

J.R. McCarter, CA
Auditor General

Ontario Northland Transportation Commission
Consolidated Balance Sheet
(dollars in thousands)

December 31	2004	2003
Assets		
Current		
Cash and cash equivalents	$ 1,010	$ 1,563
Accounts receivable (Net of allowance - $1,401; 2003 - $1,281)	19,776	21,102
Inventory	12,487	10,629
Prepaid expenses	1,000	277
	34,273	33,571
Development costs (Note 1)	575	-
Self-Insurance Fund (Note 2)		
- Market value $6,174; (2003 - $5,887)	6,085	5,793
Investment in property, plant and equipment (Schedule 1)	258,680	256,417
Accrued pension benefit asset (Note 4)	80,076	128,618
	$ 379,689	$ 424,399
Liabilities and Province of Ontario Equity		
Current		
Operating line of credit (Note 3)	$ 27,000	$ 23,000
Accounts payable and accrued liabilities (Note 11)	29,663	26,379
Current portion of long-term debt (Note 5a)	2,608	2,276
Current portion of deferred revenue	1,235	788
	60,506	52,443
Deferred revenue (Note 6)	2,893	-
Provision for Self-Insurance (Note 2)	6,085	5,793
Long-term debt (Note 5a)	27,243	26,223
Accrued Non-Pension Benefit Obligation (Note 4)	55,261	54,150
	151,988	138,609
Contingencies/Commitments (Note 12)		
Province of Ontario Equity		
Investment by the Province of Ontario	73,396	69,603
Retained earnings	154,305	216,187
	227,701	285,790
	$ 379,689	$ 424,399

Approved on behalf of the Commission:

Chair

President and CEO

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Investment by the Province of Ontario
(dollars in thousands)

For the year ended December 31	2004	2003
Balance, beginning of year		
Net investment in property, plant and equipment	$ 20,654	$ 17,794
Net investment other than share capital (Note 5b)	48,949	48,949
	69,603	66,743
Net changes during the year		
Contributions from Province of Ontario	7,245	4,221
Retirements	(2,600)	(665)
Amortization	(852)	(696)
	3,793	2,860
Balance, end of year		
Net investment in property, plant and equipment	24,447	20,654
Net investment other than share capital (Note 5b)	48,949	48,949
	$ 73,396	$ 69,603

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Operations and Retained Earnings
(dollars in thousands)

For the year ended December 31	2004	2003
Revenues (Schedule 2)	$ 129,996	$ 129,181
Expenses (Schedule 2)	128,671	123,644
	1,325	5,537
Other revenues and expenses		
Amortization (Schedule 2)	13,929	14,659
Interest expense (Schedule 2)	2,188	2,303
Investment and other income	(1)	(21)
Gain on sale of property, plant and equipment (Schedule 2)	(64)	(372)
Impairment of property, plant and equipment (Note 10)	487	-
Early retirement plan expense (Note 4a)	47,601	-
Vacation pay (Note 11)	(933)	-
Service improvement plan costs (Note 18)	-	878
Recovery of service improvement plan costs (Note 18)	-	(4,900)
Net expenses	63,207	12,547
Net loss for the year	(61,882)	(7,010)
Retained earnings, beginning of year		
As previously stated	220,464	227,474
Prior years' adjustment (Note 11)	(4,277)	(4,277)
As restated	216,187	223,197
Retained earnings, end of year	$ 154,305	$ 216,187

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Cash Flows
(dollars in thousands)

For the year ended December 31	2004	2003
Cash provided by (used in)		
Operating activities		
Loss	$ (61,882)	$ (7,010)
Items not affecting cash		
Amortization (Schedule 2)	13,929	14,659
Gain on disposal of property, plant and equipment	(64)	(372)
Impairment of property, plant and equipment (Note 10)	487	-
Early retirement plan expense (Note 4a)	47,601	-
Pension/non-pension expense	3,731	5,056
	3,802	12,333
Changes in non-cash working capital balances		
Accounts receivable	1,326	(912)
Inventory	(1,858)	39
Prepaid expenses	(723)	80
Accounts payable and accrued liabilities	3,284	(1,435)
Deferred revenue	447	503
	6,278	10,608
Investing activities		
Investment in property, plant and equipment	(20,222)	(16,140)
Proceeds from sale of property, plant and equipment	155	1,037
Development costs	(575)	-
Decrease in other assets	(141)	(148)
	(20,783)	(15,251)
Financing activities		
Long-term debt (Note 5a)	1,352	(2,202)
Contributions from the Province of Ontario	7,245	4,221
Operating line of credit	4,000	6,000
Deferred revenue	2,893	-
Other liabilities	(1,538)	(1,565)
	13,952	6,454
Change in cash and cash equivalents during the year	(553)	1,811
Cash and cash equivalents, beginning of year	1,563	(248)
Cash and cash equivalents, end of year	$ 1,010	$ 1,563
Supplemental disclosure of cash flow information:		
Interest paid during the year and included in net loss	$ 2,188	$ 2,303

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Northland Transportation Commission
Consolidated Schedule of Investment in Property, Plant and Equipment
Schedule 1
(dollars in thousands)

For the year ended December 31	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Rail Services				
Roadway	$ 226,394	$ 85,309	**$ 141,085**	$ 136,308
Buildings	42,008	14,587	**27,421**	22,896
Equipment	74,408	40,283	**34,125**	38,316
Under construction	1,246	-	**1,246**	1,098
Telecommunications				
Equipment	133,712	89,923	**43,789**	45,433
Buildings	5,750	3,607	**2,143**	2,041
Under construction	300	-	**300**	806
Motor Coach Services				
Coaches	10,191	4,316	**5,875**	6,382
Buildings	156	46	**110**	110
Under construction	134	-	**134**	28
Marine Services (Moosonee)				
Vessels	385	314	**71**	81
Development				
Land and buildings	2,851	1,120	**1,731**	2,268
Land held for resale	650	-	**650**	650
	$ 498,185	$ 239,505	**$ 258,680**	$ 256,417

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Northland Transportation Commission
Consolidated Schedule of Operating Revenues and Expenses
Schedule 2

(dollars in thousands)

For the year ended December 31	2004	2003
Rail Services		
Sales revenue (Notes 9 and 15)	$ 64,848	$ 60,827
Government reimbursement (Note 7)	19,761	20,428
Operating revenue	84,609	81,255
Operating expense	76,758	70,559
Operating income	7,851	10,696
Amortization	7,699	7,236
Gain on sale of property, plant and equipment	(107)	(171)
Interest expense	1,533	1,654
Income (loss) from operations	(1,274)	1,977
Telecommunications		
Sales revenue (Note 8)	33,740	36,945
Operating expense	35,612	36,536
Operating income (loss)	(1,872)	409
Amortization	5,152	6,290
Loss on sale of property, plant and equipment	43	76
Loss from operations	(7,067)	(5,957)
Motor Coach Services		
Sales revenue	10,884	10,212
Operating expense	9,642	9,268
Operating income	1,242	944
Amortization	641	559
Loss on sale of property, plant and equipment	2	21
Income from operations	599	364
Marine Services (Moosonee)		
Sales revenue	142	129
Government reimbursement (Note 7)	124	73
Operating revenue	266	202
Operating expense	215	342
Operating income (loss)	51	(140)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Northland Transportation Commission
Consolidated Schedule of Operating Revenues and Expenses
Schedule 2 (continued)
(dollars in thousands)

For the year ended December 31	2004	2003
Rental Properties		
Sales revenue	497	567
Operating expense	285	332
Operating income	212	235
Amortization	49	37
Gain on sale of property, plant and equipment	(2)	(298)
Income from operations	165	496
Administration		
Operating revenue	-	-
Operating expense	6,159	6,607
Operating loss	(6,159)	(6,607)
Amortization	388	537
Interest expense	655	649
Loss from operations	(7,202)	(7,793)
Total Operations		
Sales revenue	110,111	108,680
Government reimbursement (Note 7)	19,885	20,501
Total revenues	129,996	129,181
Expenses	128,671	123,644
Operating income	1,325	5,537
Amortization	13,929	14,659
Interest expense	2,188	2,303
Gain on sale of property, plant and equipment	(64)	(372)
Loss from operations	$ (14,728)	$ (11,053)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Ontario Northland Transportation Commission
Summary of Significant Accounting Policies

December 31, 2004

Nature of Business

The Ontario Northland Transportation Commission, an Operational Enterprise of the Ontario government, delivers a variety of commercial and non-commercial services, including rail freight, passenger rail, motor coach and telecommunications primarily in the northeastern portion of Northern Ontario.

Basis of Accounting

These consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc, O.N. Tel Inc., Star Transfer Limited, Air-Dale Limited and Nipissing Central Railway Company.

Inventory

With the exception of used rail, all materials and supplies are valued at average cost. Used rail is shown at unamortized book value determined at the time of retirement.

Self-Insurance Fund

The self-insurance fund assets are stated at acquisition cost.

Investment in Property, Plant and Equipment and Amortization

Property, plant and equipment are stated at acquisition cost. Amortization is calculated using the straight-line method over the estimated service lives of the assets.

The estimated service lives for principal categories of assets are as follows:

Roadway - main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Buildings	50 years
Telecommunications equipment	15 years
Vehicles	3 years
Computer equipment	5 years
Coaches	12 years

The Province of Ontario reimburses the Commission for the cost of certain property, plant and equipment purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to Net Investment in Property, Plant and Equipment (Province of Ontario). Annual amortization on these property, plant and equipment is recorded as a reduction of the Net Investment in Property, Plant and Equipment (see page 4).

Ontario Northland Transportation Commission
Summary of Significant Accounting Policies

December 31, 2004

Employee Future benefits

Pension Plans

The Commission maintains a defined benefit pension plan for its employees. It provides for pensions based on years of service and average pensionable earnings and is generally applicable from the first day of the month following employment. The plan is not indexed, however, there have been a variety of ad hoc increases made to pensioners.

The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. Pension fund assets are valued using current market values. The Accrued Pension Benefit Asset or Obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practice using management's best estimates. The date of the last actuarial valuation for funding purposes was January 1, 2004. The date of the next actuarial valuation for funding purposes will be January 1, 2007.

Non-Pension Benefit Plans

The Commission offers non-pension post retirement benefits such as group life, health care and long-term disability to employees through defined benefit plans. The costs associated with these future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. In addition, as a Schedule 2 employer under the Workplace Safety and Insurance Board (WSIB), the Commission recognizes workers compensation benefits on an accrual basis using actuarial calculations provided by the WSIB for benefits in force, benefits not yet awarded and administrative loading costs.

Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and experience gains or losses. Experience gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plans. These expenses are recorded in the year in which employees render services to the Commission (See Note 4).

Ontario Northland Transportation Commission
Summary of Significant Accounting Policies

December 31, 2004

Revenue Recognition	Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Contract revenues are generally recorded on a percentage of completion basis. Revenues from other sources including Government reimbursement are recognized when earned. Telecommunications toll revenue adjustments are recognized when measurement can be reasonably estimated (see Note 8).
Income Taxes	As an Operational Enterprise of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.
Foreign Currency Translation	Revenues and expenses arising from foreign currency transactions are translated to their Canadian equivalent at the rates of exchange in effect at the transaction date. Resulting gains or losses on settlement or translation are included in the determination of net income for the current period.
Accounting Estimates	Preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.
Cash and Cash Equivalents	Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 2004

1. Development costs

The Commission incurred start up costs of $575,000 in relation to a new multi-year contract to refurbish commuter cars entered into by the Commission. The development costs will be expensed on a straight line basis over the life of the contract. The amount of development costs expensed in the current year were $nil (2003 – $nil).

2. Self-Insurance Fund

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a $100,000 premium paid by the Commission in addition to investment income earned on fund assets. Fund assets include investments in federal and provincial government bonds and cash in the amount of $5,815,000 (2003 - $5,593,000), and $270,000 (2003 - $200,000) payable by ONTC. Interest rates on the above mentioned bonds vary from 5.0% to 14.0% per annum. Maturity dates on these investments are staggered ranging from June 15, 2006 to June 2, 2009.

3. Operating Line of Credit

The Commission currently holds an operating line of credit with the Ontario Financing Authority (OFA) in the amount of $22,000,000, of which $22,000,000 was being utilized at the end of 2004 (2003 - $18,000,000). In addition, the Commission also has a revolving operating line of credit with the OFA in the amount of $5,000,000, of which $5,000,000 was being utilized at the end of 2004 (2003 - $5,000,000). Both of these operating lines bear interest at the Province of Ontario's cost of borrowing plus 25 basis points based on the date of each advance.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 2004

4. Employee Future Benefits

The Commission is the administrator of its contributory pension plan which covers all permanent staff. The pension fund assets primarily include marketable securities, real estate and corporate and government bonds, which are invested by professional investment managers.

The pension fund's target percentage allocation and average asset allocations as at December 31, 2004 and 2003, by asset category are as follows:

	Target	**2004**	2003
Equity securities – Domestic	20% - 36%	**33%**	34%
– Foreign	8% - 16%	**13%**	13%
Debt securities	40% - 60%	**51%**	50%
Real estate	0% - 15%	**2%**	2%
Short term and other	0% - 15%	**1%**	1%
Total		100%	100%

As part of a corporate restructuring plan, an early retirement offer was extended to approximately 220 employees of whom 202 employees accepted the offer. This special termination benefit resulted in an expense in 2004 of $47,601,000.

a. Accrued Pension Benefit Asset

	2004	2003
Projected benefit obligations	**$ 440,571,000**	$ 365,788,000
Market value of plan assets	**455,911,000**	434,359,000
Surplus	**$ 15,340,000**	$ 68,571,000
Accrued benefit asset - beginning of year	**$ 128,618,000**	$ 131,530,000
Expense	**(1,082,000)**	(3,060,000)
Early Retirement Plan (ERP) expense	**(47,601,000)**	-
Funding contributions	**141,000**	148,000
Accrued benefit asset - end of year	**$ 80,076,000**	$ 128,618,000

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 2004

4. Employee Future Benefits (continued)

b. Accrued Non-Pension Benefit Obligation

	2004	2003
Accrued benefit liability - beginning of year	**$ 54,150,000**	$ 53,720,000
Expense	**2,649,000**	1,996,000
Funding contributions	**(1,538,000)**	(1,566,000)
Accrued benefit liability - end of year	**$ 55,261,000**	$ 54,150,000

Included in the accrued non-pension benefit liability is worker's compensation benefits in the amount of $11,094,000 (2003 - $10,953,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2003. The valuation at December 31, 2004 is not expected to be ready until after the date of financial statement preparation. It is management's opinion that the balance at December 31, 2004 will not be significantly different.

c. Components of Net Periodic Pension Benefit expense

	2004	2003
Current service cost less employee contributions	**$ 8,100,000**	$ 7,240,000
Interest cost on accrued benefit obligation	**22,821,000**	22,490,000
Expected return on plan assets	**(31,760,000)**	(29,771,000)
Amortization of initial obligation	**197,000**	197,000
Amortization of past service costs	**654,000**	653,000
Amortization of net actuarial gain	**1,070,000**	2,251,000
Termination benefit cost (ERP)	**47,601,000**	-
	$ 48,683,000	$ 3,060,000

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 2004

4. Employee Future Benefits (continued)

d. Components of Net Periodic Non-Pension Benefit Expense

	2004	2003
Current service cost	$ 508,000	$ 811,000
Interest on accrued benefit obligation	2,481,000	1,185,000
Amortization of net actuarial gain	(340,000)	-
	$ 2,649,000	$ 1,996,000

e. Weighted Average Assumptions

	2004	2003
Discount rate - pension	5.75	6.25
Discount rate - non pension	5.75	6.50
Expected long-term rate of return on plan assets	7.50	7.50
Rate of compensation increase	4.00	4.00
Medical cost increases	4.5% to 10.0%	4.5% to 9.0%

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 2004

5. Long-term Debt

	2004	2003
a. Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, blended monthly payments of $30,000 for 15 years beginning February 1, 2005	$ 3,800,000	-
Loan from Ontario Financing Authority, bearing interest at 5.64% per annum, blended monthly payments of $43,000 for 10 years beginning May 1, 1998.	1,565,000	1,980,000
Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, blended monthly payments of $156,000 for 15 years beginning January 1, 2000.	14,326,000	15,370,000
Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, blended monthly payments of $109,000 for 15 years beginning September 1, 1999.	9,470,000	10,161,000
Vendor take back loan on an asset purchase that bears 0% interest, repayable over 8 years in accordance with the terms of the purchase agreement beginning December 1, 2000.	690,000	988,000
	29,851,000	28,499,000
Less current portion	2,608,000	2,276,000
	$ 27,243,000	$ 26,223,000

Payments required in the next five years and thereafter are as follows:

2005	$ 2,608,000
2006	2,766,000
2007	2,919,000
2008	2,732,000
2009	2,532,000
Thereafter	16,294,000
	$ 29,851,000

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 2004

5. Long term debt (continued)

b. Included in Investment by the Province of Ontario is a $35,208,000 non-interest bearing loan with no specific repayment terms from the Province of Ontario which three years ago was reclassified to Investment by the Province of Ontario. This was done to be consistent with how the loan was reflected in the Province of Ontario's consolidated financial statements. The Province, recognizing the concessionary nature of the loan, classified it as an equity investment in the Commission.

6. Deferred Revenue

Included in Deferred Revenue are the following two significant items:

In 2004, the Commission entered into a multi-year contract to refurbish commuter cars. Under the terms of the contract, the Commission received an advance of $2,627,000 from the customer to defray contract costs. An amount of $2,442,000 has been included as deferred revenue, of which $1,702,000 relates to periods after December 31, 2005. The deferred revenue will be recognized based on the percentage of completion method. During 2004, $185,000 of the advance was recognized as revenue.

The Commission has entered into a 20-year agreement with Hydro One for the use of fibre optic cable, expiring in March 2022. The total contract value is $1,380,000. The remaining balance of $1,259,789 has been included as deferred revenue, of which $1,190,769 relates to periods after December 31, 2005. The deferred revenue will be recognized on a straight line basis over the life of the agreement. During 2004, $69,030 was included as revenue.

7. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry have entered into annual contribution agreements which define the amount of compensation which the Province of Ontario would provide in each fiscal year. Starting in fiscal 2002 the provincial government began to fully reimburse losses on the passenger train services.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. An annual reimbursement of $2,500,000 was received until the expiration of the agreement on June 30, 2004. Negotiations between the Commission and Transport Canada resulted in a reimbursement of $1,875,000 for the nine months between July 1, 2004 and March 31, 2005. Negotiations continue in early 2005 with an aim to restoring the agreement to substantially the same terms as those in place up to June 30, 2004.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 2004

7. Government Reimbursement (continued)

Details of Government reimbursement are as follows:

	2004	2003
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	$ 17,261,000	$ 17,928,000
Marine Services (Moosonee)	124,000	73,000
	17,385,000	18,001,000
From Transport Canada:		
Current year's operations	2,500,000	2,500,000
	$ 19,885,000	20,501,000

The Commission is dependent on these reimbursements to carry out its non-commercial operations.

8. Telecommunications Revenue

The Commission's Telecommunications Division has a traffic agreement with Bell Canada that permits the two companies to exchange and settle on the toll traffic that traverses their network. The Access Tariffs charged by the Local Exchange Carriers were finalized by the CRTC in March 2005 and were not subject to any retroactive adjustments. In keeping with the Commission's accounting policy, any revenue or cost adjustments whether positive or negative are to be recognized in the year in which they become known and estimable.

9. Passenger Revenue

In accordance with the Travel Industry Act, the 2004 gross retail sales were $572,000 and the gross wholesale sales were $216,000.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 2004

10. Impairment of Property, Plant and Equipment

The Commission recognized an impairment loss for a marine vessel with a cost of $625,000 and an accumulated amortization of $138,000. This impairment resulted from Management's analysis of the present value of future cash flows from the lease of the vessel. The adjusted carrying value was determined to be $nil, resulting in an impairment loss of $487,000.

11. Change in Accounting Policy

In 2004, the Commission adopted a new vacation pay policy whereby vacation pay is accrued and expensed as it is earned rather than when it is paid. The policy has been applied retroactively such that the 2003 comparative figures have been restated as follows: accounts payable and accrued liabilities were increased by $4,277,000 and retained earnings, beginning of year, were decreased by $4,277,000. No additional vacation pay expense is recorded for 2003 as the amount of the liability had not significantly changed from 2002.

12. Contingencies/Commitments

Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance after application of a $2,000,000 deductible. Should any loss result, it would be charged to operations when the amount is ascertained.

In 1998 a claim for $3,000,000 was submitted to the National Transportation Agency for partial reimbursement of the write-down of railway passenger rolling stock. The likelihood of the success of the claim remains not determinable at this time and as a result is not reflected in these financial statements.

The Commission has contractual obligations on a number of operating leases for such items as rail cars, computer equipment, automotive equipment and other. It is management's opinion that in aggregate the annual cost of these leases is not significant to the Commission as a whole.

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 2004

13. Financial Instruments

The Commission's financial instruments consist of cash and bank, term investments of the self insurance fund, accounts receivable, bank overdraft, operating line of credit, accounts payable and long-term debt. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximated their carrying values, unless otherwise noted.

14. Related Party Transactions

During the year, the Commission charged the ONTC Contributory Pension Fund $240,000 (2003 - $189,000) for financial and administrative support.

15. Economic Dependence

During 2004, the Rail Services Division derived 42% (2003 - 45%) of its revenue from three major customers.

16. Subsequent Events

On March 31, 2005, subsequent to year end, $20,277,000 of the operating line of credit was reclassified to Investment by the Province of Ontario. The operating line of credit with the Ontario Financing Authority was re-established at $8,000,000 and the revolving operating line of credit of $5,000,000 remained in place.

Subject to an amendment to the ONTC Act, the Commission has changed its year-end to March 31st. The next financial statements will cover the fifteen month period ending March 31, 2006.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

December 31, 2004

17. Comparative Figures

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

18. Status of Service Improvement Plan

In the spring of 2000, the Minister of Northern Development and Mines directed the Commission to review all services it provided with a goal of developing a Service Improvement Strategy by the fall of that same year.

On December 13, 2000, the Minister of Northern Development and Mines accepted the recommendations of the Service Improvement Plan and directed the Commission to pursue the divestment, reorganization or alternate delivery of certain of its operations and the improvement or enhancement of those remaining.

In fiscal 2002 the Commission took certain steps to implement parts of the Service Improvement Plan recommendations such as, the divestiture of the Owen Sound Transportation Company, Limited (OSTC) and accepting and evaluating Request for Proposals (RFP's) submissions for both the Rail Services and Telecommunications divisions . In early 2003 the Commission made its recommendations to the Ontario Government including the Minister of Northern Development and Mines for approval, subject to certain conditions. In June of 2003, the Canadian National Railway Company withdrew an offer to purchase rail assets and in July of 2003 the Commission was directed to enter into exclusive negotiations with TELUS in order to formalize a strategic alliance with O.N. Tel Inc.

In complying with the recommendations set out in the Service Improvement Plan, the Commission incurred costs of $nil (2003 - $878,000) during the year. The cumulative amount expensed since the initiation of the Service Improvement Plan in fiscal 2000 is $7,665,000. At the end of fiscal 2003 the Commission, in accordance with its previously disclosed intentions, applied to the Ministry of Northern Development and Mines to have all of these costs reimbursed. In Spring 2004, the Commission received a reimbursement of $4,900,000 from the Ministry which was accrued in 2003. Management is of the opinion that this process has ended and no further costs will be incurred.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Ontario Power Generation Inc. ("OPG" or the "Company") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has selected those it considers most appropriate in the circumstances. The preparation of the consolidated financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The consolidated financial statements have been properly prepared within reasonable limits of materiality.

Management maintains a system of internal controls which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that OPG's assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored and evaluated by management and by an internal audit service and risk management function.

The Audit and Risk Committee meets regularly with management, internal audit services and the independent external auditors to satisfy itself that each group has properly discharged its respective responsibility, and to review the consolidated financial statements and independent Auditors' Report, and to discuss significant financial reporting issues and auditing matters before recommending approval of the consolidated financial statements by the Board of Directors.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors had direct and full access to the Audit and Risk Committee, with and without the presence of management, to discuss their audit and their findings therefrom as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Richard Dicerni

Richard Dicerni
Acting President and Chief Executive Officer

Donn W.J. Hanbidge
Acting Chief Financial Officer

March 23, 2005

ONTARIO POWER GENERATION

Auditors' Report

To the Shareholder of Ontario Power Generation Inc.

We have audited the consolidated balance sheets of Ontario Power Generation Inc. as at December 31, 2004 and 2003 and the consolidated statements of income (loss), retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of Ontario Power Generation Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

ERNST & YOUNG LLP
Chartered Accountants

Toronto, Canada
March 23, 2005

Consolidated Statements of Income (Loss)

Years Ended December 31 (millions of dollars except where noted)	**2004**	2003
Revenue		
Revenue before Market Power Mitigation Agreement rebate	**6,072**	6,688
Market Power Mitigation Agreement rebate	**(1,154)**	(1,510)
	4,918	5,178
Fuel expense	**1,153**	1,678
Gross margin	**3,765**	3,500
Expenses		
Operations, maintenance and administration	**2,594**	2,393
Depreciation and amortization (note 5)	**765**	603
Accretion on fixed asset removal and nuclear waste management liabilities	**453**	430
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(313)**	(238)
Property and capital taxes	**103**	114
Loss on transition rate option contracts (note 15)	**–**	30
	3,602	3,332
Income before the following:	**163**	168
Restructuring (note 14)	**20**	–
Impairment of long-lived assets (note 5)	**–**	576
Other income (note 20)	**(8)**	(58)
Net interest expense	**189**	144
(Loss) before income taxes	**(38)**	(494)
Income tax expenses (recoveries) (note 11)		
Current	**21**	80
Future	**(101)**	(83)
	(80)	(3)
Net income (loss)	**42**	(491)
Basic and diluted income (loss) per common share (dollars)	**0.16**	(1.92)
Common shares outstanding (millions)	**256.3**	256.3

Consolidated Statements of Retained Earnings

Years Ended December 31 (millions of dollars)	**2004**	2003
(Deficit) retained earnings, beginning of year	**(147)**	361
Net income (loss)	**42**	(491)
Dividends	**–**	(17)
(Deficit), end of year	**(105)**	(147)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Years Ended December 31 (millions of dollars)	**2004**	2003
Operating activities		
Net income (loss)	**42**	(491)
Adjust for non-cash items:		
Depreciation and amortization	**765**	603
Accretion on fixed asset removal and nuclear waste management liabilities	**453**	430
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(313)**	(238)
Pension cost (income)	**92**	(6)
Other post employment benefits and supplementary pension	**157**	118
Future income taxes (note 11)	**(117)**	(100)
Provision for restructuring	**20**	–
Transition rate option contracts	**(52)**	(43)
Impairment of long-lived assets	**–**	576
Gain on sale of assets	**(3)**	–
Gain on sale of investments	**–**	(58)
Mark-to-market on energy contracts (note 10)	**5**	(5)
Provision for used nuclear fuel	**28**	21
Other	**29**	8
	1,106	815
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(454)**	(453)
Expenditures on fixed asset removal and nuclear waste management	**(71)**	(72)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	**19**	–
Contributions to pension fund	**(154)**	(153)
Expenditures on other post employment benefits and supplementary pension	**(60)**	(56)
Expenditures on restructuring (note 14)	**(51)**	(68)
Net changes to other long-term assets and liabilities	**(26)**	(82)
Changes in non-cash working capital balances (note 21)	**(83)**	166
Cash flow provided by operating activities	**226**	97
Investing activities		
Sale of accounts receivable	**–**	300
Proceeds on sale of assets	**18**	1
Proceeds from sale of investments	**–**	59
Investment in fixed assets	**(561)**	(643)
Cash flow (used in) investing activities	**(543)**	(283)
Financing activities		
Issuance of long-term debt (note 7)	**13**	51
Repayment of long-term debt (note 7)	**(6)**	(4)
Dividends paid	**–**	(17)
Net increase (decrease) in short-term notes (note 6)	**26**	(182)
Cash flow provided by (used in) financing activities	**33**	(152)
Net (decrease) in cash and cash equivalents	**(284)**	(338)
Cash and cash equivalents, beginning of year	**286**	624
Cash and cash equivalents, end of year	**2**	286

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheets

As at December 31 (millions of dollars)	**2004**	2003
Assets		
Current assets		
Cash and cash equivalents	**2**	286
Accounts receivable (note 4)	**346**	347
Future income taxes (note 11)	**44**	60
Fuel inventory	**569**	524
Materials and supplies	**92**	73
	1,053	1,290
Fixed assets (note 5)		
Property, plant and equipment	**15,114**	14,701
Less: accumulated depreciation	**3,174**	2,514
	11,940	12,187
Other long-term assets		
Deferred pension asset (note 9)	**524**	464
Nuclear fixed asset removal and nuclear waste management funds (note 8)	**5,976**	5,228
Long-term materials and supplies	**281**	278
Long-term accounts receivable and other assets	**56**	64
	6,837	6,034
	19,830	19,511

See accompanying notes to the consolidated financial statements

Ontario Power Generation Inc.

Consolidated Balance Sheets

As at December 31 (millions of dollars)	2004	2003
Liabilities		
Current liabilities		
Accounts payable and accrued charges (notes 14 and 15)	**949**	1,064
Market Power Mitigation Agreement rebate payable (note 16)	**439**	409
Short-term notes payable (note 6)	**26**	–
Long-term debt due within one year (note 7)	**5**	4
Deferred revenue due within one year	**12**	12
Income and capital taxes payable	**12**	–
	1,443	1,489
Long-term debt (note 7)	**3,399**	3,393
Other long-term liabilities		
Fixed asset removal and nuclear waste management (note 8)	**8,339**	7,921
Other post employment benefits and supplementary pension (note 9)	**1,105**	1,013
Long-term accounts payable and accrued charges	**212**	276
Deferred revenue	**156**	168
Future income taxes (note 11)	**155**	272
	9,967	9,650
Shareholder's equity		
Common shares (note 12)	**5,126**	5,126
Deficit	**(105)**	(147)
	5,021	4,979
	19,830	19,511

Commitments and Contingencies (notes 2, 5, 6, 8, 10, 11 and 13)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Jake Epp

Honourable Jake Epp
Chairman

James Hankinson
Director

Notes to the Consolidated Financial Statements for the Years Ended December 31, 2004 and 2003

1 Description of Business

Ontario Power Generation Inc. was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario). As part of the reorganization of Ontario Hydro, under the *Electricity Act, 1998* and the related restructuring of the electricity industry in Ontario, Ontario Power Generation Inc. and its subsidiaries (collectively "OPG" or the "Company") purchased and assumed certain assets, liabilities, employees, rights and obligations of the electricity generation business of Ontario Hydro on April 1, 1999, and commenced operations on that date. Ontario Hydro has continued as Ontario Electricity Financial Corporation ("OEFC"), responsible for managing and retiring Ontario Hydro's outstanding debt and other obligations.

2 Basis of Presentation

The consolidated financial statements of OPG have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of Ontario Power Generation Inc. and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant inter-company transactions have been eliminated on consolidation.

Certain of the 2003 comparative amounts have been reclassified from statements previously presented to conform to the 2004 consolidated financial statement presentation.

3 Summary of Significant Accounting Policies

Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments. These securities are valued at the lower of cost or market.

Interest earned on cash and cash equivalents and short-term investments of $5 million (2003 – $21 million) at an average effective rate of 2.2 per cent (2003 – 3.0 per cent) is offset against interest expense in the consolidated statements of income (loss).

Sales of Accounts Receivable

Asset securitization involves selling assets such as accounts receivable to independent entities or trusts, which buy the receivables and then issue interests in them to investors. These transactions are accounted for as sales, given that control has been surrendered over these assets in return for net cash consideration. For each transfer, the excess of the carrying value of the receivables transferred over the estimated fair value of the proceeds received is reflected as a loss on the date of the transfer, and is included in net interest expense. The carrying value of the interests transferred is allocated to accounts receivable sold or interests retained according to their relative fair values on the date the transfer is made.

Fair value is determined based on the present value of future cash flows. Cash flows are projected using OPG's best estimates of key assumptions, such as discount rates, weighted-average life of accounts receivable and credit loss ratios.

As part of the sales of accounts receivable, certain financial assets are retained and consist of interests in the receivables transferred. Any retained interests held in the receivables are accounted for at cost. The receivables are transferred on a fully serviced basis and do not create a servicing asset or liability.

Inventories
Fuel inventory is valued at weighted-average cost.

Materials and supplies are valued at the lower of average cost or net realizable value with the exception of critical replacement parts, which are unique to nuclear and fossil-fuelled generating stations. The cost of the critical replacement parts inventory is charged to operations on a straight-line basis over the remaining life of the related facilities and is classified in long-term assets.

Fixed Assets and Depreciation
Property, plant and equipment are recorded at cost. Interest costs incurred during construction are capitalized as part of the cost of the asset, based on the interest rate on OPG's long-term debt. Expenditures for replacements of major components are capitalized.

Depreciation rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are also charged to depreciation expense. Repairs and maintenance are expensed when incurred.

Fixed assets are depreciated on a straight-line basis except for computers, and transport and work equipment, which are depreciated on a declining balance basis as noted below:

Nuclear generating stations	25 and 40 years[1]
Fossil-fuelled generating stations	40 to 50 years[2]
Hydroelectric generating stations	100 years
Administration and service facilities	50 years
Computers, and transport and work equipment assets – declining balance	9% to 40% per year
Major application software	7 years

[1] The nuclear stations are depreciated for accounting purposes over 25 years with the exception of Pickering A. The Pickering A station is depreciated over a 40-year operating life as a result of the completion, during the 1980s, of the retubing of the Pickering A station.

[2] Commencing January 1, 2004, the coal-fired generating stations will be depreciated over the period from 2004 to 2007, due to the expected shutdown of these stations by the end of 2007.

Impairment of Fixed Assets
OPG evaluates its property, plant and equipment for impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the net carrying amount of assets. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available.

Long-term Portfolio Investments
Long-term portfolio investments are stated at amortized cost and include the nuclear fixed asset removal and nuclear waste management funds. Gains and losses on long-term investments are recognized in other income when investments are sold. When a decline in the value of investments occurs, which is considered to be other than temporary, a provision for loss is established.

Fixed Asset Removal and Nuclear Waste Management Liability
OPG recognizes asset retirement obligations for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG has estimated both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liability is increased by the present value of the variable cost portion of the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the disposal of nuclear used fuel are charged to fuel expense. The liability may also be adjusted due to any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss would be recorded.

Accretion arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. The resulting expense is included in operating expenses.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets. The capitalized cost is depreciated over the remaining useful life of the related fixed assets and is included in depreciation expense.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds
In July 2003, OPG and the Province of Ontario (the “Province”) completed arrangements pursuant to the Ontario Nuclear Funds Agreement (“ONFA”), which required the establishment of segregated funds to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with the ONFA, OPG transferred the assets in the nuclear fixed asset removal and nuclear waste management funds to the segregated funds called the Decommissioning Fund and the Used Fuel Fund (together the “Funds”). The Funds are invested in debt and equity securities, which are treated as long-term investments and are accounted for at amortized cost. The segregated funds are reported as nuclear fixed asset removal and nuclear waste management funds in the consolidated balance sheets. Realized gains and losses on the segregated funds are recorded in earnings in the consolidated statements of income (loss).

With the establishment of the segregated funds accounts in July 2003, the amount receivable from the OEFC was transferred into the Decommissioning Fund in the form of an interest-bearing note and is included in the investments reported in the Decommissioning Fund. Previously, the receivable from the OEFC had been offset against fixed asset removal and nuclear waste management liabilities.

Revenue Recognition
All of OPG’s electricity generation is sold into the real-time energy spot market administered by the Independent Electricity System Operator (“IESO”), formerly known as the Independent Electricity Market Operator (“IMO”). Revenue is recorded as electricity is generated and metered based on the spot market sales price, net of the Market Power Mitigation Agreement rebate and hedging activities. At each balance sheet date, OPG computes the average spot energy price that prevailed since the beginning of the current settlement period and recognizes a Market Power Mitigation Agreement rebate if the average price exceeds 3.8¢/kilowatt hour (“kWh”), based on the amount of energy subject to the rebate. OPG also sells into, and purchases from, interconnected markets of other provinces and the U.S. northeast and midwest. All contracts that are not designated as hedges are recorded in the consolidated balance sheets at market value with gains or losses recorded in the consolidated statements of income (loss). Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income (loss). Accordingly, power purchases of $170 million in 2004 and $189 million in 2003 were netted against revenue.

OPG derives Non-Energy revenue under the terms of a lease arrangement with Bruce Power L.P. (“Bruce Power”) related to the Bruce nuclear generating stations. This includes lease revenues, interest income and revenues for engineering analysis and design, technical and ancillary services. OPG also earns revenue from its joint venture share of the Brighton Beach Power Limited Partnership (“Brighton Beach”) related to an energy conversion agreement between Brighton Beach and Coral Energy Canada Inc. (“Coral”). In addition, Non-Energy revenue includes isotope sales to the medical industry and real estate rentals. Revenues from these activities are recognized as services are provided or products are delivered.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at year-end exchange rates. Any resulting gain or loss is reflected in other revenue.

Derivatives

OPG is exposed to changes in electricity prices associated with an open wholesale spot market for electricity in Ontario. To hedge the commodity price risk exposure associated with changes in the wholesale price of electricity, OPG enters into various energy and related sales contracts. These contracts are expected to be effective as hedges of the commodity price exposure on OPG's generation portfolio. Gains or losses on hedging instruments are recognized in income over the term of the contract when the underlying hedged transactions occur. These gains or losses are included in generation revenue and are not recorded on the consolidated balance sheets. All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in Energy Marketing revenue.

OPG also uses derivative contracts to manage the Company's exposure to foreign currency movements. Foreign exchange translation gains and losses on these foreign currency denominated derivative contracts are recognized as an adjustment to the purchase price of the commodity or goods received.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such derivative instrument ceases to exist or be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income.

Emission Reduction Credits and Allowances

OPG utilizes emission reduction credits ("ERCs") and allowances to manage emissions within the prescribed regulatory limits. ERCs are purchased from trading partners in Canada and the United States. Emission allowances are obtained from the Province and purchased from trading partners in Ontario. The cost of ERCs and allowances are held in inventory and charged to OPG's operations at average cost as part of fuel expense as required. Options to purchase ERCs are accounted for as derivatives and are recorded at estimated market value.

Research and Development

Research and development costs are charged to operations in the year incurred. Research and development costs incurred to discharge long-term obligations such as the nuclear waste management liabilities, for which specific provisions have already been made, are charged to the related liability.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, group life insurance, health care and long-term disability benefits. OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. The obligations for pension and other post retirement benefit costs are determined using the projected benefit method pro-rated on service. The obligation for long-term disability benefits is determined using the projected benefit method on a terminal basis. The obligations are affected by salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimates.

Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six per cent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and adjustments for actuarial gains or losses, which result from changes in assumptions, and experience gains and losses. Past service costs arising from pension and OPEB plan amendments are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plan, since OPG will realize the economic benefit over that period. Due to the long-term nature of post employment liabilities, the excess of the net cumulative unamortized gain or loss, over 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets, is also amortized over the expected average remaining service life.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Taxes

Under the *Electricity Act, 1998,* OPG is responsible for making payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), and are modified by the *Electricity Act, 1998* and related regulations. This effectively results in OPG paying taxes similar to what would be imposed under the federal and Ontario tax acts.

OPG uses the liability method of accounting for income taxes, whereby income taxes are recognized as a result of temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value in the balance sheet, the carry-forward of unused tax losses and income tax reductions. Future income tax assets and liabilities are measured using income tax rates expected to apply in the years in which temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period the change is substantively enacted. Future income tax assets are evaluated and if realization is not considered 'more likely than not', a valuation allowance is established.

OPG makes payments in lieu of property tax on its nuclear and fossil-fuelled generating assets to the OEFC, and also pays property taxes to municipalities.

OPG pays charges on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are included in fuel expense.

Business Segments

OPG operates in two reportable business segments: Generation and Energy Marketing. A separate category, Non-Energy and Other, includes revenue and costs not allocated to the two business segments. Future changes in OPG's structure and operations, including the impact of rate regulation, may change the definition of business segments.

Changes in Accounting Policies

Hedging Relationships

In June 2003, the Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants ("CICA"), amended Accounting Guideline 13, Hedging Relationships, originally issued in December 2001. This guideline, effective for fiscal years beginning on or after July 1, 2003, establishes standards for documenting and assessing the effectiveness of hedging activities. OPG adopted the new accounting standard effective January 1, 2004, with no impact on the existing accounting for hedging relationships.

Employee Future Benefits – Additional Disclosures

In December 2003, the AcSB approved revisions to Section 3461, Employee Future Benefits. The revisions require additional annual disclosures effective for years ending on or after June 30, 2004, and additional interim disclosure effective for periods ending on or after June 30, 2004. OPG early adopted the interim requirement during the first quarter of 2004, which mandates disclosure of the amount of the total benefit cost. OPG's 2004 annual disclosure complies with the additional requirements.

New Accounting Recommendations

Consolidation of Variable Interest Entities

In September 2004, the CICA amended Accounting Guideline 15, Consolidation of Variable Interest Entities, originally issued in June 2003, to harmonize with the new Financial Accounting Standards Board ("FASB") Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46R"). The new guideline requires the consolidation of variable interest entities ("VIEs") by the primary beneficiary. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIEs' expected losses, expected residual returns, or both.

OPG is involved with various joint venture and other arrangements, and has sold trade receivables under an asset securitization arrangement. The Company assessed these arrangements in advance of the guideline becoming effective on January 1, 2005. OPG concluded that the joint venture arrangements with which it is involved are not VIEs, and that it is not the primary beneficiary of, nor does it have a significant variable interest in, the trust to which it sold trade receivables. OPG continues to review its other arrangements.

Rate Regulated Accounting

In December 2004, the *Electricity Restructuring Act, 2004 (Bill 100)* received Royal Assent. A regulation made pursuant to that statute prescribes that OPG's nuclear and baseload hydroelectric facilities will receive regulated prices for their output. Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the consolidated financial statements as regulatory assets and liabilities. If regulation provides assurance that incurred costs will be recovered in the future, then a regulated entity may defer those costs and report them as a regulatory asset. If current recovery is provided for costs expected to be incurred in the future, then a regulated entity reports a regulatory liability. Rate regulated assets and liabilities could only be established for OPG after the effective date of a regulation identifying those assets to be regulated.

4 Sale of Accounts Receivable

On October 1, 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, the Company continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to the Company is generally limited to its income earned on the receivables.

The Company has reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12, Transfer of Receivables. In accordance with this guideline, the proceeds of each sale to the trust were deemed to be the cash received from the trust net of the undivided co-ownership interest retained by the Company. For the year ended December 31, 2004, the Company has recognized pre-tax charges of $8 million (2003 – $3 million) on such sales.

The accounts receivable reported and securitized by the Company are as follows:

	Principal Amount of Receivables as at December 31		**Average Balance of Receivables for Year Ended December 31**	
(millions of dollars)	**2004**	2003	**2004**	2003
Total receivables portfolio [1]	**490**	464	**470**	443
Receivables sold	**300**	300	**300**	300
Receivables retained	**190**	164	**170**	143
Average cost of funds			**2.6%**	2.8%

[1] Amount represents receivables outstanding including receivables that have been securitized since October 1, 2003, which the Company continues to service.

An immediate 10 per cent or 20 per cent adverse change in the discount rate would not have a material effect on the current fair value of the retained interest. There were no credit losses for the year ended December 31, 2004 (2003 – nil).

Details of cash flows from securitizations for the years ended December 31 are as follows:

(millions of dollars)	**2004**	2003
Proceeds from new sales	**–**	300
Collections reinvested in revolving sales [1]	**3,600**	900
Cash flows from retained interest	**2,043**	415

[1] Given the revolving nature of the securitization, the cash collections received on the receivables securitized are immediately reinvested in additional receivables resulting in no further cash proceeds to the Company over and above the initial cash amount of $300 million. The amounts reflect the cumulative of 12 monthly amounts.

5 Fixed Assets

Depreciation and amortization expense consists of the following:

(millions of dollars)	2004	2003
Depreciation and amortization	**758**	600
Nuclear waste management costs	**7**	3
	765	603

Fixed assets consist of the following:

(millions of dollars)	2004	2003
Property, plant and equipment		
Nuclear generating stations	**4,253**	4,087
Fossil-fuelled generating stations	**1,591**	1,578
Hydroelectric generating stations	**7,767**	7,659
Other fixed assets	**938**	636
Construction in progress	**565**	741
	15,114	14,701
Less: accumulated depreciation		
Generating stations	**2,890**	2,281
Other fixed assets	**284**	233
	3,174	2,514
	11,940	12,187

Assets under capital leases of $203 million (2003 – $203 million) are included in other fixed assets. Accumulated depreciation on these leased assets at December 31, 2004 was $53 million (2003 – $45 million). Interest capitalized to construction in progress at 6.0 per cent (2003 – 6.0 per cent) during the year ended December 31, 2004 was $30 million (2003 – $54 million).

Impairment of Long-lived Assets

The accounting estimates related to asset impairment require significant management judgment to identify factors such as short and long-term forecasts for future sales prices, the supply of electricity in Ontario, the return to service dates of laid-up generating stations, inflation, fuel prices and station lives. The amount of the future cash flow that OPG will ultimately realize with respect to these assets could differ materially from the carrying values recorded in the consolidated financial statements.

Coal-fired Generating Stations

In 2003, the Government committed to phase out coal-fired generating stations by 2007. As a result, OPG recognized an impairment loss of $576 million to reflect the termination of cash flows from these stations after 2007, and reduced the carrying amount of the fossil-fuelled generating stations by $576 million.

The fair value of the coal-fired generating assets was determined using a discounted cash flow method. The fair value determined was then compared to the carrying value of the generating assets in order to determine the amount of the impairment loss.

Lennox Generating Station

Under the Government's Request for Information/Request for Proposal for 2,500 MW of New Clean Generation and Demand Side Management Projects issued in September 2004, new generators would be allowed to recover fixed costs and an agreed upon rate of return on investment through contractual arrangements. New legislation was passed in December 2004, which provides for the contracted procurement of electricity capacity by the Ontario Power Authority ("OPA"). As a result, new entrants are expected to recover fixed costs through contractual arrangements with the OPA, thereby reducing anticipated prices in the wholesale electricity market as the new entrants will need to recover only fuel and other variable costs from this market. As a relatively high variable cost plant, the Lennox generating station will not be able to recover its fixed and variable costs from the wholesale market in the future. As a result, OPG has entered into discussions with the Province, which it expects will result in an arrangement that will provide for recovery of its fixed and variable costs. If subsequently, a decision is made not to enter into such an agreement, OPG will then be required to record an impairment loss up to the $205 million carrying value of the generating station and to assess the possibility of providing for additional losses.

6 Short-term Credit Facilities

In May 2004, OPG renewed its $1,000 million revolving, short-term committed bank credit facility with its bank lending group for a further 364-day term. Notes issued under OPG's commercial paper program are supported by the bank credit facility. During 2004, commercial paper of $1,383 million (2003 – $965 million) was issued to cover short-term funding requirements and $1,357 million (2003 – $1,147 million) was repaid. As at December 31, 2004, OPG had $26 million of commercial paper outstanding under this program (2003 – nil). As at December 31, 2004 and 2003, OPG had no other outstanding borrowing under this facility.

OPG also maintains $26 million (2003 – $28 million) in short-term uncommitted overdraft facilities as well as $200 million (2003 – $173 million) of short-term uncommitted credit facilities, which support the issuance of letters of credit. OPG is required to post the letters of credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the Ontario Energy Board's ("OEB") Retail Settlement Code and to support the supplementary pension plan. At December 31, 2004, there were approximately $155 million (2003 – $125 million) of letters of credit issued for supplementary pension plan and collateral requirements to the LDCs.

7 Long-term Debt

Long-term debt consists of the following:

(millions of dollars)	**2004**	2003
Notes payable to the OEFC	**3,200**	3,200
Capital lease obligations	**3**	8
Share of non-recourse limited partnership debt	**201**	189
	3,404	3,397
Less: due within one year		
Capital lease obligations	**3**	4
Share of limited partnership debt	**2**	–
	5	4
Long-term debt	**3,399**	3,393

Holders of the senior debt are entitled to receive, in full, amounts owing in respect of the senior debt before holders of the subordinated debt are entitled to receive any payments. The OEFC currently holds all of OPG's outstanding senior and subordinated notes.

The maturity dates as at December 31, 2004 for notes payable to the OEFC are as follows:

		Principal Outstanding (millions of dollars)		
Year of Maturity	Interest Rate (%)	Senior Notes	Subordinated Notes	Total
2006	5.44	100	–	100
2006	5.62	300	–	300
2006	5.94	100	–	100
2006	5.78	300	–	300
2007	5.85	400	–	400
2008	5.90	400	–	400
2009	6.01	350	–	350
2010	5.49	200	–	200
2010	5.71	300	–	300
2010	6.60	–	375	375
2011	6.65	–	375	375
		2,450	750	3,200

In December 2004, OPG reached an agreement with the OEFC to defer payment on $500 million principal amount of senior notes maturing in 2005 by extending the maturity dates by five years. The interest rates remain unchanged. This change in maturity dates is reflected in the table above.

In March 2005, the Company reached an agreement with the OEFC to obtain additional financing up to $600 million.

The Company also reached an agreement with the OEFC to satisfy, via an additional senior note of $95 million to mature in 2010, its $95 million interest obligation due in March 2005 related to the debt owing to the OEFC of $3.2 billion. In addition, the OEFC has agreed that the interest payment of $98 million due in September 2005 will be satisfied via an additional senior note of $98 million.

In September 2002, Brighton Beach, a limited partnership formed by OPG, ATCO Power Canada Ltd., ATCO Resources Ltd. and Brighton Beach Power Ltd., completed a $403 million private bond and term debt financing for its 580-megawatt power project under construction in Windsor, Ontario. Brighton Beach also signed an energy conversion agreement with Coral under which Coral will deliver natural gas to the plant and own, market and trade all the electricity produced. OPG proportionately consolidates its 50 per cent interest in the Brighton Beach partnership. As at December 31, 2004, $403 million (2003 – $378 million) was outstanding under the loan, and accordingly, $201 million (2003 – $189 million) was reported by OPG. The project and performance tests were completed in November 2004 and, therefore, any recourse to OPG associated with the above-noted financing of Brighton Beach has been extinguished.

Interest paid during the year ended December 31, 2004 was $218 million (2003 – $219 million), of which $213 million relates to interest paid on long-term debt (2003 – $210 million).

8 Fixed Asset Removal and Nuclear Waste Management

The liability for fixed asset removal and nuclear waste management on a present value basis consists of the following:

(millions of dollars)	**2004**	2003
Liability for nuclear used fuel management	**4,693**	4,451
Liability for nuclear decommissioning and low and intermediate level waste management	**3,457**	3,289
Liability for non-nuclear fixed asset removal	**189**	181
Fixed asset removal and nuclear waste management liability	**8,339**	7,921

The change in the fixed asset removal and nuclear waste management liability for the years ended December 31, 2004 and 2003 is as follows:

(millions of dollars)	**2004**	2003
Liability, beginning of year	**7,921**	7,539
Increase in liability due to accretion	**453**	430
Increase in liability due to nuclear used fuel and nuclear waste management variable expenses	**35**	24
Fixed asset removal of partnership interests	**1**	–
Liabilities settled by expenditures on waste management	**(71)**	(72)
Liability, end of year	**8,339**	7,921

OPG's asset retirement obligations are comprised of expected costs to be incurred up to and upon termination of operations and the closure of nuclear and fossil-fuelled generating plant facilities. Costs will be incurred for activities such as dismantling, demolition and disposal of facilities and equipment, remediation and restoration of sites and the ongoing and long-term management of nuclear used fuel and low and intermediate level waste material.

The following costs are recognized as a liability:

- the present value of the costs of dismantling the nuclear and fossil-fuelled production facilities at the end of their useful lives
- the present value of the fixed cost portion of any nuclear waste management programs that are required, based on the total volume of waste expected to be generated over the assumed life of the stations
- the present value of the variable cost portion of any nuclear waste management program to take into account actual waste volumes incurred to date

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions, since these programs run for many years. Plant closures are projected to occur between one and 30 years from today, depending on the plant. Current plans include cash flow estimates to 2057 for decommissioning nuclear stations and to approximately 2100 for nuclear used fuel management. The undiscounted amount of estimated cash flows associated with the liability expected to be incurred up to and upon closure of generating stations is approximately $19 billion. The discount rate used to calculate the present value of the liabilities at December 31, 2004 was 5.75 per cent (2003 – 5.75 per cent) and the cost escalation rates ranged from 1 per cent to 4 per cent in 2004 and 2003. Under the terms of the lease agreement with Bruce Power, OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

The significant assumptions underlying operational and technical factors used in the calculation of the accrued liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs, financial indicators or the technology employed, could result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a significant degree of uncertainty surrounding the measurement accuracy of the costs for these programs, which may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The current assumptions that have been used to establish the accrued used fuel costs include long-term management of the spent fuel bundles through deep geological disposal; an in-service date of 2035 for used nuclear fuel disposal facilities; and an average transportation distance of 1,000 kilometres between nuclear generating facilities and the disposal facilities. Alternatives to deep geological disposal are being studied by Canadian nuclear utilities as part of the options study required by the federal *Nuclear Fuel Waste Act* (Canada) ("NFWA"). The options study is to be completed by 2005, with a federal government decision expected no earlier than 2006.

Liability for Nuclear Decommissioning and Low and Intermediate Level Waste Management Costs

The liability for nuclear decommissioning and low and intermediate level waste management represents the estimated costs of decommissioning nuclear generating stations after the end of their service lives, as well as the cost of managing low and intermediate level radioactive wastes generated by the nuclear stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include decommissioning of nuclear generating stations on a deferred dismantlement basis where the reactors will remain in a safe storage state for a 30-year period prior to a 10-year dismantlement period. Low and intermediate level waste arising during decommissioning will be disposed of at the facilities developed for disposal of operational low and intermediate level waste.

The life cycle costs of low and intermediate level waste management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of ultimate long-term disposal of these wastes. The current assumptions used to establish the accrued low and intermediate level waste management costs include an in-service date of 2015 for disposal facilities for low-level waste; co-locating short-lived intermediate level waste with low-level waste starting in 2015; and co-locating long-lived intermediate level waste with used fuel starting in 2035.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal is based on third-party cost estimates after an in-depth review of active plant sites and an assessment of required clean-up and restoration activities. This liability represents the estimated costs of decommissioning fossil-fuelled generating stations at the end of their service lives. The estimated retirement date of these stations is between 2005 and 2034.

In addition to the $154 million liability for active sites, OPG also has an asset retirement obligation liability of $35 million for decommissioning and restoration costs associated with plant sites that have been divested or are no longer in use.

OPG has no legal obligation associated with the decommissioning of its hydroelectric generating facilities. Also, the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be used for the foreseeable future. Accordingly, OPG has not recognized a liability for the decommissioning of its hydroelectric generating facilities.

Ontario Nuclear Funds Agreement

OPG sets aside funds to be used specifically for discharging OPG's nuclear fixed asset removal and nuclear waste management liabilities. In July 2003, OPG and the Province completed arrangements, pursuant to the ONFA, which required the establishment of segregated custodial funds to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with the ONFA, OPG transferred the assets in its existing nuclear fixed asset removal and nuclear waste management funds to a Decommissioning Fund and a Used Fuel Fund, held in segregated custodial accounts. In addition, a receivable due from the OEFC of $3.1 billion was transferred into the Funds in the form of a $1.2 billion cash payment and a $1.9 billion interest-bearing note receivable, which is classified as an asset of the Funds and is intended to be funded over the next three years.

The Decommissioning Fund will be used to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level waste management and a portion of used fuel storage costs after station life. The initial funding of the Decommissioning Fund, including the note receivable from the OEFC, is intended to be sufficient to fully discharge the 1999 estimate of the liability. Any shortfall of this fund must be made up by OPG.

The Used Fuel Fund will be used to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in the ONFA, which limit OPG's total financial exposure at approximately $6.0 billion, a present value amount at April 1, 1999 (approximately $8.3 billion in 2004 dollars), based on used fuel bundle projections consistent with station life included within the financial reference plan. OPG makes quarterly payments over the life of its nuclear generating stations, as specified in the ONFA. Required funding for 2004 under the ONFA was $454 million, including a contribution of $100 million to The Ontario NFWA Trust (the "Trust").

The NFWA was proclaimed into force in November 2002. In accordance with the NFWA, the Nuclear Waste Management Organization was formed to prepare and review alternatives and to provide recommendations to the federal government for long-term management of nuclear fuel waste by November 2005. The federal government will select the option for dealing with the long-term management of nuclear fuel waste based on submitted plans. As required under the NFWA, OPG made an initial deposit of $500 million into the Trust in November 2002 and contributed $100 million in each of 2003 and 2004. Under the NFWA, OPG must deposit $100 million annually into the Trust until the federal government has approved a long-term plan, which is not expected before 2006. Future contributions to the Trust beyond 2005 will be dependent on the direction chosen by the federal government. Given that the Trust forms part of the Used Fuel Fund, contributions to the Trust, as required by the NFWA, are applied towards the ONFA payment obligations.

The nuclear fixed asset removal and nuclear waste management funds as at December 31, 2004 and 2003 consist of the following:

	Amortized Cost Basis		Fair Value	
(millions of dollars)	**2004**	2003	**2004**	2003
Decommissioning Fund	**3,858**	3,641	**4,131**	3,801
Used Fuel Fund[1]	**2,118**	1,587	**2,118**	1,587
	5,976	5,228	**6,249**	5,388

[1] The Ontario NFWA Trust represents $794 million as at December 31, 2004 (2003 – $648 million) of the Used Fuel Fund on an amortized cost basis.

As required by the *Nuclear Safety and Control Act* (Canada), and under the terms of the ONFA, the Province issued a guarantee to the Canadian Nuclear Safety Commission ("CNSC"), on behalf of OPG, for up to $1,510 million. This is a guarantee that there will be sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The provincial guarantee will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liabilities for nuclear decommissioning and waste management. The guarantee, taken together with the Used Fuel Fund and Decommissioning Fund, was in satisfaction of OPG's nuclear licensing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 per cent of the amount guaranteed by the Province. OPG paid the annual guarantee fee for 2004 of $8 million in the first quarter of 2004.

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 per cent plus the change in the Ontario Consumer Price Index ("committed return"). The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of fund assets, which includes realized and unrealized returns, is due to or due from the Province. Since OPG accounts for the investments in the segregated funds on an amortized cost basis, the amount due to or due from the Province recorded in the consolidated financial statements is the difference between the committed return and the actual return based on realized returns only. At December 31, 2004, the Used Fuel Fund accounts included an amount due to the Province of $4 million (2003 – amount due from the Province, $10 million). If the investments in the Used Fuel Fund were accounted for at fair market value in the consolidated financial statements, at December 31, 2004, there would be an amount due to the Province of $156 million (2003 – $71 million).

Under the ONFA, a rate of return target of 5.75 per cent per annum was established for the Decommissioning Fund. If the rate of return deviates from 5.75 per cent, or if the estimate of the liabilities changes under the current approved ONFA Reference Plan, the Decommissioning Fund may become over or underfunded. Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the Current Approved ONFA Reference Plan, are at least 120 per cent funded, OPG may direct up to 50 per cent of the surplus over 120 per cent as a contribution to the Used Fuel Fund, and the OEFC is entitled to a distribution of an equal amount. In addition, upon termination of the ONFA, the Province has a right to any excess funds, which is the extent to which the fair market value of the Decommissioning Fund exceeds the estimated completion costs approved under the current approved ONFA Reference Plan. At December 31, 2004, estimated completion costs under the current approved ONFA Reference Plan are fully funded. The Decommissioning Fund has no excess amount due to the Province on an amortized cost basis. If the investments in the Decommissioning Fund were accounted for at fair market value in the consolidated financial statements at December 31, 2004, and the Decommissioning Fund was terminated under the ONFA, there would be an amount due to the Province of $249 million (2003 – $128 million).

The amortized cost and fair value of the securities invested in the segregated funds, which include the Used Fuel Fund and Decommissioning Fund, as at December 31, 2004 and 2003 are as follows:

	Amortized Cost Basis		**Fair Value**	
(millions of dollars)	**2004**	2003	**2004**	2003
Cash and cash equivalents and short-term investments	**211**	139	**211**	139
Marketable equity securities	**3,056**	2,556	**3,472**	2,795
Bonds and debentures	**723**	635	**732**	637
Receivable from the OEFC	**1,993**	1,892	**1,993**	1,892
Administrative expense payable	**(3)**	(4)	**(3)**	(4)
	5,980	5,218	**6,405**	5,459
Due (to) from Province – Used Fuel Fund	**(4)**	10	**(156)**	(71)
Total	**5,976**	5,228	**6,249**	5,388

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2004 and 2003 mature according to the following schedule:

	Fair Value	
(millions of dollars)	**2004**	2003
Less than 1 year	**–**	19
1–5 years	**259**	204
5–10 years	**233**	260
More than 10 years	**240**	154
Total maturities of debt securities	**732**	637
Average yield	**4.1%**	4.3%

The receivable of $1,993 million (2003 – $1,892 million) from the OEFC does not have a specified maturity date. The effective rate of interest on the OEFC receivable was 5.3 per cent in 2004 (2003 – 5.0 per cent since commencement of the ONFA in July 2003).

9 Benefit Plans

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. The registered pension plan is a contributory, defined benefit plan covering all regular employees and retirees. Pension fund assets include equity securities and corporate and government debt securities, real estate and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG. The supplementary pension plan is a defined benefit plan covering certain employees and retirees.

Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The pension and OPEB obligations, and the pension fund assets, are measured at December 31, 2004.

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2004	2003	**2004**	2003
Weighted Average Assumptions – Benefit Obligation at Year End				
Rate used to discount future benefits	**6.00%**	6.25%	**5.88%**	6.17%
Salary schedule escalation rate	**3.25%**	3.25%	**–**	–
Rate of cost of living increase to pensions	**2.25%**	2.25%	**–**	–
Initial health care trend rate	**–**	–	**7.03%**	6.33%
Ultimate health care trend rate	**–**	–	**4.46%**	4.46%
Year ultimate rate reached	**–**	–	**2014**	2010
Rate of increase in disability benefits	**–**	–	**2.25%**	2.25%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2004	2003	**2004**	2003
Weighted Average Assumptions – Cost for the Year				
Expected return on plan assets net of expenses	**7.00%**	7.00%		
Rate used to discount future benefits	**6.25%**	6.75%	**6.17%**	6.60%
Salary schedule escalation rate	**3.25%**	3.00%	**–**	–
Rate of cost of living increase to pensions	**2.25%**	2.00%	**–**	–
Initial health care trend rate	**–**	–	**6.33%**	6.42%
Ultimate health care trend rate	**–**	–	**4.46%**	4.13%
Year ultimate rate reached	**–**	–	**2010**	2010
Rate of increase in disability benefits	**–**	–	**2.25%**	2.00%
Average remaining service life for employees (years)	**12**	12	**12**	11

(millions of dollars)	Registered Pension Plan 2004	Registered Pension Plan 2003	Supplementary Pension Plan 2004	Supplementary Pension Plan 2003	Other Post Employment Benefits 2004	Other Post Employment Benefits 2003
Changes in Plan Assets						
Fair value of plan assets at beginning of year	**6,449**	5,727	**–**	–	**–**	–
Contributions by employer	**154**	153	**6**	5	**54**	51
Contributions by employees	**52**	52	**–**	–	**–**	–
Actual return on plan assets net of expenses	**693**	783	**–**	–	**–**	–
Settlements	**(4)**	–	**–**	–	**–**	–
Benefit payments	**(288)**	(266)	**(6)**	(5)	**(54)**	(51)
Fair value of plan assets at end of year	**7,056**	6,449	**–**	–	**–**	–
Changes in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	**7,046**	5,965	**117**	125	**1,307**	1,079
Employer current service costs	**143**	107	**8**	8	**41**	29
Contributions by employees	**52**	52	**–**	–	**–**	–
Interest on projected benefit obligation	**442**	402	**7**	9	**82**	64
Curtailment loss (gain)	**2**	–	**–**	–	**(1)**	–
Settlement gain	**(4)**	–	**–**	–	**–**	–
Benefit payments	**(288)**	(266)	**(6)**	(5)	**(54)**	(51)
Net actuarial loss (gain)	**270**	786	**18**	(20)	**124**	186
Projected benefit obligation at end of year	**7,663**	7,046	**144**	117	**1,499**	1,307
Funded Status – Surplus (Deficit) at end of year	**(607)**	(597)	**(144)**	(117)	**(1,499)**	(1,307)

	2004	2003
Registered pension plan fund asset investment categories		
Equities	**65%**	65%
Fixed income	**33%**	34%
Cash and short-term	**2%**	1%
Total	**100%**	100%

The assets of the OPG pension fund are allocated among three principal investment categories. Furthermore, equity investments are diversified across Canadian, U.S. and non-North American stocks. The fund also has a small real estate portfolio that is less than one per cent of plan assets.

The most recently filed funding valuation was done as at April 1, 2002. Using a going-concern funding basis, with assets at market value, OPG estimates that there was a pension fund deficit of $1.5 billion at December 31, 2004 (2003 – $1.3 billion deficit). The deficit disclosed in the next filed funding valuation, which must have an effective date of no later than April 1, 2005, could be significantly different.

The supplementary plan is not funded, but is secured by letters of credit totalling $125 million.

(millions of dollars)	Registered Pension Plan 2004	Registered Pension Plan 2003	Supplementary Pension Plan 2004	Supplementary Pension Plan 2003	Other Post Employment Benefits 2004	Other Post Employment Benefits 2003
Reconciliation of Funded Status to Accrued Benefit Asset (Liability)						
Funded status – surplus (deficit) at end of year	**(607)**	(597)	**(144)**	(117)	**(1,499)**	(1,307)
Unamortized net actuarial loss	**1,012**	924	**28**	10	**422**	313
Unamortized past service costs	**119**	137	**5**	6	**18**	21
Accrued benefit asset (liability) at end of year	**524**	464	**(111)**	(101)	**(1,059)**	(973)
Short-term portion	**–**	–	**(6)**	(3)	**(59)**	(58)
Long-term portion	**524**	464	**(105)**	(98)	**(1,000)**	(915)

(millions of dollars)	Registered Pension Plan 2004	Registered Pension Plan 2003	Supplementary Pension Plan 2004	Supplementary Pension Plan 2003	Other Post Employment Benefits 2004	Other Post Employment Benefits 2003
Components of Cost Recognized						
Current service costs	**143**	107	**8**	8	**41**	29
Interest on projected benefit obligation	**442**	402	**7**	9	**82**	64
Expected return on plan assets net of expenses	**(511)**	(502)	**–**	–	**–**	–
Curtailment loss (gain)	**2**	–	**–**	–	**(1)**	–
Amortization of past service costs	**18**	18	**1**	1	**3**	3
Amortization of net actuarial (gain) loss	**–**	(31)	**–**	2	**15**	2
Cost (income) recognized	**94**	(6)	**16**	20	**140**	98

(millions of dollars)	Registered Pension Plan 2004	Registered Pension Plan 2003	Supplementary Pension Plan 2004	Supplementary Pension Plan 2003	Other Post Employment Benefits 2004	Other Post Employment Benefits 2003
Components of Cost Incurred and Recognized						
Current service costs	**143**	107	**8**	8	**41**	29
Interest on projected benefit obligation	**442**	402	**7**	9	**82**	64
Actual return on plan assets net of expenses	**(693)**	(783)	**–**	–	**–**	–
Curtailment loss (gain)	**2**	–	**–**	–	**(1)**	–
Net actuarial loss (gain)	**270**	786	**18**	(20)	**124**	186
Cost incurred in year	**164**	512	**33**	(3)	**246**	279
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	**182**	281	**–**	–	**–**	–
Past service costs	**18**	18	**1**	1	**3**	3
Net actuarial (gain) loss	**(270)**	(817)	**(18)**	22	**(109)**	(184)
Cost (income) recognized	**94**	(6)	**16**	20	**140**	98

A 1.0 per cent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2004 OPEB cost recognized of $21 million (2003 – $14 million) or a decrease in the service and interest components of the 2004 OPEB cost recognized of $19 million (2003 – $11 million), respectively. A 1.0 per cent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2004 of $221 million (2003 – $169 million) or a decrease in the projected OPEB obligation at December 31, 2004 of $175 million (2003 – $152 million).

10 Financial Instruments

Fair values of derivative instruments have been estimated by reference to quoted market prices for actual or similar instruments where available. Where quoted market prices are not available, OPG considers various factors to estimate forward prices, including market prices and price volatility in neighbouring electricity markets, market prices for fuel, and other factors.

Trading activities and liquidity in the Ontario electricity market have been limited as companies are generally entering only into short-term contracts. As a result, forward pricing information for contracts may not accurately represent the cost to enter into these contracts. For Ontario-based contracts that are not entered into for hedging purposes, OPG established liquidity reserves against the fair market value of the assets and liabilities equal to the gain or loss on these contracts. These reserves decreased Energy Marketing revenue by $2 million during 2004 (2003 – increased by $2 million). Contracts for transactions outside of Ontario continue to be carried on the consolidated balance sheets as assets or liabilities at fair value, with changes in fair value recorded in Energy Marketing revenue as gains or losses.

Derivative Instruments Used for Hedging Purposes

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized upon settlement when the underlying transactions occur. OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

	Notional Quantity	**Terms**	**Fair Value**	Notional Quantity	Terms	Fair Value
(millions of dollars except where noted)		**2004**			2003	
(Loss)/gain						
Electricity derivative instruments	**10.4 TWh**	**1–3 yrs**	**(71)**	23.9 TWh	1–3 yrs	(13)
Foreign exchange derivative instruments	**US $10**	**Jan/05**	**–**	US $40	Jan/04	(3)
Option to purchase emission reduction credits	**–**	**–**	**–**	3,000,000 tonnes	2004	–

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for contracts outstanding at December 31, 2004 was US $0.81 (2003 – US $0.72) for every Canadian dollar.

Derivative Instruments Not Used for Hedging Purposes

The carrying amount (fair value) of derivative instruments not designated for hedging purposes is as follows:

	Notional Quantity	**Fair Value**	Notional Quantity	Fair Value
(millions of dollars except where noted)	**2004**		2003	
Commodity derivative instruments				
Assets	**7.9 TWh**	**12**	7.9 TWh	8
Liabilities	**1.3 TWh**	**(12)**	1.6 TWh	(8)
		–		–
Ontario market liquidity reserve		**(7)**		(5)
Total		**(7)**		(5)

Fair Value of Other Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued charges, Market Power Mitigation Agreement rebate payable, short-term notes payable, and long-term debt due within one year approximate their fair values due to the immediate or short-term maturity of these financial instruments. Fair values for other financial instruments have been estimated by reference to quoted market prices for actual or similar instruments where available.

The carrying values and fair values of these other financial instruments are as follows:

(millions of dollars)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
	2004		2003	
Financial Assets				
Nuclear fixed asset removal and nuclear waste management funds	**5,976**	**6,249**	5,228	5,388
Long-term accounts receivable and other assets	**56**	**56**	64	64
Financial Liabilities				
Long-term debt	**3,399**	**3,577**	3,393	3,516
Long-term accounts payable and accrued charges	**212**	**212**	276	276

Credit Risk

The majority of OPG's revenues are derived from electricity sales through the IESO administered spot market. OPG also derives revenue from several other sources including the sale of financial risk management products to third parties. OPG manages counterparty credit risk by monitoring and limiting its exposure to counterparties with lower credit ratings, evaluating its counterparty credit exposure on an integrated basis, and by performing periodic reviews of the credit worthiness of all counterparties, including obtaining credit security for all transactions beyond approved limits.

11 Income Taxes

A reconciliation between the statutory and the effective rate of income taxes is as follows:

(millions of dollars)	**2004**	2003
(Loss) before income taxes	**(38)**	(494)
Combined Canadian federal and provincial statutory income tax rates, including surtax	**36.1%**	36.6%
Statutory income tax rates applied to accounting income	**(14)**	(181)
Increase (decrease) in income taxes resulting from:		
Large corporations tax in excess of surtax	**30**	37
Lower future tax rate on temporary differences	**(3)**	4
Non-taxable income items	**(4)**	(3)
Adjustment for changes in future income tax rates	**–**	30
Valuation allowance	**(93)**	93
Other	**4**	17
	(66)	178
Recovery of income taxes	**(80)**	(3)
Effective rate of income taxes	**210.5%**	0.6%

Significant components of the provision for income tax expense (recovery) are presented in the table below:

(millions of dollars)	**2004**	2003
Current income tax expense	**21**	80
Future income tax expense (benefits):		
Change in temporary differences	**50**	(64)
Non-capital loss carry-forward	**(67)**	(101)
Future recoverable Ontario minimum tax	**–**	(41)
Valuation allowance (reversal)	**(93)**	93
Adjustment for changes in future income tax rates	**–**	30
Other	**9**	–
Income tax recoveries	**(80)**	(3)

At December 31, 2004, OPG had approximately $493 million (2003 – $296 million) of non-capital loss carry-forwards for which the Company recognized future tax assets of $67 million in 2004 and $101 million in 2003 for financial reporting purposes. The 2003 loss will expire in 2010 and the 2004 loss will expire in 2014.

The amount of cash income taxes paid in the year ended December 31, 2004 was $17 million (2003 – $28 million). OPG reported nil in other current income tax amounts recoverable (2003 – $16 million).

The income tax effects of temporary differences that give rise to future income tax assets and liabilities are presented in the table below:

(millions of dollars)	**2004**	2003
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**2,806**	2,664
Other liabilities and assets	**446**	443
Non-capital loss carry-forward	**168**	101
Future recoverable Ontario minimum tax	**42**	41
	3,462	3,249
Future income tax liabilities:		
Fixed assets	**1,211**	1,422
Fixed asset removal and nuclear waste management fund	**2,039**	1,784
Other liabilities and assets	**323**	255
	3,573	3,461
Net future income tax liabilities	**111**	212
Represented by:		
Current portion	**(44)**	(60)
Long-term portion	**155**	272
	111	212

OPG has taken certain filing positions for corporate income and capital taxes that may be challenged on audit and possibly disallowed and result in a significant increase in the tax obligation upon reassessment. Accordingly, there is uncertainty around the amount of the tax provision, and management is not able to determine the impact on the consolidated financial statements.

12 Common Shares

As at December 31, 2004 and 2003, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Dividends are declared and paid to achieve an effective 35 per cent pay-out based on annual net income.

13 Commitments and Contingencies

Litigation

Various lawsuits are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of its business activities. Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG. These contingencies are provided for when they are likely to occur and are reasonably estimable. Management believes that the ultimate resolution of these matters will not have a material effect on OPG's financial position.

In July 2004, OPG was charged with criminal negligence causing death and criminal negligence causing bodily harm in relation to the 2002 accident at Barrett Chute. These charges are still pending and OPG has some reasonable defences. However, regardless of whether OPG is convicted of these charges, OPG does not anticipate a material adverse effect on OPG's financial position.

Aboriginal Claims and Litigation

The Slate Falls First Nation claim is for $40 million. The First Nation has commenced an action in the Ontario Court for declaratory relief and unspecified damages for interference with reserve and traditional land rights from flooding and other acts of trespass. The Government of Canada is also a defendant to this claim. The First Nation is composed of former members of a number of different bands including Osnaburgh. Ontario Hydro had previously entered into a settlement agreement with the Mishkeegogamang First Nation, which was previously known as the Osnaburgh First Nation. Both the Government of Canada and OPG are considering the potential overlap of beneficiaries between the present litigation and the prior settlement. The parties are in the preliminary stage of gathering documentary evidence to assist in the assessment of liability and potential damages, and therefore, are unable to evaluate the claim at this time.

Preliminary motions have been resolved in favour of Slate Falls First Nation. As a result, a member of the Slate Falls First Nation has been granted status to represent some 200 living and dead aboriginal people who are or were members of the Slate Falls First Nation. OPG and Canada's motion for summary judgment dismissing the plaintiff's action was dismissed. All appeals are now complete and Canada is seeking to add the Province of Ontario and Mishkeegogamang as parties. Canada is being separately sued by Mishkeegogamang and is seeking to have OPG and Ontario added as parties to this proceeding. Any monies OPG would have to pay to Canada by way of indemnity in this action would, under the terms of the settlement it reached with Mishkeegogamang, be credited against the monies OPG owes under the settlement.

The Whitesand and Red Rock First Nations have commenced a claim for damages in an unspecified amount for interference with reserve and traditional land rights in the Nipigon River Basin, north of Thunder Bay, from flooding and other acts of trespass. The federal and provincial Crowns and Hydro One are also defendants.

Environmental

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of $76 million was established as at April 1, 1999 for such obligations. During the year ended December 31, 2004, expenditures of $2 million (2003 – $4 million) were recorded against the provision.

Current operations are subject to regulation with respect to air, soil and water quality and other environmental matters by federal, provincial and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its consolidated financial statements to meet OPG's current environmental obligations.

Guarantees

As part of normal business, OPG and certain of its subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees, standby letters of credit and surety bonds.

OPG has provided limited guarantees in connection with its share of the Brighton Beach financing, whereby it is responsible for contributing its share of equity related to cost overruns associated with the construction of the generating station. As at December 31, 2004, OPG remains responsible for contributing its share of equity related to cost overruns, up to $6 million. As Brighton Beach commenced commercial operation in July 2004, any cost overruns are now primarily limited to settlement of construction liens registered by some contractors associated with the construction project. The maximum potential future payments are unknown because Brighton Beach has yet to complete its review and resolution of existing liens. Brighton Beach is currently negotiating settlement of these liens.

Contractual Commitments

The Company's contractual obligations and other commercial commitments as at December 31, 2004 are as follows:

(millions of dollars)	2005	2006	2007	2008	2009	Thereafter	Total
Fuel supply agreements	526	386	203	120	36	34	1,305
Contributions under ONFA	454	454	454	679	350	1,753	4,144
Long-term debt repayment	–	800	400	400	350	1,345	3,295
Interest on long-term debt	99	191	145	122	99	86	742
Unconditional purchase obligations	39	27	16	12	14	50	158
Long-term accounts payable	28	28	28	10	–	–	94
Operating lease obligations	7	5	4	4	–	19	39
Other	76	35	36	37	37	25	246
Total	1,229	1,926	1,286	1,384	886	3,312	10,023

14 Restructuring

The change in the restructuring liability for termination benefits for the years ended December 31, 2004 and 2003 is as follows:

(millions of dollars)	**2004**	2003
Liability, beginning of year	**52**	120
Restructuring charges	**19**	–
Payments	**(51)**	(68)
Liability, end of year	**20**	52

OPG recorded restructuring charges of $16 million, which consisted of $15 million for termination benefits and $1 million in related pension and other post employment benefits expenses associated with its Lakeview generating station during the second quarter of 2004. OPG is required by regulation to cease burning coal at its Lakeview generating station by the end of April 2005. OPG has communicated its plan to shut down the Lakeview generating station to all employees. As at December 31, 2004, 81 employees had accepted the termination package offered. OPG also recorded restructuring charges of $4 million related to its Energy Marketing segment.

15 Transition Rate Option Contracts

Under regulation known as Transition – Generation Corporation Designated Rate Options ("TRO"), OPG is required to provide transitional price relief upon market opening to certain power customers for up to four years based on the consumption and average price paid by each customer during a reference period of July 1, 1999 to June 30, 2000. The TRO is treated as a hedge of generation revenue. The maximum anticipated volume subject to the transitional price relief is approximately 5.4 TWh in the first year after market opening, 3.6 TWh in the second year and 1.8 TWh in each of the third and fourth years. The maximum length of the program is four years.

A provision of $210 million on the TRO contracts was recorded in the first quarter of 2002 based on the estimated future loss on these contracts. The provision was determined at that time using management's best estimates of the forward price curve for electricity, wholesale electricity market fees, impact of decontrol on these contracts, interruptions of volume, and the recovery of Market Power Mitigation Agreement rebates. The provision for the TRO contracts was established based on meeting decontrol targets within three years of market opening. OPG no longer expects to meet the decontrol targets necessary for TRO contracts to expire after three years. As a result, an additional charge of $30 million related to the fourth year of the TRO contracts was recorded in 2003.

During 2004, $52 million (2003 – $73 million) was charged against the provision and included in Generation revenue.

16 Market Power Mitigation Agreement Rebate

Until April 1, 2005, OPG is required under its generating licence to comply with prescribed market power mitigation measures to address the potential for OPG to exercise market power in Ontario. The market power mitigation measures include both a rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, a significant majority of OPG's expected energy sales in Ontario are subject to an average annual revenue cap of 3.8¢/kWh. During the term of the MPMA, OPG is required to pay a rebate to the IESO equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for a 12-month settlement period, multiplied by the amount of energy subject to the rebate mechanism. The Market Power Mitigation Agreement is being replaced effective April 1, 2005, by a regulated price for baseload hydroelectric and nuclear generation. In addition, eighty-five per cent of unregulated OPG electricity generation, excluding generation from the Lennox generating station and volumes relating to existing contracts will be subject to a revenue limit based on an average price of 4.7¢/kWh. This revenue limit will be in place for a period of 13 months.

In accordance with the Market Power Mitigation Agreement, the rebate is calculated after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control. Since the 2004 average hourly spot price exceeded the 3.8¢/kWh revenue cap, OPG provided $1,154 million (2003 – $1,510 million) as a Market Power Mitigation Agreement rebate.

The change in the Market Power Mitigation Agreement rebate liability for the years ended December 31, 2004 and 2003 was as follows:

(millions of dollars)	**2004**	2003
Liability, beginning of year	**409**	572
Increase to provision during the year	**1,154**	1,510
Payments	**(1,124)**	(1,673)
Liability, end of year	**439**	409

17 Research and Development

For the year ended December 31, 2004, $21 million (2003 – $21 million) of research and development expenses were charged to operations.

18 Business Segments

Description of Reportable Segments
With the opening of Ontario's electricity market to competition on May 1, 2002, OPG began operating two reportable business segments: Generation and Energy Marketing. A separate category, Non-Energy and Other, includes revenue and certain costs which are not allocated to the business segments.

Generation Segment
OPG's principal business segment operates in Ontario, generating and selling electricity. Commencing with the opening of the Ontario electricity market on May 1, 2002, all of OPG's electricity generation is sold into the IESO-administered real-time energy spot market. As such, the majority of OPG's revenue is derived from spot market sales. In addition to revenue earned from spot market sales, revenue is also earned through offering available capacity as operating reserve and through the supply of other ancillary services, including voltage control/reactive support, certified black-start facilities and automatic generation control.

Energy Marketing Segment
The Energy Marketing segment derives revenues from various financial and physical energy market transactions with large and medium volume end-use customers and intermediaries such as utilities, brokers, aggregators, traders and other power marketers and retailers. Energy marketing in deregulated markets includes trading, the sale of financial risk management products and sales of energy-related products and services to meet customers' needs for energy solutions. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in Energy Marketing revenue as gains or losses. OPG purchases and sells electricity through the IESO market and the interconnected markets of other provinces and the U.S. northeast and midwest.

Non-energy and Other
OPG derives Non-Energy revenue under the terms of its long-term lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This includes lease revenue, interest income and revenue from engineering analysis and design, technical and ancillary services. Non-energy revenue also includes isotope sales to the medical industry and real estate rentals.

Bruce Nuclear Generating Stations
In May 2001, the Company leased its Bruce A and Bruce B nuclear generating stations to Bruce Power until 2018, with options to renew for up to 25 years. As part of the initial payment, OPG received $370 million in cash proceeds and a $225 million note receivable, which was repaid in 2003.

Under the terms of the lease, OPG agreed to transfer certain fuel and material inventory to Bruce Power, in addition to certain fixed assets. Pension assets and liabilities related to the approximately 3,000 employees were transferred to Bruce Power. Bruce Power assumed the liability for other post employment benefits for these employees. OPG makes payments to Bruce Power in respect of other post employment benefits of approximately $2.3 million per month over a 72-month period, ending in 2008.

As part of the closing, OPG recorded deferred revenue to reflect the initial payment less net assets transferred to Bruce Power under the lease agreement. The deferred revenue is being amortized over the initial lease term of approximately 18 years and is recorded as Non-Energy revenue.

In December 2002, British Energy plc. entered into an agreement to dispose of its entire 82.4 per cent interest in Bruce Power. The transaction was completed in February 2003 and a consortium of Canadian companies assumed the lease of the Bruce A and Bruce B nuclear generating stations that was formerly held by British Energy plc. The Bruce facilities will continue to be operated by Bruce Power. Upon closing of the transaction, the $225 million note receivable was paid to OPG, and lease payments commenced to be paid monthly. Proceeds from the note are to be applied by March 2008 against OPG's funding requirements with respect to the nuclear fixed asset removal and nuclear waste management liabilities. In addition, for 2004 through 2008, minimum payments under the lease are $190 million annually, subject to limited exceptions. The lease revenue of $236 million (2003 – $189 million) was recorded in Non-Energy revenue. The remaining terms of the operating lease agreement remain substantially unchanged.

The net book value of fixed assets on lease to Bruce Power at December 31, 2004, was $590 million (2003 – $680 million).

Segment Income for Year Ended December 31, 2004	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	**5,637**	**47**	**388**	**6,072**
Market Power Mitigation Agreement rebate	**(1,154)**	**–**	**–**	**(1,154)**
	4,483	**47**	**388**	**4,918**
Fuel expense	**1,153**	**–**	**–**	**1,153**
Gross margin	**3,330**	**47**	**388**	**3,765**
Operations, maintenance and administration excluding Pickering A return to service	**2,259**	**6**	**58**	**2,323**
Pickering A return to service	**271**	**–**	**–**	**271**
Depreciation and amortization	**669**	**–**	**96**	**765**
Accretion on fixed asset removal and nuclear waste management liabilities	**453**	**–**	**–**	**453**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(313)**	**–**	**–**	**(313)**
Property and capital taxes	**88**	**–**	**15**	**103**
(Loss) income before the following:	**(97)**	**41**	**219**	**163**
Restructuring	**20**	**–**	**–**	**20**
Other income	**–**	**–**	**(8)**	**(8)**
Net interest expense	**–**	**–**	**189**	**189**
(Loss) income before income taxes	**(117)**	**41**	**38**	**(38)**

Segment Income for Year Ended December 31, 2003	Generation	Energy Marketing	Non-Energy and Other	Total
(millions of dollars)				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	6,300	68	320	6,688
Market Power Mitigation Agreement rebate	(1,510)	–	–	(1,510)
	4,790	68	320	5,178
Fuel expense	1,678	–	–	1,678
Gross margin	3,112	68	320	3,500
Operations, maintenance and administration excluding Pickering A return to service	2,072	8	55	2,135
Pickering A return to service	258	–	–	258
Depreciation and amortization	496	–	107	603
Accretion on fixed asset removal and nuclear waste management liabilities	430	–	–	430
Earnings on nuclear fixed asset removal and nuclear waste management funds	(238)	–	–	(238)
Property and capital taxes	98	–	16	114
Loss on transition rate option contracts	–	–	30	30
(Loss) income before the following:	(4)	60	112	168
Impairment of long-lived assets	576	–	–	576
Other income	–	–	(58)	(58)
Net interest expense	–	–	144	144
(Loss) income before income taxes	(580)	60	26	(494)

Selected Balance Sheet Information	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
December 31, 2004				
Segment property, plant and equipment, net	**11,065**	**–**	**875**	**11,940**
December 31, 2003				
Segment property, plant and equipment, net	11,252	–	935	12,187
Selected Cash Flow Information				
(millions of dollars)				
Year ended December 31, 2004				
Capital expenditures	**513**	**–**	**48**	**561**
Year ended December 31, 2003				
Capital expenditures	546	–	97	643

Substantially all sales were in Canada. All of OPG's electricity generation was sold into the real-time energy spot market administered by the IESO. As such, the majority of OPG's revenue was derived from spot market sales. Sales to the IESO represented 91 per cent of total revenues for the year ended December 31, 2004 (2003 – 93 per cent) and 47 per cent of accounts receivable as at December 31, 2004 (2003 – 40 per cent).

19 Related Party Transactions

Given that the Province owns all of the shares of OPG, related parties include the Province; the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"); the IESO; and the OEFC. OPG also enters into related party transactions with its joint ventures. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

These transactions are summarized below:

(millions of dollars)	**Revenues 2004**	**Expenses 2004**	Revenues 2003	Expenses 2003
Hydro One				
Electricity sales	**40**	**–**	36	–
Services	**–**	**12**	14	16
Settlement transactions	**–**	**33**	–	36
Province of Ontario				
GRC water rentals and land tax	**–**	**152**	–	132
Guarantee fee	**–**	**8**	–	3
Used Fuel Fund rate of return guarantee	**–**	**14**	–	(10)
Other	**–**	**2**	–	–
OEFC				
GRC and proxy property tax	**–**	**214**	–	205
Interest income on receivable	**–**	**(101)**	–	(155)
Interest expense on long-term notes	**–**	**191**	–	191
Capital tax	**–**	**49**	–	51
Income taxes	**–**	**(80)**	–	(3)
Indemnity fees	**–**	**5**	–	5
IESO				
Electricity sales	**5,465**	**304**	6,212	331
Market Power Mitigation Agreement rebate	**(1,154)**	**–**	(1,510)	–
Ancillary services	**90**	**–**	77	–
Other	**1**	**1**	1	1
	4,442	**804**	4,830	803

At December 31, 2004, accounts receivable included $14 million (2003 – $14 million) due from Hydro One and $158 million (2003 – $134 million) due from the IESO. Accounts payable and accrued charges at December 31, 2004 included $3 million (2003 – $5 million) due to Hydro One.

20 Other Income

Other income of $8 million in 2004 was comprised of $3 million from the sale of assets and $5 million from a favourable pension liability settlement. In 2003, other income of $58 million was from the gain on sale of long-term investments.

21 Changes in Non-cash Working Capital Balances

(millions of dollars)	**2004**	2003
Accounts receivable	**(15)**	105
Note receivable	**–**	225
Income taxes recoverable	**16**	64
Future income tax asset	**16**	17
Fuel inventory	**(45)**	(10)
Materials and supplies	**(19)**	–
Market Power Mitigation Agreement rebate payable	**30**	(163)
Accounts payable and accrued charges	**(78)**	(72)
Income and capital taxes payable	**12**	–
	(83)	166

OTHER GOVERNMENT ORGANIZATIONS

AGRICORP

Management's Responsibility for Financial Reporting

The accompanying financial statements and the financial information in the annual report have been prepared by management. The financial statements have been prepared in accordance with generally accepted accounting principles. Management is responsible for the accuracy, integrity and objectivity of the information contained in the financial statements. Financial information contained elsewhere in the annual report is consistent with that contained in the financial statements.

The financial statements include some amounts, such as provision for unsettled indemnities that are necessarily based on management's best estimates and have been made using careful judgement.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The systems include formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board meets regularly to oversee the financial activities of the Agency and annually reviews the financial statements.

The financial statements have been examined independently by the Office of the Auditor General on behalf of the Legislature and the Board of Directors. The Auditor's Report outlines the scope of the examination and expresses the auditors' opinions on the financial statements of the agency.

Randy Jackiw – Chief Executive Officer

Rolly Stroeter – Chief Financial Officer

Office of the
Auditor General
of Ontario

Bureau du
vérificateur général
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To AgriCorp
and to the Minister of Agriculture and Food

I have audited the balance sheet of AgriCorp as at March 31, 2005 and the statements of operations and fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 3, 2005

Gary R. Peall, CA
Deputy Auditor General

AGRICORP

Balance Sheet
As at March 31, 2005

	General Fund	Production Insurance Fund	Market Revenue Program	Income Stabilization Program	Other Programs	Total 2005	Total 2004
				($ 000)			
ASSETS							
Cash	1,057	643	—	—	—	1,700	—
Accounts receivable (Note 4)	4,297	13,604	37	271,950	36,577	326,465	16,953
Funds under administration (Note 5)	9,595	—	—	—	—	9,595	2,592
Investments (Note 6)	4,480	213,572	—	7,493	12,683	238,228	133,435
Due from the Minister of Finance (Note 7)	—	—	79,947	—	—	79,947	93,858
Capital assets (Note 8)	1,352	—	—	—	—	1,352	1,266
	20,781	227,819	79,984	279,443	49,260	657,287	248,104
LIABILITIES AND FUND BALANCES							
Liabilities							
Bank indebtedness	—	—	—	4,297	1,256	5,553	75
Accounts payable and accrued liabilities	1,994	119	1,377	60,627	24,004	88,121	1,675
Unearned premiums and revenue (Note 9)	1,575	13,690	—	2,521	—	17,786	15,250
Provision for unsettled indemnities (Note 12)	—	3,665	78,607	211,998	24,000	318,270	5,133
Funds under administration payable (Note 5)	9,595	—	—	—	—	9,595	2,592
	13,164	17,474	79,984	279,443	49,260	439,325	24,725
Fund Balances (Note 1)	7,617	210,345	—	—	—	217,962	223,379
	20,781	227,819	79,984	279,443	49,260	657,287	248,104

See accompanying notes to financial statements.

On behalf of the Board:

Chair

Chief Executive Officer

AGRICORP

Statement of Operations and Fund Balances
For the Year Ended March 31, 2005

	General Fund	Production Insurance Fund	Market Revenue Program	Income Stabilization Program	Other Programs	Total 2005	Total 2004
				($ 000)			
Revenue							
Operating funding – Ontario and Canada (Note 10)	15,720	—	—	—	—	15,720	11,650
Premiums/contributions from producers	—	54,320	—	—	12,000	66,320	57,337
Premium funding – Ontario and Canada (Note 3)	—	79,506	78,477	250,000	14,688	422,671	57,353
Sales, consulting and other services	5,470	—	—	—	—	5,470	7,194
Interest income	174	8,398	2,136	—	—	10,708	11,429
	21,364	142,224	80,613	250,000	26,688	520,889	144,963
Expenses							
Indemnities (Note 12)	—	39,088	174,485	250,000	26,688	490,261	127,373
Reinsurance (Note 11)	—	13,623	—	—	—	13,623	15,981
Selling, general and administrative	20,739	—	—	—	—	20,739	16,353
Depreciation	918	—	—	—	—	918	821
Bad debts	—	573	192	—	—	765	9
	21,657	53,284	174,677	250,000	26,688	526,306	160,537
Excess (deficiency) of revenue over expenses	(293)	88,940	(94,064)	—	—	(5,417)	(15,574)
Fund balance, beginning of year	7,910	121,405	94,064	—	—	223,379	238,953
Fund balance, end of year	7,617	210,345	—	—	—	217,962	223,379

See accompanying notes to financial statements.

AGRICORP

Statement of Cash Flows
For the Year Ended March 31, 2005

	General Fund	Production Insurance Fund	Market Revenue Program	Income Stabilization Program	Other Programs	Total 2005	Total 2004
				($ 000)			
Cash Flows from (used in) Operating Activities							
Excess (deficiency) of revenue over expenses	(293)	88,940	(94,064)	—	—	(5,417)	(15,574)
Adjustments to reconcile net income to funds provided by operating activities							
Deprecation	918	—	—	—	—	918	821
Net change in working capital	(1,938)	(232)	94,064	3,196	11,428	106,518	(2,932)
Cash flows from (used in) operating activities	(1,313)	88,708	—	3,196	11,428	102,019	(17,685)
Cash Flows from Investing Activities							
Purchase of capital assets	(1,004)	—	—	—	—	(1,004)	(985)
(Increase) Decrease in investments	3,452	(88,068)	—	(7,493)	(12,684)	(104,793)	16,872
Cash flows from investing activities	2,448	(88,068)	—	(7,493)	(12,684)	(105,797)	15,887
Net increase (decrease) in cash	1,135	640	—	(4,297)	(1,256)	(3,778)	(1,798)
Cash (Bank indebtedness) at beginning of year	(78)	3	—	—	—	(75)	1,723
Cash (Bank indebtedness) at end of year	1,057	643	—	(4,297)	(1,256)	(3,853)	(75)

See accompanying notes to financial statements

AGRICORP

Notes to Financial Statements
March 31, 2005

1. NATURE OF OPERATIONS

The *AgriCorp Act, 1996* established AgriCorp as a Crown agency effective January 1, 1997. The Corporation was established without share capital. Its mandate is to design and deliver agricultural safety net plans and other food products and services to the farm, food, and rural sectors of Ontario. Safety net plans include Production Insurance, the Market Revenue Program, the Income Stabilization Program, and the Self-Directed Risk Management Program.

The Production Insurance Fund (Ontario Crop Insurance Fund) was established in 1966 and currently operates pursuant to the *Crop Insurance Act (Ontario), 1996*. For all major crops grown in Ontario, the Fund provides growers with protection against yield reduction caused by natural perils.

The Market Revenue Program was established pursuant to the Interim Gross Revenue Insurance Plan (GRIP) agreement between the Government of Canada and the provinces and commenced operations on April 1, 1991. The program protects farmers against reduced income caused by low market prices for certain designated crops.

The Income Stabilization Program (Canadian Agricultural Income Stabilization Program) was established under the Canada-Ontario Insurance Agreement, which came into effect April 1, 2003. The program provides agricultural producers with protection against declines in farm income. In December 2004, the Corporation assumed responsibility from the Ontario Ministry of Agriculture and Food for the delivery of this program, including responsibility for all payments resulting from the 2004 program year.

The Corporation also administers other agricultural programs including the Self-Directed Risk Management Program. This program was established pursuant to the Canada-Ontario Insurance Agreement for the 2003, 2004 and 2005 program years to provide income stabilization to horticultural producers. In November 2004, the Corporation assumed responsibility for this program from the Ontario Ministry of Agriculture and Food, including responsibility for all payments resulting from the 2004 program year.

Since January 2001, the Corporation has also been responsible for the delivery of the Farm Business Registration Program established under the *Farm Registration and Farm Organizations Funding Act, 1993*. The Corporation's obligations under an agreement with the Ministry primarily include registration of farm businesses, collection of registration fees and, after deducting an administrative charge, forwarding the net fees to Ontario's accredited General Farm Organizations.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants.

The Corporation uses fund accounting whereby each safety net program's activities are accounted for in segregated funds. The General Fund is used to account for all administrative costs and revenues, as well as for all unsegregated activites.

AGRICORP

Notes to Financial Statements
March 31, 2005

---

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Capital Assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the assets as listed below.

Furniture and fixtures	4 years
Vehicles	4 years
Machinery and equipment	4 years
Computer hardware	3 years
Computer software	2 years
Leasehold improvements	remaining life of the lease

(c) Pension Plan

Full-time employees participate in a mandatory contributory defined benefit pension plan administered by a third-party administrator. The Corporation matches employees' contributions. The cost of pension benefits for the defined benefit plan is determined by an independent actuary using the projected benefit method prorated on services and management's best estimates. Pension plan assets are valued using current fair values and any adjustments are amortized on a straight-line basis over the actuarial average remaining service life of the employee group.

(d) Investments

Interest income, gains and losses on disposal, amortization of premiums and discounts, and write-downs to market value are reported in investment income. General Fund, Production Insurance, Market Revenue, Income Stabilization, and Self-Directed Risk Management investments are segregated avoiding the need for allocation of investment income to each fund and program. Short-term investments are acquired primarily for the purpose of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost, which approximates market value. Long-term investments are recorded at cost net of accumulated premiums and discounts amortized over the term to maturity.

(e) Provision for Unsettled Indemnities

The provision for unsettled indemnities relates to certain Production Insurance, Market Revenue, Income Stabilization, and Self-Directed Risk Management claims that remained unsettled at year-end and were either quantified based on settlement amounts after year-end or management's best estimates of the amounts to be paid.

(f) Revenue Recognition

Premium revenues are recognized in the year in which the related crops are harvested.

AGRICORP

Notes to Financial Statements
March 31, 2005

3. CANADA-ONTARIO COST SHARING AGREEMENTS

(a) Production Insurance

The Canada-Ontario Insurance Agreement came into effect April 1, 2003 and expires March 31, 2008 or at a mutually agreed upon date. Under the terms of the Agreement, crop producers pay 40% of the insurance premium costs. The remainder of the insurance premium costs are paid by the Federal and Provincial governments, 60% and 40%, respectively.

(b) Market Revenue

In February 2005, the Ontario Government extended the Market Revenue Program to include the 2003 and 2004 crop years and shall terminate the program when the funds have been depleted. The remaining program funding will consist of the balance in the program at March 31, 2004 of $94,064,000 plus all interest earned and credited to the program and any additional funding deemed necessary by Ontario. There were no further contributions by the Government of Canada under the former Canada-Ontario Market Revenue Agreement.

(c) Income Stabilization

For the Income Stabilization Program, producers deposit, into a program bank account, an amount not to exceed two year's stabilization and disaster recovery as determined by the average difference between the producers' farm revenue and eligible production costs over a five-year period. In addition to a withdrawal from the program bank account when a decline in farm income occurs, Canada and Ontario will pay a program benefit based on specified tiered coverage. The Federal and Provincial governments share the program costs on the basis of 60% and 40%, respectively.

(d) Other Programs—Self-Directed Risk Management

One of the other programs administered by the Corporation is the Self-Directed Risk Management Program (SDRM) which was established under the Canada-Ontario Insurance Agreement and is to be in effect for 3 program years (2003-2005). Under the terms of the agreement, a producer deposits into the Program account up to 4% of their eligible net sales. Subject to the availability of federal and provincial funds, a matching contribution is made into the Program account by the Federal and Provincial governments. Claims are paid out of the Program account to participants, but the total payment amount for a program year shall not exceed the total available funds in the account. Over the 3 years the program is to be in effect, the Federal and Provincial governments agreed to share program costs equally.

AGRICORP

Notes to Financial Statements
March 31, 2005

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2005 ($ 000)	2004 ($ 000)
Government funding - Canada	194,750	15,990
Government funding - Ontario	107,407	(280)
Producer receivables	22,757	570
Trade	1,042	663
Accrued interest	509	10
	326,465	16,953

5. FUNDS UNDER ADMINISTRATION

The Corporation provides cheque production and cash management services for agricultural programs under various agreements with the Ontario Ministry of Agriculture and Food. The funds required to make payments under these programs are provided by Ontario and Canada.

	2005 ($ 000)	2004 ($ 000)
Funds Under Administration		
Short-term investments	10,489	—
Cash (Outstanding payments)	(894)	2,592
Other	—	—
	9,595	2,592
Funds Under Administration Payable		
Canada-Ontario General Top Up Program	7,383	—
Canada-Ontario Repositioning Program	1,513	—
Ontario BSE Recovery Program (Bank overdraft)	372	(1,121)
Canada CULL Animal Program	93	—
Ontario Farm Business Registration Program	91	99
Ontario Farm Income Disaster Program	41	1,159
Canada-Ontario BSE Recovery Program	7	2,007
Canada Grain Stabilization Payment	—	3
Other	95	445
	9,595	2,592

6. INVESTMENTS

Legislation restricts the Corporation’s investments to highly liquid, high-grade instruments such as federal and provincial bonds, deposit notes issued by domestic financial institutions and other securities approved by the Minister of Finance.

AGRICORP

Notes to Financial Statements
March 31, 2005

6. INVESTMENTS (CONTINUED)

(a) Portfolio Profile

Investments are as follows:

	2005 ($ 000)		2004 ($ 000)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term	85,980	85,871	13,013	12,984
Long-term				
Government of Canada	37,588	37,719	20,060	20,938
Province of Ontario	37,739	37,956	25,545	27,357
Other provincial governments	37,789	37,943	28,496	30,233
Provincial utilities	32,395	34,428	46,321	49,614
Other financial institutions	6,737	7,035	—	—
Total long-term	152,248	155,081	120,422	128,142
Total Investments	238,228	240,952	133,435	141,126

(b) Investment Risk

The coupon rates for the long-term bond portfolio ranged from 4.75% to 10.25% with a weighted average yield of 4.784%. Fluctuations in interest rates could have a significant impact on the fair value of the bond portfolio. Although bonds are generally held to maturity, realized gains or losses could result if actual claims levels differed significantly from expected claims and quick liquidation of assets was required to meet obligations. At March 31, 2005, a 1% move in interest rates could impact the market value by approximately $5.6 million.

(c) Maturity Profile of the Investment Portfolio

	2005 ($ 000)	2004 ($ 000)
<1 Year	85,980	13,013
1–3 Years	56,813	47,301
3–5 Years	58,558	59,250
>5 Years	36,877	13,871
Total	238,228	133,435

AGRICORP

Notes to Financial Statements
March 31, 2005

7. DUE FROM THE MINISTER OF FINANCE

Pursuant to Order-in-Council 1546/91, an account has been established in the Ontario Government's Consolidated Revenue Fund to receive Market Revenue Program contributions from Canada and Ontario. Interest is paid quarterly on the account's average daily closing value based on the average Bank of Canada treasury bill rate. This account is used to administer the Program and cannot be accessed for the general operating, financing and investing activities of the Corporation.

8. CAPITAL ASSETS

	March 31, 2005 ($ 000)			2004 ($ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	4,020	3,040	980	1,012
Computer software	1,839	1,532	307	218
Leasehold improvements	202	139	63	27
Machinery and equipment	122	120	2	9
Vehicles	36	36	—	—
Furniture and fixtures	18	18	—	—
	6,237	4,885	1,352	1,266

9. UNEARNED PREMIUMS AND REVENUE

Unearned premiums represent premiums paid in advance to the Ontario Production Insurance Fund for winter wheat ($9.88 million) and other crops ($3.81 million). These crops are not harvested until after the end of the fiscal year, giving rise to the deferral of the premiums received. Unearned revenue includes operating funding related primarily to the unamortized value of capital assets ($1.575 million) and administrative costs that are to be recovered from Income Stabilization Program participants ($2.521 million) when future program payments are made.

10. OPERATING FUNDING – ONTARIO AND CANADA

Canada and Ontario have agreed to share the costs of administering the Production Insurance Fund and the Income Stabilization Program at the rate of 60% and 40% respectively, and have agreed to share equally the costs of administering the Self-Directed Risk Management Program. In prior years administration costs for the Market Revenue Program were also shared equally but, since the Canada-Ontario Market Revenue Agreement had expired, Ontario provided the operating funding for the Program during the 2004/05 fiscal year.

AGRICORP

Notes to Financial Statements
March 31, 2005

11. REINSURANCE AGREEMENT

The Corporation has an ongoing program of reinsurance with a number of insurance carriers. This program provides for the reinsuring companies to assume production insurance losses based on negotiated thresholds. Payments made by reinsurance companies represent claims submitted for crop losses incurred by the Corporation.

12. INDEMNITIES

The Ontario Production Insurance Fund's operating results for the current period includes a $0.75 million under-provision for unsettled indemnities as at March 31, 2004 (2003 – $0.2 million under-provision for indemnities). In addition, the Production Insurance Fund's operating results for the current period include a provision for unsettled indemnities relating to the 2004 crop year of $3.665 million (2003 – $5.13 million).

The Market Revenue Program's operating results for the current period includes a $78.6 million provision for unsettled indemnities relating to the 2004 crop year. There was no provision made as at March 31, 2004 for the 2003 crop year because a Canada-Ontario Market Revenue Agreement was not in place for that year.

The Income Stabilization Program's operating results for the current period includes a provision of $212 million for unsettled indemnities for the 2004 program year.

The Self-Directed Risk Management Program's operating results for the current period includes a provision of $24 million for unsettled indemnities for the 2004 program year.

13. PENSION PLAN

The Corporation has a mandatory contributory defined benefit plan for its full-time employees. The plan was set up effective January 1, 1997. Plan assets are invested in three balanced funds and one global equity fund. The changes in the fair value of plan assets during the year were as follows:

	2005 ($ 000)	2004 ($ 000)
Fair value of plan assets - beginning	3,681	2,463
Contributions by the corporation	517	376
Contributions by the employees	429	303
Benefit payments	(139)	(80)
Return on plan assets	339	619
Fair value of plan assets – ending	4,827	3,681

AGRICORP

Notes to Financial Statements
March 31, 2005

13. PENSION PLAN (CONTINUED)

Based on a financial statement prepared by the plan's actuary, the present value of the accrued pension obligation, fair value of the net assets available to provide for the obligation and plan deficit, are as follows:

	2005 ($ 000)	2004 ($ 000)
Accrued pension obligation	5,487	4,524
Fair value of plan assets	4,827	3,681
Pension plan deficit	(660)	(843)

The pension plan remained in a deficit during the fiscal year due to lower than expected investment returns. Certain assumptions were made in determining the pension obligation. Plan assets were assumed to earn 7% per year, salary escalation was assumed to be 4% per year, and 5.75% was used as the discount rate.

Changes in the Corporation's accrued pension benefit liability (asset) were as follows:

	2005 ($ 000)	2004 ($ 000)
Accrued benefit liability – beginning	68	85
Pension expense for the year	408	359
Contributions by the corporation	(517)	(376)
Accrued benefit liability (asset) – ending	(41)	68

14. RELATED PARTY TRANSACTIONS

The Corporation has entered into several agreements to acquire services from the Ontario Ministry of Agriculture and Food. Under the terms of the agreements the Corporation paid the Ministry $574,063 during the year. These services, assessed at fair market value, include the utilization of postage, courier, copy, and legal services. In addition, the Corporation paid the Ontario Realty Corporation $479,422 to rent their head office location.

15. BOARD REMUNERATION AND SALARY DISCLOSURE

Total remuneration to members of the Board of Directors was $25,031 during the year ending March 31, 2005 (2004 – $29,783).

The *Public Sector Salary Disclosure Act, 1996*, requires the Corporation to disclose employees paid an annual salary in excess of $100,000. For the 2004 calendar year, the amounts paid to such individuals is as follows:

AGRICORP

Notes to Financial Statements
March 31, 2005

15. BOARD REMUNERATION AND SALARY DISCLOSURE (CONTINUED)

Name	Position	Salary ($)	Taxable Benefits ($)
Brown, Greg	Executive Director, Business Development	111,946	9,621
Ip, Stephen	Director, Information Technology	104,163	6,242
Jackiw, Randy	Chief Executive Officer	157,244	10,956
Stroeter, Reinhold	Director, Corporate Services and Chief Financial Officer	117,034	6,273
Vleck, Michael	Director, Research and Development	102,411	468

16. LEASE COMMITMENTS

The commitment on 21,283 square feet of office space currently occupied by the Corporation expires on March 31, 2006. During the remaining portion of this lease, the corporation is committed to a minimum rental payment of $357,000. The Corporation is negotiating for an additional 11, 500 square feet of office space, with rental payments to be determined at the prevailing market rate.

17. CONTINGENT LIABILITY

The General Fund balance includes an accumulation of $0.8 million relating to the reimbursement by the reinsurance companies in 2001 of adjusting costs incurred by the Corporation. The Province of Ontario also reimbursed the Corporation for these costs. Consequently, the right to these funds between the Province and the Corporation is uncertain. The Ministry of Agriculture and Food will bring this matter to the attention of the Ministry of Finance for resolution.

18. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current year’s presentation.

cancer care ontario | action cancer ontario

May 17, 2005

Management's Responsibility for Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in this financial statement. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's best estimates and judgements.

Cancer Care Ontario is dedicated to the highest standards of integrity and patient care. To safeguard Cancer Care Ontario's assets, a sound and dynamic set of internal financial controls and procedures that balance benefits and costs has been established. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information. Internal audits are conducted to assess management systems and practices, and reports are issued to the Audit Finance Committee.

The Board of Directors through the Audit Finance Committee ensures that management fulfills its responsibilities for financial information and internal control. This committee oversees the financial activities of Cancer Care Ontario and reviews the financial statements and the external auditors' report thereon.

The financial statements have been examined by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

For the fiscal year ending March 31, 2005, Cancer Care Ontario's Board of Directors, through the Audit Finance Committee, was responsible for ensuring that management fulfilled its responsibilities for financial reporting and internal controls. The Committee meets regularly with management, the internal auditor and the Auditor General to satisfy itself that each group had properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board of Directors. The Auditor General had direct and full access to the Audit Finance Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of Cancer Care Ontario's financial reporting and the effectiveness of the system of internal controls.

On behalf of Cancer Care Ontario Management,

Terry Sullivan
Elham Roushani

Terry Sullivan, Ph D	Elham Roushani
President and Chief Executive Officer	Provincial VP & Chief Financial Officer

Cancer Care Ontario | Action Cancer Ontario 620 University Avenue Toronto ON M5G 2L7
T. 416.971.9800 F. 416.971.6888 www.cancercare.on.ca

Ontario

Office of the
Auditor General
of Ontario

Bureau du
vérificateur général
de l'Ontario

AUDI ALTERAM PARTEM

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To Cancer Care Ontario
and to the Minister of Health and Long-Term Care

I have audited the statement of financial position of Cancer Care Ontario as at March 31, 2005 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Cancer Care Ontario'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 Cancer Care Ontario as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 17, 2005

Peall

Gary R. Peall, CA
Deputy Auditor General

CANCER CARE ONTARIO

Statement of Financial Position
(In thousands of dollars)

March 31, 2005, with comparative figures for 2004

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	$ 63,445	$ 63,279
Receivables (note 2)	8,918	15,760
	72,363	79,039
Due from Community Foundation (note 2)	3,481	–
Long-term investments (note 3)	49,636	62,209
Capital assets (note 4)	62,068	57,055
Other	–	247
	$ 187,548	$ 198,550
Liabilities, Deferred Contributions and Fund Balances		
Current liabilities:		
Accounts payable and accrued liabilities	$ 61,668	$ 37,151
Deferred contributions:		
Deferred operating grants (note 5(a))	3,943	38,897
Deferred contributions related to capital assets (note 5(b))	72,013	73,952
	75,956	112,849
Post-retirement benefits other than pension plan (note 6(b))	5,813	5,471
Fund balances:		
Endowment	2,613	2,613
Internally and externally restricted	30,204	28,813
Invested in capital assets (note 7)	–	6
Unrestricted	11,294	11,647
	44,111	43,079
Commitments (note 12)		
Contingency (note 13)		
Guarantees (note 15)		
	$ 187,548	$ 198,550

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

CANCER CARE ONTARIO

Statement of Operations
(In thousands of dollars)

Year ended March 31, 2005, with comparative figures for 2004

	Restricted		General		Total	
	2005	2004	2005	2004	2005	2004
Revenue:						
Ministry of Health and Long-Term Care	$ –	$ –	$ 409,952	$ 333,766	$ 409,952	$ 333,766
Investment income (note 8)	3,447	175	585	4,580	4,032	4,755
Donations, bequests and grants	10,967	20,294	168	2,305	11,135	22,599
Amortization of deferred contributions related to capital assets (note 5(b))	1,207	1,882	14,625	15,210	15,832	17,092
Other (note 9)	–	–	3,729	15,185	3,729	15,185
	15,621	22,351	429,059	371,046	444,680	393,397
Expenses:						
Salaries	1,504	5,545	14,647	92,706	16,151	98,251
Benefits	470	1,338	3,793	24,189	4,263	25,527
Integrated Cancer Programs Services	4,698	–	220,547	55,243	225,245	55,243
Integrated Cancer Programs Restructuring	–	–	24,074	12,956	24,074	12,956
Drugs (note 16)	–	9	82,439	72,159	82,439	72,168
Other operating (note 10)	5,572	15,674	25,968	62,776	31,540	78,450
Medical and surgical services and supplies	1,025	2,613	41,392	26,767	42,417	29,380
Amortization of capital assets	1,207	1,882	14,629	16,950	15,836	18,832
Loss (gain) on disposal of capital assets	–	–	(249)	2,684	(249)	2,684
Pension (note 6(a))	–	–	1,462	12,506	1,462	12,506
Post-retirement benefits other than pension plan (note 6(b))	–	–	470	(1,202)	470	(1,202)
	14,476	27,061	429,172	377,734	443,648	404,795
Excess (deficiency) of revenue over expenses	$ 1,145	$ (4,710)	$ (113)	$ (6,688)	$ 1,032	$ (11,398)

See accompanying notes to financial statements.

CANCER CARE ONTARIO

Statement of Changes in Fund Balances
(In thousands of dollars)

Year ended March 31, 2005, with comparative figures for 2004

	Restricted		General		2005	2004
	Endowment	Other	Invested in capital assets (note 7)	Unrestricted	Total	Total
Fund balances, beginning of year	$ 2,613	$ 28,813	$ 6	$ 11,647	$ 43,079	$ 54,477
Excess (deficiency) of revenue over expenses	–	1,145	245	(358)	1,032	(11,398)
Interfund transfers (note 11)	–	246	–	(246)	–	–
Invested in capital assets (note 7)	–	–	(251)	251	–	–
Fund balances, end of year	$ 2,613	$ 30,204	$ –	$ 11,294	$ 44,111	$ 43,079

See accompanying notes to financial statements.

CANCER CARE ONTARIO

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2005, with comparative figures for 2004

	2005	2004
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	$ 1,032	$ (11,398)
Items not involving cash:		
Amortization of capital assets	15,836	18,832
Loss (gain) on disposal of capital assets	(249)	2,684
Amortization of deferred contributions related to capital assets	(15,832)	(17,092)
Change in non-cash operating working capital	(3,595)	29,507
	(2,808)	22,533
Investing activities:		
Short-term investments, net	–	4,010
Long-term investments, net	12,573	(3,775)
Additions to (purchase of) capital assets:		
Funded by contributions for capital assets	(20,851)	(41,886)
Internally funded	2	419
Proceeds on disposal of capital assets	249	–
Other assets	247	90
Due from Community Foundation	(3,481)	–
Change in accrued pension asset	–	7,879
Change in post-retirement benefits other than pension plan	342	(1,330)
Reduction in deferred contributions related to disposed capital assets	–	20,320
Deferred contributions related to capital assets	13,893	19,262
	2,974	4,989
Increase in cash and cash equivalents	166	27,522
Cash and cash equivalents, beginning of year	63,279	35,757
Cash and cash equivalents, end of year	$ 63,445	$ 63,279

See accompanying notes to financial statements.

CANCER CARE ONTARIO

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2005

The Government of Ontario approved the establishment of Cancer Care Ontario (the "Organization") on April 29, 1997 to advance services for cancer patients and to improve the outcome, quality and efficiency of cancer services. The cancer services encompass prevention, early detection, diagnosis, treatment, supportive care, research and education. The Organization was incorporated under the name of The Ontario Cancer Treatment and Research Foundation by an Act of Legislature of the Province of Ontario in 1943 and the name of the Organization was changed in 1997 to Cancer Care Ontario. The Organization is a registered charity under the Income Tax Act.

The Organization integrated the operations at its regional cancer centres with their respective host hospitals as of December 31, 2003. This involved transferring the employees, operations and many assets from each of the regional cancer centres to the corresponding host hospital.

Effective January 1, 2004, the host hospitals became responsible for the operation of the cancer centres in accordance with the Cancer Program Integration Agreement ("CPIA"). Based on the CPIA, the Organization funds the Integrated Cancer Programs ("ICP") at the host hospitals in return for agreed upon cancer treatment services.

The Organization's mission is to improve the performance of the cancer treatment system in Ontario by driving quality, accountability and innovation in all cancer-related services. The Organization's new mission includes a strong emphasis on performance management.

1. Significant accounting policies:

The Organization's financial statements are prepared by management using Canadian generally accepted accounting principles.

The preparation of financial statements requires management to make estimates and assumptions that affect the disclosure of contingent assets and liabilities, and the reported amounts of assets and liabilities, deferred contributions and fund balances at the date of the financial statements and the reported amounts on the statements of operations and changes in fund balances during the year. Actual results could differ from those estimates.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

1. Significant accounting policies (continued):

(a) Fund accounting:

The Organization uses the restricted fund method of accounting for contributions.

The General Fund accounts for the Organization's Ministry of Health and Long-Term Care funded programs and administration activities. This fund reports unrestricted resources and restricted operating grants.

The Restricted Fund reports all other externally and internally restricted resources. The main use of these resources is for research and education. These funds include donations and grants which either have specific restrictions placed on their use by the donor or have been received by a centre and are restricted for use by that centre.

The Endowment Fund reports contributions subject to externally imposed stipulations specifying that the resources contributed be maintained permanently.

(b) Revenue recognition:

Restricted contributions related to Ministry of Health and Long-Term Care funded programs are recognized as revenue of the General Fund in the year which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate Restricted Fund in the year of receipt.

Contributions for endowment are recognized as revenue of the appropriate Endowment Fund in the year of receipt.

Restricted investment income earned on Endowment Fund resources are recognized as revenue of the Restricted Fund.

Unrestricted contributions are recognized as revenue of the General Fund in the year received.

(c) Inventory:

Drug inventory is stated at the lower of cost and net realizable value, and is included in other current assets.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

1. Significant accounting policies (continued):

(d) Investments:

Short-term investments are stated at cost, which approximates market. Short-term investments are those with original terms to maturity in excess of three months but less than one year. Short-term investments with maturity of less than three months are recorded as cash and cash equivalents.

Long-term investments are recorded at cost. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

(e) Capital assets:

Capital assets are recorded at cost. Contributions received for the purchase of capital assets are recorded as grants for capital assets and amortized on the same basis as the capital assets. All capital assets are amortized on a straight-line basis at 20% per annum.

Land and buildings for four lodges donated by the Canadian Cancer Society - Ontario Division are recorded at nominal value, as current value is not reasonably determinable.

(f) Post-retirement benefits:

(i) Pension costs:

The Organization accounts for its participation in the Hospitals of Ontario Pension Plan ("HOOPP"), a multiemployer defined benefit pension plan, as a defined contribution plan, as the Organization has insufficient information to apply defined benefit plan accounting.

(ii) Post-retirement benefits other than pension plan:

The cost of post-retirement benefits other than pension plan is actuarially determined using the projected benefit method prorated on employment services and is expensed as employment services are rendered.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

1. Significant accounting policies (continued):

The transitional obligation arising from the adoption of this accounting policy is being amortized over the average remaining service period of active employees expected to receive benefits under the plan.

When a restructuring of a benefit plan gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement.

2. Receivables:

	2005	2004
Current:		
Accounts receivable	$ 891	$ 1,609
Due from the Ministry of Health and Long-Term Care	3,204	4,791
Due from Community Foundations	4,820	8,387
Other	3	973
	8,918	15,760
Long-term:		
Due from Community Foundation	3,481	–
	$ 12,399	$ 15,760

The long-term amount is due from The City of Greater Sudbury as part of their contribution to the Northern Cancer Research Foundation in Sudbury with regard to the expansion of the Northeastern Ontario Regional Cancer Centre. The amount does not bear interest and has no specific term of repayment.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

3. Long-term investments:

The carrying value and market value of the Organization's long-term investments are as follows:

2005	Carrying value	Market value	Effective yield	Maturity
Treasury bills, guaranteed investment certificates and cash	$ 2,844	$ 2,844	2.4% - 2.50%	Under 1 year
Bonds	23,397	23,641	3.0% - 13.90%	0 - 45 years
Equities	23,395	23,666	n/a	n/a
	$ 49,636	$ 50,151		

2004	Carrying value	Market value	Effective yield	Maturity
Treasury bills, guaranteed investment certificates and cash	$ 4,065	$ 4,065	2.00%	Under 1 year
Bonds	35,302	35,940	3.0% - 20.50%	0 - 46 years
Equities	22,842	22,860	n/a	n/a
	$ 62,209	$ 62,865		

4. Capital assets:

	Cost	Accumulated amortization	2005 Net book value	2004 Net book value
Office furniture, equipment and leasehold improvements	$ 14,285	$ 13,110	$ 1,175	$ 1,167
Therapeutic and other technical equipment	178,635	117,742	60,893	55,888
	$ 192,920	$ 130,852	$ 62,068	$ 57,055

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

5. Deferred contributions:

(a) Deferred operating grants:

Deferred operating grants represent unspent resources related to Ministry of Health and Long-Term Care funded programs. Unspent amounts are held for use in subsequent periods or settlement by the Ministry of Health and Long-Term Care. Changes in the deferred operating grant balance are as follows:

	2005	2004
Balance, beginning of year	$ 38,897	$ 23,657
Amounts received related to subsequent periods	3,950	19,963
Amount recognized as revenue	(38,519)	(3,818)
Amount returned to Ministry of Health and Long-Term Care	(385)	(905)
Balance, end of year	$ 3,943	$ 38,897

(b) Deferred contributions related to capital assets:

Deferred contributions related to capital assets represent the unamortized amount and unspent amount of funds received for the purchase of capital assets. The amortization of deferred contributions related to capital assets is recorded in the statement of operations. Contributions are amortized on a straight-line basis at 20% per annum. The changes in the deferred contributions related to capital assets balance for the year are as follows:

	2005	2004
Balance, beginning of year	$ 73,952	$ 71,782
Amounts received related to capital assets	13,893	19,262
Amount recognized as revenue	(15,832)	(17,092)
Balance, end of year	$ 72,013	$ 73,952

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

5. Deferred contributions (continued):

The balance of unamortized capital contributions related to capital assets consists of the following:

	2005	2004
Unamortized capital contributions used to purchase capital assets	$ 62,068	$ 57,049
Unspent contributions	9,945	16,903
Balance, end of year	$ 72,013	$ 73,952

6. Pension and post-retirement benefits other than pension plan:

(a) Pension costs:

Employees of the Organization are members of HOOPP, which is a multiemployer defined benefit pension plan. HOOPP members receive benefits based on length of service and the average annualized earnings during the five consecutive years that provide the highest earnings prior to retirement, termination or death.

Contributions to the HOOPP made during the year by the Organization on behalf of its employees amounted to $1,462 (2004 - $397) and are included in the pension expense in the statement of operations.

The Organization maintained a defined contribution pension plan, with a minimum defined benefit guarantee until December 31, 2003. Wind-up activities for this plan were commenced during fiscal 2004, giving rise to both a curtailment and a settlement. Contributions made by the Organization during 2004 were $4,230. Contributions made by the employees during 2004 were $4,230. The net pension expense related to the pension plan recognized in 2004 of $12,109 included a curtailment loss of $5,226 and a settlement loss of $3,777.

The pension wind-up will be finalized upon approval of the wind-up report by the Financial Services Commission of Ontario.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

6. Pension and post-retirement benefits other than pension plan (continued):

(b) Post-retirement benefits other than pension plan:

The Organization offers non-pension, post-retirement benefits to its employees, including extended health care and drugs. Benefits paid during the year under this unfunded plan were $127 (2004 - $129).

In fiscal 2004, the Organization reduced its accrued benefit obligation by $13,410 through a curtailment.

The most recent actuarial valuation for the post-retirement benefits plan other than pension was April 15, 2005 and the next required valuation will be as of April 15, 2006.

Information about the Organization's post-retirement benefits other than pension plan is as follows:

	2005	2004
Accrued benefit obligation	$ (4,248)	$ (3,654)
Unamortized actuarial gain	(4,104)	(4,522)
Unamortized net transitional obligation	2,539	2,705
Net accrued benefit liability	$ (5,813)	$ (5,471)

The actuarially determined present value of the accrued benefit obligation is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action as follows:

	2005	2004
Discount rate	6%	6.25%
Hospital and drug cost trend rate	10% in 2005 to 5% in 2010 and after	11% in 2004 to 5% over the following six years
Other medical costs trend rate	4% per annum	4% per annum
Normal retirement age	65	65

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

7. Invested in capital assets:

	2005	2004
Capital assets	$ 62,068	$ 57,055
Amounts financed by deferred capital contributions	(62,068)	(57,049)
	$ –	$ 6

Change in net assets invested in capital assets is calculated as follows:

	2005	2004
Excess (deficiency) of expenses over revenue:		
Amortization of deferred contributions related to capital assets	$ 15,832	$ 17,092
Amortization of capital assets	(15,836)	(18,832)
Gain (loss) on disposal of capital assets	249	(2,684)
	$ 245	$ (4,424)
Net change in invested capital assets:		
Purchase of capital assets	$ 20,849	$ 41,467
Deferred contributions related to capital assets	(20,851)	(41,886)
Proceeds on disposal	(249)	–
	$ (251)	$ (419)

8. Investment income:

Net investment income earned on the Endowment Fund resources in the amount of $22 (2004 - $40) is included in the Restricted Fund.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

9. Other revenue:

	2005	2004
General Fund:		
Miscellaneous	$ 2,998	$ 5,912
Salary recovery	731	3,131
Retail drug revenue	–	4,317
Patient revenue	–	694
Host hospital revenue	–	639
Oncologist association group	–	383
Lodge and catering	–	109
	$ 3,729	$ 15,185

10. Other operating expenses:

	2005	2004
Restricted Fund:		
Purchased services	$ 3,512	$ 5,036
Other	879	8,431
Consulting	826	724
Building	182	412
Equipment	88	639
Travel	85	432
	$ 5,572	$ 15,674
General Fund:		
Purchased services	$ 9,894	$ 23,066
Consulting	5,338	8,487
Equipment	3,998	12,122
Building	2,554	8,371
Other	2,079	7,342
Travel	838	1,541
Patient services	800	800
Education and research programs and publications	467	1,047
	$ 25,968	$ 62,776

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

11. Interfund transfers:

	2005	2004
Transfer to (from) the General Fund from (to) the Restricted Fund	$ (246)	$ 1,069

Transfers to the General Fund from the Restricted Fund represent the release of internally restricted reserves.

Transfers to the Restricted Fund from the General Fund represent internally restricted reserves.

12. Commitments:

The Organization leases computer and office equipment. Under the terms of the leases, future payments are estimated as follows:

2006	$ 568
2007	324
2008	62
2009	11
	$ 965

13. Contingency:

The Organization is a member of the Healthcare Insurance Reciprocal of Canada ("HIROC"), which was established by hospitals and other organizations to self-insure. If the aggregate premiums paid are not sufficient to cover claims, the Organization will be required to provide additional funding on a participatory basis.

Since its inception, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income less the obligation for claims reserves and expenses and operating expenses. Each subscriber which has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There are no distributions receivable from HIROC as of March 31, 2005.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

---

14. Financial instruments:

The carrying amounts of cash and cash equivalents, short-term investments, receivables and accounts payable and accrued liabilities approximate fair values due to the short-term nature of these instruments. The carrying value of due from Community Foundations approximates its fair value.

The fair values of long-term investments are disclosed in note 3.

15. Guarantees:

(a) Director/officer indemnification:

The Organization's General By-Law contains an indemnification of its directors/officers, former directors/officers and other persons who have served on board committees against all costs incurred by them in connection with any action, suit or other proceeding in which they are sued as a result of their service, as well as all other costs sustained or incurred by them in relation to their service. This indemnity excludes costs that are occasioned by the indemnified party's own dishonesty, wilful neglect or default.

The nature of the indemnification prevents the Organization from making a reasonable estimate of the maximum amount that it could be required to pay to counterparties. To offset any potential future payments, the Organization has purchased from HIROC directors' and officers' liability insurance to the maximum available coverage.

No amount has been accrued in the accompanying financial statements with respect to the contingent aspect of this indemnity.

(b) Other indemnification agreements:

In the normal course of its operations, the Organization executes agreements that provide for indemnification to third parties. These include, without limitation: indemnification of the Landlord under the Organization's lease of premises; indemnification of the Minister of Health and Long-Term Care from claims, actions, suits or other proceedings based upon the actions or omissions of the representative groups of medical, radiation and gynaecology/oncology physicians under certain Alternate Funding Agreements; and indemnification of the 11 ICP host hospitals from claims, actions, costs, damages and expenses brought about as a result of any breach by the Organization of its obligations under the Cancer Program Integration Agreement and the related closing documentation.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2005

15. Guarantees (continued):

While the terms of these indemnities vary based upon the underlying contract, they normally extend for the term of the contract. In most cases, the contract does not provide a limit on the maximum potential amount of indemnification, which prevents the Organization from making a reasonable estimate of its maximum potential exposure. To the best of management's knowledge, the Organization has not made any significant payments under such indemnifications, and no amount has been accrued in the accompanying financial statements with respect to the contingent aspect of these indemnities.

16. Drugs:

Drug expenditures relate to the provincial New Drug Funding Program that reimburses hospitals for the cost of new and expensive drugs based on clinical eligibility criteria. For the year ended March 31, 2005, the program received from The Ministry of Health and Long-Term Care base funding of $75,700 and one-time funding through deferred revenue of $6,739.

17. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

The Centennial Centre of Science and Technology Financial Statements were not finalized at the time of printing.

EQAO
Education Quality and Accountability Office

2 Carlton Street, Suite 1200
Toronto ON M5B 2M9
Telephone: 1-888-327-7377
Fax: 416-325-0831
Web site: www.eqao.com

MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Education Quality Accountability Office for the year ended March 31, 2005 are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Education Quality Accountability Office are described in the Summary of Significant Accounting Policies contained in Note 2 in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.
The financial statements have been prepared within reasonable limits of materiality and in light of information available up to May 17, 2005.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by Horwath Orenstein LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditor's Report, which follows, outlines the scope of their examination and their opinion.

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE
On behalf of management,

Marguerite Jackson
Chief Executive Officer

Robin Dafoe
Director, Corporate Services and
Public Affairs

Toronto, Canada
May 17, 2005

Horwath Orenstein LLP

Horwath Orenstein LLP
Chartered Accountants
2 Bloor Street East, Suite 1100
Toronto, ON, Canada M4W 1A8
T 416.596.1711
F 416.596.7894
www.horwathorenstein.com

AUDITORS' REPORT

To the Board of Directors of the Education Quality and Accountability Office (The Agency)

We have audited the statement of financial position of Education Quality and Accountability Office as at March 31, 2005 and the statement of revenues and expenditures and accumulated surplus for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2005 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles for public sector entities.

Horwath Orenstein LLP

Toronto, Ontario
May 17, 2005

Chartered Accountants

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE

Statement of Financial Position

March 31, 2005

	2005	2004
ASSETS		
Cash	**$ 6,215,330**	$ 11,529,602
Accounts receivable	**351,047**	233,386
Capital assets *(Note 4)*	**368,394**	195,793
	$ 6,934,771	$ 11,958,781
LIABILITIES AND ACCUMULATED SURPLUS		
Accounts payable and accrued liabilities	**$ 5,143,202**	$ 5,920,824
ACCUMULATED SURPLUS	**1,791,569**	6,037,957
	$ 6,934,771	$ 11,958,781

ON BEHALF OF THE BOARD

Chair

Marguerite Jackson *Chief Executive Officer*

See the accompanying notes

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE

Statement of Revenues and Expenditures and Accumulated Surplus

Year Ended March 31, 2005

	2005	2004
REVENUE		
Ministry of Education	**$**	$
Base allocation payments	**30,802,870**	44,071,729
Other revenue	**676,104**	499,830
	31,478,974	44,571,559
EXPENSES		
Service and rental	**24,326,654**	28,468,179
Salaries, wages and benefits	**8,576,052**	8,378,763
Transportation and communication	**2,408,452**	1,913,451
Supplies and equipment	**414,204**	354,345
	35,725,362	39,114,738
EXCESS OF EXPENDITURES OVER REVENUE *(Note 3)*	**(4,246,388)**	5,456,821
ACCUMULATED SURPLUS - BEGINNING OF YEAR	**6,037,957**	581,136
ACCUMULATED SURPLUS - END OF YEAR	**$ 1,791,569**	$ 6,037,957

See the accompanying notes

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE

Notes to Financial Statements

Year Ended March 31, 2005

1. DESCRIPTION OF OPERATIONS

The Education Quality and Accountability Office (The Agency) was established by the Province of Ontario by the "EQAO Act", June 1996. The Agency was created to assure greater accountability and to contribute to the enhancement of the quality of education in Ontario. This is done through assessments and reviews based on objective, reliable and relevant information, and the timely public release of that information along with recommendations for system improvement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles, reflect the accounting policies set out below.

Revenue recognition

a) Base allocation payments from the Ministry of Education are recognized when received.

b) Other revenue is recognized at the time the service is rendered.

Capital assets

Capital assets are stated at cost less accumulated amortization. Capital assets are amortized over their estimated useful lives at the following rates and methods:

Computer equipment	3 years	straight-line method
Furniture and fixtures	5 years	straight-line method

For assets acquired or brought into use during the year, amortization is calculated from the month following that in which additions come into operation.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed periodically, and, as adjustments become necessary they are reported in earnings in the period in which they become known.

3. EXCESS OF EXPENDITURES OVER REVENUE

In fiscal 2004/2005, the Agency was approved to receive $47.5 million in base allocation payments from the Ministry of Education. This base allocation was reduced as a result of the Agency strategically making use of the carried forward cash balance from March 31, 2004 to meet cash flow needs. As a result, the Agency is reporting excess expenditures over revenue for the period ending March 31, 2005.

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE

Notes to Financial Statements

Year Ended March 31, 2005

4. CAPITAL ASSETS

	Cost	Accumulated amortization	**2005 Net book value**	2004 Net book value
Computer equipment	$ 314,114	$ 47,550	**$ 266,564**	$ 87,212
Furniture and fixtures	154,112	52,282	**101,830**	108,581
	$ 468,226	$ 99,832	**$ 368,394**	$ 195,793

5. LEASE COMMITMENTS

a) The Agency has a service agreement with a third party to provide various computer support services for an annual cost of approximately $450,000. The agreement is for a five year period ending March 31, 2005. The agreement was extended for an additional 3 months ending June 30, 2005.

b) The Agency leases premises under a long-term lease that expires on December 31, 2012. Under the terms of the lease, the Agency is required to pay an annual base rent which is pre-determined based on square footage rates plus operating and maintenance charges.

The minimum annual lease payments related to the office lease and office equipment for the next five years are as follows:

2006	$ 658,000
2007	662,000
2008	637,000
2009	656,000
2010	662,000
	$ 3,275,000

6. FINANCIAL INSTRUMENTS

The Agency's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values due to their short-term maturity.

7. STATEMENT OF CASH FLOWS

A statement of cash flows has not been presented, as the information it would contain is readily apparent from the financial statements provided.

GO Transit

20 Bay Street • Suite 600
Toronto, Ontario, Canada M5J 2W3
Phone: (416) 869-3600 • www.gotransit.com

July 8, 2005

Management's Responsibility for Financial Information

GO Transit Management and the Board of Directors are responsible for the financial statements and all other information presented in this financial statement. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's best estimates and judgements.

Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information. Internal audits are conducted to assess management systems and practices, and reports are issued to the Audit Committee.

The GO Transit Board of Directors, through the Audit Committee, assures that management fulfills its responsibilities for financial information and internal control. This Committee reviews the financial statements and the external auditors' report.

The financial statements have been examined by Grant Thornton LLP, GO Transit's appointed external auditor. The external auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting prinicples. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

For the fiscal year ending March 31, 2005, GO Transit's Board of Directors, through the Audit Committee, was responsible for assuring that management fulfilled its responsibilities for financial reporting and internal control. The Committee meets regularly with management, the internal auditor and Grant Thornton LLP to satisfy itself that each group has discharged its respective responsibility. The Committee reviews the financial statements before recommending approval by the Board of Directors. Grant Thornton LLP had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of GO Transit's financial reporting and the effectiveness of the system of internal controls.

Gary McNeil
Managing Director and CEO

Frances Chung
Director, Financial Services

Grant Thornton

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Members of
Greater Toronto Transit Authority

We have audited the balance sheet of **Greater Toronto Transit Authority** as at March 31, 2005 and the statements of revenues and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for 2004 were reported on by another firm of chartered accountants.

Grant Thornton LLP

Toronto, Canada
June 10, 2005

Grant Thornton LLP
Chartered Accountants

Royal Bank Plaza
19th Floor, South Tower
200 Bay Street, Box 55
Toronto, Ontario
M5J 2P9
T (416) 366-0100
F (416) 360-4949
E Toronto@GrantThornton.ca
W www.GrantThornton.ca

Greater Toronto Transit Authority
Statement of Revenues and Expenses

(Dollars in thousands)

Year Ended March 31	2005	2004
Revenues		
Operating revenue	$ 204,888	$ 188,190
Investment income	541	562
Contribution from the Province of Ontario	204,000	210,872
Contribution from Municipalities	32,626	14,682
Contribution from the Government of Canada	5,893	1,911
Return of contribution to the Province of Ontario	(10,479)	(8,158)
	437,469	408,059
Expenses		
Administrative services	8,865	6,800
Equipment maintenance	36,142	35,114
Facilities and track	37,732	35,533
Labour and benefits	94,184	69,794
Operations	80,357	77,979
Amortization of capital assets	73,474	68,554
Amortization of intangible assets	327	327
	331,081	294,101
Excess of revenues over expenses prior to capital asset additions	$ 106,388	$ 113,958

See accompanying notes to the financial statements.

Grant Thornton

Greater Toronto Transit Authority
Statement of Changes in Net Assets

(Dollars in thousands)
Year Ended March 31, 2005

	Invested in capital assets	Invested in long term lease	Net assets held in reserves (Note 9)	Deficiency	Total 2005	Total 2004
Balance, beginning of year	$ 952,490	$ 31,477	$ 26,332	$ (6,371)	$ 1,003,928	$ 889,970
Excess (deficiency) of revenues over expenses prior capital asset additions	(73,474)	(327)	-	180,189	106,388	113,958
Investment in capital assets	197,119	-	-	(197,119)	-	-
Disposal of capital assets	(996)	-	-	996	-	-
Balance, end of year	$ 1,075,139	$ 31,150	$ 26,332	$ (22,305)	$ 1,110,316	$ 1,003,928

See accompanying notes to the financial statements.

Grant Thornton

Greater Toronto Transit Authority
Balance Sheet

(Dollars in thousands)

March 31	2005	2004
Assets		
Current		
Cash and cash equivalents	$ 64,019	$ 78,979
Short term investment	14,898	-
Receivables	6,129	5,112
Contributions due from Province	8,500	13,284
Contributions due from Municipalities	9,694	6,807
Contributions due from Government of Canada	7,804	1,911
Spare parts and supplies	2,274	2,181
Prepaid expenses	1,191	804
	114,509	109,078
Capital assets (Note 3)	1,075,139	952,490
Long term lease (Note 4)	31,150	31,477
	$ 1,220,798	$ 1,093,045
Liabilities		
Current		
Payables and accruals	$ 56,639	$ 54,105
Unearned revenue in respect of tickets sold and not used	6,194	5,618
Due to the Province of Ontario (Note 5)	10,479	8,158
	73,312	67,881
Pension plan top-up benefits payable (Note 7)	14,086	-
Other employee future benefits payable (Note 8)	23,084	21,236
	110,482	89,117
Net Assets		
Net assets invested in capital assets	1,075,139	952,490
Net assets invested in intangible assets	31,150	31,477
Net assets held in reserves (Note 9)	26,332	26,332
Deficiency of net assets	(22,305)	(6,371)
	1,110,316	1,003,928
	$ 1,220,798	$ 1,093,045

Commitments (Note 10)
Contingencies (Note 11)

On behalf of the Board

_________________ Director _________________ Director

See accompanying notes to the financial statements.

Grant Thornton

Greater Toronto Transit Authority
Statement of Cash Flows

(Dollars in thousands)

Year Ended March 31	2005	2004
Increase (decrease) in cash and cash equivalents		
Operating activities		
Excess of revenues over expenses	$ 106,388	$ 113,958
Amortization of capital assets and intangible assets	73,801	68,881
Loss on disposal of capital assets	220	2,662
Change in non-cash working capital (Note 12)	15,872	25,048
	196,281	210,549
Investing activities		
Purchase of capital assets	(197,119)	(192,703)
Proceeds from sale of capital assets	776	7,202
Proceeds (purchase) of short term investments	(14,898)	10,901
	(211,241)	(174,600)
Net (decrease) increase in cash and cash equivalents	(14,960)	35,949
Cash and cash equivalents, beginning of year	78,979	43,030
Cash and cash equivalents, end of year	$ 64,019	$ 78,979

See accompanying notes to the financial statements.

Grant Thornton

Greater Toronto Transit Authority
Notes to the Financial Statements
(Dollars in thousands)
March 31, 2005

1. Nature of operations

The Greater Toronto Transit Authority (the "Authority") is a Crown agency carrying on business as "GO Transit". As a non-share capital corporation, GO Transit reports to the Minister of Transportation ("MTO"). GO Transit operates an interregional public transit system consisting of integrated rail and bus corridors. The network of rail and bus services primarily serves communities across the Greater Toronto Area ("GTA") including the Cities of Toronto and Hamilton, and Regions of Halton, Peel, York, Durham as well as Simcoe County, Dufferin County, Wellington County and the cities of Barrie and Guelph and the Town of Bradford-West Gwillimbury.

2. Summary of significant accounting policies

Basis of presentation

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles for Not-For-Profit Organizations.

Use of estimates

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks net of bank overdrafts and short term investments with maturities of three months or less.

Short term investment

Short term investments are stated at the lower of cost and market value and include amounts with original maturities greater than three months and less than one year.

Spare parts and supplies

Spare parts and supplies are carried at the lower of cost and replacement cost.

Greater Toronto Transit Authority
Notes to the Financial Statements

(Dollars in thousands)
March 31, 2005

2. Summary of significant accounting policies (continued)

Amortization

The Authority provides for the amortization of the various classes of assets over their estimated useful lives on a straight-line basis as follows:

Buildings and equipment	
Shelters and ticket booths	- 5 years
Other buildings	- 20 years
Leasehold improvements	- 20 years
Locomotives	- 20 years
Other railway rolling stock	- 25 years
Improvements to railway right-of-way and plant	- 20 years
Trackwork and installation	- 20 years
Buses	- 12 years
Parking lots	- 20 years
Sundry	
Furniture	- 12 years
Other	- 3-5 years

Viability studies for future expansion represent costs deferred on a project-by-project basis until the viability of the respective project is determined. When the project is finalized, the costs are amortized based on a specific asset category. If a project is abandoned or the costs are considered to be unrecoverable, the deferred costs are charged to operations in the year the determination is made.

Long term lease

Long term lease represents the prepayment of the lease regarding Union Station. The amount is being amortized straight-line over 100 years, the term of the lease plus one renewal period.

Employee future benefits

The Authority provides pension plan benefits through the multi-employer OMERS Pension Fund. The expense for the year equals the required contribution for the year.

The Authority provides a Top-Up pension plan benefit using the accrued benefit method which reflects the projected benefits for services rendered to date. Adjustments arising from employee benefit plan amendments, experience gains and losses and changes in assumptions are amortized to earnings over the estimated average remaining service lives of the members.

The Authority also provides other employee future benefits using the accrued benefit method which reflects the projected benefits for services rendered to date. Adjustments arising from employee benefit plan amendments, experience gains and losses and changes in assumptions are amortized to earnings over the estimated average remaining service lives of the members.

Greater Toronto Transit Authority
Notes to the Financial Statements
(Dollars in thousands)
March 31, 2005

2. Summary of significant accounting policies (continued)

Commuter services revenue

Revenue is recognized when the transportation service is provided. Unearned amounts are reflected in the balance sheet as current liabilities.

Contributions

The Authority follows the deferral method of accounting for contributions. Contributions are recognized as revenue in the year in which the related expenses are incurred.

Net assets held in reserves

Net assets held in reserves are internally restricted to provide a funding source for planned future obligations and to provide flexibility against uncertainties which may arise. All reserves are approved by the GTTA board and are disclosed on the balance sheet as equity.

The purpose of establishing the Municipal Capital and Operating Restructuring (MCOR) reserve is to assist in funding large capital expenditures.

The purpose of establishing the Employment Obligation reserve is to assist in funding general employment related obligations of the Authority.

The purpose of establishing the Self Insured Retention reserve is to assist in funding any claims against the self-insured retention layer of the Authority's insurance program.

The purpose of the Stabilization reserve is to assist in funding fluctuations in operating and capital budgets of the Authority from year to year.

All transactions of the reserves require approval by the GTTA board. They are reported in the statement of changes in net assets.

Interest income is included in general revenue as investment income.

Greater Toronto Transit Authority
Notes to the Financial Statements

(Dollars in thousands)
March 31, 2005

3. Capital assets

	Cost	Accumulated Depreciation	2005 Net Book Value	2004 Net Book Value
Land	$ 190,611	$ -	**$ 190,611**	$ 181,138
Buildings	274,428	153,940	**120,488**	126,227
Leasehold improvements	25,204	14,776	**10,428**	11,335
Locomotives and other railway rolling stock	359,982	99,411	**260,571**	218,725
Improvement to railway right-of-way plant	456,468	309,125	**147,343**	144,189
Track work and installation	93,782	49,612	**44,170**	42,169
Construction-in-progress	95,894	-	**95,894**	65,441
Buses	151,239	42,535	**108,704**	87,851
Parking lots	123,361	45,912	**77,449**	63,309
Sundry	75,610	56,129	**19,481**	12,106
	$ 1,846,579	$ 771,440	**$ 1,075,139**	$ 952,490

The Authority capitalizes engineering payroll costs where time has been spent on particular capital projects. The amount capitalized for the year ended March 31, 2005 was $3,911 (2004 - $2,944).

4. Long term lease

	Cost	Accumulated Amortization	2005 Balance	2004 Balance
Leasehold, Union Station	$ 32,703	$ 1,553	**$ 31,150**	$ 31,477

5. Due to Province

The amounts owing to the Province of Ontario represents contributions received in fiscal 2004 – 2005 in excess of funds required.

6. Pension contributions

The Authority provides pension benefits for substantially all of its permanent employees through participation in the Ontario Municipal Employees Retirement System (OMERS) Pension Fund. The amount expensed in pension contributions for the year ended March 31, 2005 was $3,836 (2004 - $1,543).

Greater Toronto Transit Authority
Notes to the Financial Statements
(Dollars in thousands)
March 31, 2005

7. Pension plan Top-up benefits payable

With repatriation of the GTTA to the Province in 2002, bargaining and non-bargaining employees requested the Province to rectify the difference in pension benefits to be received by employees of GO Transit. When GO Transit was transferred from the Province to the Greater Toronto Services Board in 1999, the Provincial Plans were frozen and a new plan commenced under OMERS. It has been resolved during the year that the Authority is responsible for the pension obligation and accordingly the Authority completed an actuarial valuation resulting in an accrued pension benefit obligation as at March 31, 2005 of $14,086.

Information about the Authority's pension plan top-up as at March 31 is as follows:

Accrued benefit obligation		
Balance at beginning of year	$	-
Accrual for past service costs		12,673
Accrual for current service		647
Interest on accrued benefits		766
Balance at end of year	$	14,086
Funded status		
Plan deficit	$	14,086

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations are as follows:

Discount rate	- 5.75%
Rate of compensation increase	- 3% per annum up until June 30, 2007 and 2% thereafter
Inflation	- 2.5% per annum up until June 30, 2007 and 2% thereafter

8. Other employee future benefits

The Authority provides post-retirement life and health benefits, Workplace Safety & Insurance Board ("WSIB") liabilities and retiree severance benefits. The plan is unfunded and requires nominal contributions from employees. Substantially all full time active employees are eligible for life and health benefits. A limited number of employees are eligible for severance benefits.

In 2005, the Authority's management had an actuarial valuation completed for accounting purposes, resulting in an accrued benefit obligation at March 31, 2005 of $33,999 (2004 - $26,864) and a remaining unamortized actuarial loss balance of $10,915 (2004 - $5,628).

Greater Toronto Transit Authority
Notes to the Financial Statements
(Dollars in thousands)
March 31, 2005

8. Other employee future benefits (continued)

For the purpose of accounting for post-retirement non-pension benefits, the Authority has adopted the policy to recognize gains and losses in a year in excess of the minimum amortization (which is the portion of accumulated gains and losses which exceed 10% of the accrued benefit obligation, divided by the expected average remaining service life).

Assumptions

Discount Rate for Post-retirement non-pension benefit – 5.75% (2004 – 6.25%)
Discount Rate for WSIB liabilities and retiree severance benefits – 5.5% (2004 – 6.25%)
Expected average remaining service life – 13 years (2004 – 13.8 years)
Rate of compensation increase – 2% per annum (2004 – 3.5%)
Health care benefits increase – 10.5% in 2006 decreasing by 1% to an ultimate rate of 4.5% per annum
Dental care benefits increase – 4.5% per annum

	2005	2004
Current service cost	$ 1,443	$ 1,263
Interest cost	1,858	1,431
Actuarial loss	236	-
Employee future benefits expense	$ 3,537	$ 2,694
Benefits payments	$ 1,689	$ 729

9. Net assets held in reserve

	MCOR	Employment Obligation	Self Insured Retention	Stabilization	Total Reserves
Balance, beginning of year	$ 21,051	$ 889	$ 2,013	$ 2,379	$ 26,332
Expenditures	-	-	-	-	-
Balance, end of year	$ 21,051	$ 889	$ 2,013	$ 2,379	$ 26,332

Greater Toronto Transit Authority
Notes to the Financial Statements

(Dollars in thousands)
March 31, 2005

10. Commitments

a) The minimum lease payments for premises in each of the next five years and thereafter are as follows:

2006	$	2,079
2007		1,965
2008		1,846
2009		1,827
2010		1,602
Thereafter		717
	$	10,036

b) The Authority has also committed approximately $175,961 for various capital asset additions over the next fiscal year.

c) The Authority has a lease with TATOA for 243 rail cars and 42 locomotives for total lease payments of one dollar per year terminating on July 1, 2006.

d) A significant amount of the services provided by the Authority are operated and maintained by outside parties using rolling stock owned or leased from Toronto Area Transit Operating Authority Act ("TATOA") by the Authority. These services are governed by the agreements with the Canadian National Railway Company ("CN"), Canadian Pacific Railway Company ("CP") and Bombardier Inc. and by a number of minor service agreements. The Authority has entered into the following major agreements for approximately $84,600 per year:

i) Master Operating Agreement with CN terminating on May 31, 2008.

ii) Commuter Agreement with CP terminating December 31, 2008.

iii) Equipment Maintenance Contract with Bombardier terminating on May 31, 2007.

11. Contingent liability

Various lawsuits have been filed against the Authority for incidents which arose in the ordinary course of business. In the opinion of management and legal counsel, the outcome of the lawsuits, now pending, is either not material or is not yet determinable. Should any loss result from the resolution of these claims, such loss will be charged to operations in the year of resolution.

Greater Toronto Transit Authority
Notes to the Financial Statements

(Dollars in thousands)
March 31, 2005

12. Change in working capital	2005	2004
Receivables	$ (1,017)	$ (638)
Contributions due from Province	4,784	1,149
Contributions due from Municipalities	(2,887)	2,626
Contributions due from Government of Canada	(5,893)	(1,911)
Spare parts and supplies	(93)	(187)
Prepaid	(387)	366
Payables and accruals	2,534	17,681
Unearned revenue	576	359
Due to Province of Ontario	2,321	3,778
Employee future benefits payable	15,934	1,825
	$ 15,872	$ 25,048

13. Financial instruments

The carrying values of the Authority's financial instruments, which consist of cash and cash equivalents, short term investments, receivables, contributions due from Province, contributions due from Municipalities, contributions due from Government of Canada, payables and accruals, and due to the Province of Ontario, approximate their fair value due to their relatively short periods to maturity.

The Authority does not have significant concentration of credit risk.

The Authority does not have significant exposure to interest rate risk.

The Authority is exposed to changes in crude oil prices as a result of diesel fuel consumption. The potential fluctuations in crude oil prices could have a significant impact on the cost of providing transportation services. This risk is reduced, from time to time, through the use of diesel fuel forward purchase contracts to lock in firmly committed future operating costs. As at March 31, 2005, the Authority had no fixed fee agreements in place to purchase fuel. As at March 31, 2004, the Authority had agreements to purchase 24,874,000 litres of diesel fuel at a price of $0.3062 per litre. The excess fuel purchased beyond the committed amount is at market prices.

14. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

IESO 2004 ANNUAL REPORT

Management Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Independent Electricity System Operator ("IESO") are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the IESO are described in the Summary of Significant Accounting Policies contained in Note 2 in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been prepared within reasonable limits of materiality and in light of information available up to February 3, 2005.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by PricewaterhouseCoopers LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditor's Report, which follows, outlines the scope of their examination and their opinion.

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

On behalf of management,

Dave Goulding
President and Chief Executive Officer

Gary Sherkey
Vice President - Finance, CFO and Treasurer

Toronto, Canada
February 3, 2005

Auditors' Report

February 3, 2005

To the Board of Directors of the Independent Electricity System Operator ("IESO")

We have audited the statement of financial position of the IESO as at December 31, 2004 and the statements of operations and accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the IESO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the IESO as at December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Statement of Operations and Accumulated Surplus

(in thousands of Canadian dollars)	For the Year Ended December 31, 2004	For the Year Ended December 31, 2003
	$	$
REVENUES		
System fees	152,438	148,895
Other revenue	3,590	7,303
TOTAL REVENUES	**156,028**	**156,198**
EXPENSES		
Labour	63,303	56,630
Computer services, support and equipment	10,816	10,984
Consultants, contract and legal services	7,447	6,146
Telecommunications	2,395	2,938
Other costs	4,915	5,604
Amortization	52,001	51,160
TOTAL EXPENSES	**140,877**	**133,462**
Net Income Before Interest and Investment Income	**15,151**	**22,736**
Interest and investment income	1,131	3,722
Interest expense and financing charges	(10,613)	(21,535)
NET INCOME FOR THE YEAR	**5,669**	**4,923**
ACCUMULATED SURPLUS - BEGINNING OF YEAR	**15,638**	**10,715**
ACCUMULATED SURPLUS - END OF YEAR (Note 10)	**21,307**	**15,638**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Statement of Financial Position

(in thousands of Canadian dollars)	As at December 31, 2004	As at December 31, 2003
	$	$
ASSETS		
Current assets		
Cash & cash equivalents	7,302	36,939
Temporary investments	45,841	12,442
Prepaid expenses & receivables	20,188	19,344
	73,331	**68,725**
Property & Equipment (Note 3)		
In service	167,194	211,462
Construction-in-progress	2,038	1,664
	169,232	**213,126**
Other Assets		
Long term investments (Note 4)	8,016	6,464
Prepaid pension expense (Note 7)	22,097	24,566
	30,113	**31,030**
TOTAL ASSETS	**272,676**	**312,881**
LIABILITIES		
Current Liabilities		
Accounts payable & accrued liabilities (Note 5)	17,921	16,431
Accrued interest	1,677	1,952
	19,598	18,383
Long-term Debt (Note 6)	203,200	253,200
Accrual for Employee Future Benefits Other than Pensions (Note 7)	28,571	25,660
TOTAL LIABILITIES	**251,369**	**297,243**
ACCUMULATED SURPLUS (Note 10)	**21,307**	**15,638**
TOTAL LIABILITIES & ACCUMULATED SURPLUS	**272,676**	**312,881**

On behalf of the Board:

James C. Baillie

Carol S. Perry

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

IESO 2004 ANNUAL REPORT

Statement of Cash Flows

(in thousands of Canadian dollars)	For the Year Ended December 31, 2004	For the Year Ended December 31, 2003
	$	$
OPERATING ACTIVITIES		
Net income for the year	5,669	4,923
Adjustments for non-cash items:		
Amortization	52,001	51,160
Decrease in prepaid pension expense	7,495	4,276
Increase in accrual for employee future benefits other than pensions	4,054	3,298
	69,219	63,657
Changes in non-cash balances related to operations:		
Increase/(decrease) in accounts payable and accrued liabilities	1,803	(1,832)
Increase in prepaid expenses and receivables	(843)	(1,170)
	960	(3,002)
Other:		
Contribution to pension fund	(5,027)	(4,395)
Payment of employee future benefits	(1,143)	(1,040)
	(6,170)	(5,435)
Cash provided from operating activities	**64,009**	**55,220**
INVESTING ACTIVITIES		
Net sale/(purchase) of temporary investments	(33,399)	52,716
Purchase of long term investments	(1,552)	(6,464)
Investment in property & equipment	(8,695)	(12,351)
Cash provided from/(used in) investing activities	**(43,646)**	**33,901**
FINANCING ACTIVITIES		
Retirement of long-term debt	(50,000)	(100,000)
Cash used in financing activities	**(50,000)**	**(100,000)**
NET CHANGE IN CASH & CASH EQUIVALENTS	**(29,637)**	**(10,879)**
CASH & CASH EQUIVALENTS - BEGINNING OF YEAR	**36,939**	**47,818**
CASH & CASH EQUIVALENTS - END OF YEAR	**7,302**	**36,939**

Supplementary Information:

(in thousands of Canadian dollars)		
Interest Paid	**10,321**	**23,291**

Certain 2003 comparative figures in the statement of cash flow above have been reclassified to conform to the 2004 presentation.

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Notes to Financial Statements

1. NATURE OF OPERATIONS

Independent Electricity System Operator (IESO), formerly known as Independent Electricity Market Operator (IMO), is a not-for-profit, non-taxable corporation, created by statute effective on April 1, 1999 pursuant to Part II of the *Electricity Act, 1998*. As set out in the Electricity Act, the IESO operates pursuant to a licence granted by the Ontario Energy Board. The objects of the IESO as contained in the Electricity Act, and amended in the *Electricity Restructuring Act, 2004* are as follows:

- to exercise the powers and perform the duties assigned to the IESO under the *Electricity Restructuring Act, 2004*, the market rules and its licence;
- to enter into agreements with transmitters giving the IESO the authority to direct the operation of their transmission systems;
- to direct the operation and maintain the reliability of the IESO-controlled grid to promote the purposes of the *Electricity Restructuring Act, 2004*;
- to participate in the development, by any standards authority, of standards and criteria relating to the reliability of the transmission systems;
- to work with the responsible authorities outside Ontario to co-ordinate the IESO's activities with their activities;
- to collect and provide, to the Ontario Power Authority (OPA) and the public, information relating to the current and short-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs; and
- to operate the IESO-administered markets to promote the purposes of the *Electricity Restructuring Act, 2004*.

The North American electrical utility industry has undertaken initiatives to move away from traditional monopolies toward introducing competition into power generation. On October 30, 1998 the Government of Ontario enacted the *Energy Competition Act, 1998* to restructure the business carried on by Ontario Hydro and introduce competition. On May 1, 2002 the Government of Ontario opened the competitive electricity market.

On December 9, 2002 the Government passed Bill 210, *Electricity Pricing, Conservation and Supply Act, 2002*. Bill 210, among other things, froze the commodity cost of electricity at 4.3 cents per kilowatt-hour for a portion of the competitive market, specifically low-volume and designated customers, until May 1, 2006. On December 15, 2003, the newly elected Government of Ontario passed Bill 4, *Ontario Energy Board and Amendment Act, 2003*. Under Bill 4, beginning April 1, 2004 low-volume and designated consumers pay 4.7 cents per kilowatt-hour for their first 750 kilowatt-hours of consumption and 5.5 cents per kilowatt-hour for their remaining monthly consumption.

On December 9, 2004 the Government passed Bill 100, T*he Electricity Restructuring Act, 2004*. Key elements of Bill 100 include:

- a name change for the IMO to the IESO, while retaining its core responsibilities around system and market operations;
- responsibility for the Market Surveillance Panel to be transferred from the IESO to the Ontario Energy Board (OEB);

- the OEB to have the authority to review and approve amendments to the market rules for the IESO-administered markets;
- the creation of the Ontario Power Authority (OPA), with a primary responsibility to provide an adequate, long-term supply of electricity;
- the creation of a new Conservation Bureau;
- provisions that the Minister of Energy will continue to set targets for conservation, renewable energy, and the overall supply mix;
- a regulated rate plan for electricity costs, to be approved by the OEB, for residential and other low-volume consumers based on regulated, contracted and expected market prices; and
- electricity costs for medium and large businesses to reflect a combination of regulated, contract and competitive market prices for electricity.

The price signals for the wholesale price of electricity continue to be set in the market, utilizing methodologies and systems unchanged from those utilized prior to Bill 210, Bill 4 or Bill 100.

The Electricity Act, specifically Section 19, requires on an annual basis, that the IESO submit its proposed expenditures, revenue requirements, and the fees it proposes to charge during the coming year to the OEB for review. Bill 210 amended Section 19 to provide that the submission may be made only with the approval of the Minister of Energy (Minister), a requirement that remains unchanged under Bill 4 and Bill 100. The IESO obtained permission of the Minister to submit its proposed 2005 expenditures, revenue requirements, and fees to the OEB on November 3, 2004. The OEB has not yet completed its review of the IESO's requested 2005 expenditures, revenue requirements, and fees. As specified in the Electricity Act, any surplus generated shall be used by the IESO for the purposes of carrying out its objects under the Electricity Act. The IESO expects to recover any deficit in future system fees, subject to approval by the OEB.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of financial statement preparation

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

b) Revenue recognition

System fees earned by the IESO are based on approved rates for each megawatt of electricity withdrawn from the IESO-controlled grid, including exports. System fees are recognized as revenue at the same time as the electricity is withdrawn.

These financial statements do not include the financial transactions of market participants within the IESO-administered markets.

Other revenue represents amounts that accrue to the IESO relating to interest on funds passing through market settlement accounts, as well as fines and penalties passing through the market adjustment account. Such revenue is recognized as it accrues.

c) Cash and cash equivalents

Cash and cash equivalents comprise cash, term deposits and other short-term investments with original maturity dates of less than 90 days.

d) Temporary investments

Short-term money market investments with original maturities of 90 days or longer are classified as temporary investments and valued at amortized cost. Premiums and discounts are amortized to income using the constant yield method over the period to maturity.

e) Construction-in-progress

Construction-in-progress generally relates to the costs of physical facilities, hardware and software, and includes costs paid to vendors, internal and external labour, consultants, an applicable share of overhead, and an allocation of interest related to funds borrowed to finance the project. Costs relating to construction-in-progress are transferred to property and equipment in service when the asset under construction is deemed to be ready for use.

f) Property and equipment in service

Property and equipment are capitalized at cost, which comprises materials, labour, external support, overheads, and interest applicable to capital activities.

g) Amortization

The capital cost of property and equipment in service is amortized on a straight line basis over their estimated service lives.

The estimated service lives in years, from the date the assets were transferred from Ontario Hydro or subsequently acquired, are:

Class	Estimated Average Service Life (years)
Facilities	40
Market Systems and Applications	4 to 7
Infrastructure and Other Assets	3 to 10

Gains and losses on sales of property and equipment and losses on premature retirements are charged to operations as adjustments to amortization expense. Removal costs are charged to amortization expense as incurred.

The estimated service lives of property and equipment and the significant assumptions underlying the estimates of removal costs are subject to periodic review. The impacts of changes in the estimated lives of property and equipment are amortized on a prospective basis. The most recent review was completed in fiscal 2004.

h) Long term investments

Portfolio investments are carried at cost less any provision for other than temporary losses.

i) Pension and other post-employment benefits

The IESO's post-employment benefit programs include pension, group life insurance, health care, long-term disability and workers compensation benefits.

The IESO accrues obligations under pension and other post-employment benefit ("OPEB") plans and the related costs, net of plan assets. Pension and OPEB expenses and obligations are determined annually by independent actuaries using the projected benefit method and management's best estimate of expected return on plan assets, salary escalation, retirement ages of employees, mortality and expected health-care costs. The discount rate used to value liabilities is based on market rates as at the measurement date of September 30.

The expected return on plan assets is based on management's long-term best estimate using a market-related value of plan assets. The market-related value of plan assets is determined using market-related values for equities (whereby fund assets are calculated using the smoothed value of assets over five years) and market values for fixed income securities, as at the measurement date of September 30.

Pension and OPEB expenses are recorded during the year in which employees render services. Pension and OPEB expenses consist of current service costs, interest expense on liabilities, expected return on plan assets and the amortization of plan amendments on a straight-line basis over the expected average remaining service life of the employees covered by the plan. Actuarial gains (losses) arise from, amongst other things, the difference between the actual rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess, if any, of the culmutive unamortized net actuarial gain or loss over 10% of the greater of the projected benefit obligation and the market-related value of plan assets is also amortized over the expected average remaining service life of the employees covered by the plan.

The expected average remaining service life of employees covered by the pension and OPEB plans is 12 years (2003: 12 years)

j) Fair value of financial instruments

The carrying amounts reported in the balance sheet for financial instruments, comprising current assets and current liabilities, approximate to their fair values. The fair value of long term investments is disclosed in Note 4. The fair value of the long-term debt is not readily available.

k) Derivative Financial Instruments

The IESO enters into foreign exchange forward contracts, for risk management purposes. Foreign exchange forward contracts are commitments to purchase foreign currencies for delivery at a specified date in the future at a fixed rate. The IESO enters into such contracts only for known or anticipated transactions that will require settlement in foreign currency, and does not use any other derivative instruments.

The IESO is exposed to changes in the value of such contracts prior to their settlement as a result of movements in the underlying foreign exchange rates. Senior management responsible for cash management manages this risk.

Where such forward contracts meet the criteria for hedge accounting, changes in their values resulting from exchange rate movements are not reflected in the financial statements. Where such contracts do not meet the criteria for hedge accounting, they are recorded at their fair value at the balance sheet date, with changes in their value recognized in the statement of operations.

l) Foreign exchange

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated in Canadian dollars at the rate prevailing at that date. Exchange gains and losses arising on settlement of foreign exchange transactions are reported in the statement of operations at the date at which the transactions are settled.

m) Use of estimates

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

3. PROPERTY AND EQUIPMENT

	As At December 31, 2004			As At December 31, 2003
(in thousands of Canadian dollars)	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	$	$	$	$
Property and equipment in service				
Facilities	48,348	6,668	41,680	42,769
Market Systems and Applications	208,100	99,927	108,173	137,477
Infrastructure and Other Assets	70,835	53,494	17,341	31,216
	327,283	160,089	167,194	211,462
Construction-in-progress	2,038	-	2,038	1,664
	329,321	**160,089**	**169,232**	**213,126**

IESO 2004 ANNUAL REPORT

In 2004 and 2003, adjustments were made to reflect management's estimates of remaining asset service lives. The impact of these changes in estimates was an increase in amortization expense of $2,390,495 in the year (2003 - $7,361,243).

Removal costs of $1,920,219 related to Data Acquisition and Computer Systems were incurred in 2003. These costs were charged to amortization in the year.

Interest capitalized to construction-in-progress during 2004 was $24,047 (2003 - $356,110).

4. LONG TERM INVESTMENTS

Long term investments represent an investment in a balanced pooled fund. The market value of these investments was $8,916,508 as at December 31, 2004 (2003 - $6,938,338).

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of Canadian dollars)	As at December 31, 2004	As at December 31, 2003
	$	$
Relating to property and equipment	2,281	2,869
Relating to operations	15,640	13,562
	17,921	**16,431**

6. LONG-TERM DEBT

(in thousands of Canadian dollars)	As at December 31, 2004	As at December 31, 2003
	$	$
Notes payable to		
Ontario Electricity Financial Corporation (OEFC)	78,200	78,200
The Province of Ontario	125,000	175,000
	203,200	253,200

Note payable to OEFC

The long-term note payable to Ontario Electricity Finance Corporation (OEFC) is unsecured, bears interest at 7.9% per annum and is repayable in full on May 1, 2009. Interest accrues daily and is payable in arrears, in equal semi-annual payments on May 1 and November 1 of each year.

Note payable to Province of Ontario

The long-term note payable to the Province of Ontario is unsecured.

On November 3, 2004, the IESO and the Province of Ontario entered into an amended and restated loan agreement in the amount of $125.0 million to provide for the extension of the repayment date from March 31, 2005 to the earliest of March 30, 2007 or six months after which a credit rating is received or revised to a specific level.

Under the revised agreement, interest accrues daily at an interest rate equal to the three month floating Bankers' Acceptance rate plus 50 basis points during this period. At December 31, 2004, the interest rate was 3.20%. The revised loan agreement provides the right for the IESO to make prepayments on the outstanding principal at three-month intervals, in multiples of $5.0 million, co-incident with the payment of interest. On February 3, 2004 and on May 3, 2004 the IESO prepaid $25.0 million, for a total prepayment in 2004 of $50.0 million. As of December 31, 2004 the outstanding principal amount was $125.0 million. On February 3, 2005, the IESO prepaid a further $25.0 million.

Credit facility

The IESO has an unsecured, committed, and extendible 364-day revolving credit facility agreement with a Canadian chartered bank, under which the bank will make available to the IESO an amount up to $20.0 million. As at December 31, 2004 and 2003 no balance was drawn on the credit facility. Advances under this facility are available in Canadian dollars by way of prime rate loans or relevant Bankers' Acceptances rates. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum and a Stamping Fee of 30 basis points per annum upon acceptance of each Bankers' Acceptance.

The IESO also has an unsecured, committed, and extendible 364-day revolving credit facility agreement with a banking syndicate, under which the syndicate will make available to the IESO an amount up to $100.0 million. As at December 31, 2004 and 2003 no balance was drawn on this credit facility. Advances under this facility are available in Canadian dollars by way of prime rate loans or relevant Bankers' Acceptances rates. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum and a Stamping Fee of 30 basis points per annum upon acceptance of each Bankers' Acceptance. This facility will mainly be used to fund shortfalls in amounts owed to the IESO by Market Participants for payment to other Market Participants prior to their recovery under the provisions of the market rules.

7. POST-EMPLOYMENT BENEFIT PLANS

The IESO provides pension and other employee post-employment benefits, comprising group life insurance, long-term disability and group medical and dental plans, for the benefit of current and retired employees.

Pension plans

The IESO provides a contributory defined benefit, indexed, registered pension plan. In addition to the funded, registered, pension plan, the IESO provides certain non-registered defined benefit pensions through an unfunded, indexed, non-registered plan.

IESO 2004 ANNUAL REPORT

Other employee future benefits

The group life insurance, long-term disability and group medical and dental benefits are provided through unfunded, non-registered defined benefit plans.

Summary of accrued benefit obligations and plan assets

(in thousands of Canadian dollars)	2004 Pension Benefits $	2003 Pension Benefits $	2004 Other Benefits $	2003 Other Benefits $
Accrued benefit obligation	284,265	272,317	38,104	34,694
Fair value of plan assets	242,065	215,412	-	-
Funded status	(42,200)	(56,905)	(38,104)	(34,694)
Employer contribution after measurement date	7	4,373	283	274
Unamortized past service costs	5,813	6,511	628	708
Unamortized net actuarial loss	58,477	70,587	8,622	8,052
Prepaid (accrued) benefit cost recognized in the statements of financial position	22,097	24,566	(28,571)	(25,660)

Prepaid benefit cost is shown net of valuation allowance of $nil (2003: $nil).

Registered Pension Plan Assets

As at the measurement date of September 30, registered pension plan assets were split by market value between the following categories:

	2004	2003
Equity securities	57.8%	58.4%
Debt securities	40.0%	39.4%
Cash equivalents	2.2%	2.2%
	100.0%	100.0%

Summary of principal assumptions used to calculate benefit obligations

	2004 Pension benefits	2003 Pension benefits	2004 Other benefits	2003 Other benefits
Discount rate at end of the period	6.25%	6.10%	6.25%	6.10%
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%

The assumed hospital and drug cost increase rate for the next year is 9.0%. The rate is assumed to decrease gradually to 5.0% in the year 2010 and remain at that level thereafter. Dental costs are assumed to increase by 5.0% per annum.

Summary of benefit costs and plan contributions

(in thousands of Canadian dollars)	2004 Pension Benefits $	2003 Pension Benefits $	2004 Other Benefits $	2003 Other Benefits $
Benefit cost	7,495	4,276	4,054	3,298
Employer contributions	9,392	123	1,134	1,008
Plan participants' contributions	1,901	1,803	-	-
Benefits paid	8,298	9,228	1,134	1,008

The most recent actuarial valuation of the registered pension plan for funding purposes was at January 1, 2002, and the date of the next required valuation is January 1, 2005.

Summary of principal assumptions used to calculate benefit costs

	2004 Pension benefits	2003 Pension benefits	2004 Other benefits	2003 Other benefits
Discount rate at the beginning of the period	6.1%	6.6%	6.1%	6.6%
Expected return on plan assets	7.25%	7.25%	-	-
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%
Rate of indexing of pension benefits	2.5%	2.5%	-	-

8. SEGMENTED INFORMATION

IESO consists of a single business engaged in the operation of the wholesale electricity system in Ontario.

9. COMMITMENTS

Operating commitments

The obligations of the IESO with respect to non-cancellable operating leases over the next five years is as follows:

(in thousands of Canadian dollars)	$
2005	2,049
2006	1,598
2007	1,242
2008	1,060
2009	610

10. SUBSEQUENT EVENT

As a matter of energy policy, the Ontario Government created the Ontario Power Authority, under Bill 100, to engage in a range of activities as outlined in the Bill. The legislature approved this policy by passing Bill 100. Recent amendments to the Electricity Act state that the IESO may be called upon to assist or support the OPA.

Further to the above, as a result of recent discussions between the Ministry of Energy and the IESO, the two-named parties entered into a Memorandum of Understanding (MOU) on January 4, 2005, under which the amount of $15.0 million of the IESO's accumulated surplus will be made available to assist the OPA in undertaking its statutory responsibilities. Under the terms of the MOU, the OPA will be able to use these funds to support its start-up costs. In addition to the aforementioned financial support, the MOU also requires the IESO to work with OPA management to determine those services and other assistance that OPA management agrees can best be provided by the IESO with a view to achieving the efficient implementation and delivery of the OPA's statutory obligations without compromising the IESO's capability to meet its own accountabilities under statute. There has been, at this time, no determination of those services and other assistance that the IESO would provide to the OPA.

LEGAL AID ONTARIO
AIDE JURIDIQUE ONTARIO

375 University Avenue, Suite 404, Toronto ON M5G 2G1
375, avenue University, bureau 404, Toronto ON M5G 2G1

Toll free / Sans frais : 1-800-668-8258
Phone / Téléphone : 416-979-2352
Fax / Télécopieur : 416-979-2948
www.legalaid.on.ca

Management's Responsibility for Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in the financial statements. Management prepared the financial statements in accordance with Canadian generally accepted accounting principles, except for the revenue recognition policy. Where appropriate, the financial statements include amounts based on management's best estimates and judgements.

Legal Aid Ontario is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances of the reliability of financial information and that the assets were safeguarded.

The Board of Directors of Legal Aid Ontario ensures that management fulfils its responsibilities for financial information and internal control through an Audit and Finance Committee of the Board. The Board meets bimonthly to oversee the financial activities of Legal Aid Ontario. On an annual basis, the Board reviews the financial statements and the auditor's report thereon, and submits them to the Ministry of the Attorney General.

The financial statements have been examined by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles, except for the revenue recognition policy. The Auditor's Report outlines the scope of the Auditor General's examination and opinion.

Angela Longo
President & CEO
June 30, 2005

Michelle A. Séguin
Vice President, Corporate Services
June 30, 2005

Office of the Auditor General of Ontario

Bureau du vérificateur provincial de l'Ontario

AUDI ALTERAM PARTEM

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416)327-2381 Fax: (416) 327-9862

Auditor's Report

To Legal Aid Ontario
and to the Attorney General of Ontario

I have audited the balance sheet of Legal Aid Ontario as at March 31, 2005 and the statements of operations and accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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.

The preamble to the notes to the financial statements describes the Organization's revenue recognition policy. The note indicates that the Organization records an accrual for revenue from client contributions, judgments, costs and settlements equal to the cash from this source received during the preceding year. Canadian generally accepted accounting principles require that revenue from client contributions, judgments, costs and settlements should be recorded as services are provided, if fair value can be reasonably estimated. This departure from Canadian generally accepted accounting principles has not been quantified by management. If revenue had been recorded as services are provided, adjustments may have been necessary to revenue, excess (deficiency) of revenue over expenses, accounts receivable and net assets.

In my opinion, except for the effect of the failure to record revenue (other than cash) from client contributions, judgments, costs and settlements as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 10, 2005

J.R. McCarter, CA
Auditor General

Legal Aid Ontario
Balance Sheet

March 31		2005 ($000's)		2004 ($000's)
ASSETS				
Current				
Cash and cash equivalents (Note 2)	$	**2,108**	$	203
Cash and cash equivalents - contingency reserve (Note 9)		**1,136**		490
Accounts receivable (net of allowance for doubtful accounts) (Note 3)		**18,463**		28,394
Prepaid expenses		**1,042**		956
Short term investments (Note 4)		**9,520**		2,607
Short term investments - contingency reserve (Notes 4 and 9)		**1,679**		1,950
	$	**33,948**	$	34,600
Long term investments (Note 4)		**35,598**		36,800
Long term investments contingency reserve (Notes 4 and 9)		**6,383**		16,857
Capital assets (Note 5)		**17,444**		14,889
	$	**93,373**	$	103,146
LIABILITIES AND NET ASSETS				
Current				
Accounts payable and accrued liabilities (Note 6)	$	**60,618**	$	55,156
Accrued pension benefit (Note 12)		**360**		241
Deferred contributions (Note 7)		**3,289**		5,188
	$	**64,267**	$	60,585
Net Assets				
Accumulated surplus (Note 1(c))	$	**7,211**	$	14,402
Invested in capital assets (Note 8)		**14,155**		9,761
Contingency reserve (Notes 4 and 9)		**7,740**		18,398
	$	**29,106**	$	42,561
	$	**93,373**	$	103,146

On behalf of the Board:

Janet Leiper Chair

On behalf of the Audit and Finance Committee:

Chair

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Legal Aid Ontario
Statement of Operations and Accumulated Surplus

For the year ended March 31		2005 ($000's)		2004 ($000's)
REVENUE				
Province of Ontario (Note 1(a))	$	**254,757**	$	256,048
The Law Foundation of Ontario		**18,627**		24,205
Client contributions		**11,411**		13,090
Judgments, costs and settlements		**1,515**		1,701
Investment and other income		**2,975**		4,582
	$	**289,285**	$	299,626
EXPENSES				
Core Business				
Certificate Program				
Criminal	$	**83,592**	$	84,777
Family		**43,086**		42,410
Immigration and refugee		**20,102**		17,804
Other civil		**5,105**		5,426
Settlement conferences		**142**		178
		152,027		150,595
Area office services		**22,813**		23,176
Family law offices		**2,176**		2,016
Refugee law office		**725**		749
		177,741		176,536
Duty Counsel Program				
Duty counsel fees and disbursements		**32,730**		33,135
Expanded duty counsel		**584**		595
		33,314		33,730
Clinic Program and special services				
Clinic law services (Note 10)		**55,014**		54,038
Nishnawbe-Aski allocation		**1,561**		1,544
Student legal aid societies		**2,808**		2,755
		59,383		58,337
Service Innovation Projects				
Pilot projects		**71**		158
Client Access Services		**1,288**		343
Other		**1,162**		871
		2,521		1,372

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Legal Aid Ontario
Statement of Operations and Accumulated Surplus (Continued)

For the year ended March 31	2005 ($000's)	2004 ($000's)
EXPENSES (continued)		
Service Provider Support		
Research facility	**2,023**	2,020
Administrative		
Provincial office	**23,112**	21,285
Enterprise-wide software implementation and other projects	**1,051**	3,518
Amortization expense	**3,595**	2,671
	27,758	27,474
	$ 302,740	$ 299,469
Excess (deficiency) of revenue over expenses for the year	**(13,455)**	157
Accumulated surplus, beginning of year	**14,402**	10,755
Invested in capital assets	**(4,394)**	(5,605)
Transferred from contingency reserve (Note 9)	**10,658**	9,095
Accumulated surplus, end of year	**$ 7,211**	$ 14,402

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Legal Aid Ontario
Statement of Cash Flows

For the year ended March 31		2005 ($000's)		2004 ($000's)
Cash provided by (used in)				
OPERATING ACTIVITIES				
Excess (deficiency) of revenue over expenses for the year	$	**(13,455)**	$	157
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:				
Amortization		**3,595**		2,671
Amortization of bond premium		**426**		256
Amortization of deferred contributions		**(1,839)**		(2,083)
Realization of deferred contributions		**(60)**		(3,518)
Writedown of short term investments		**21**		6
Loss (Gain) on sale of investments		**336**		(1,161)
Write-off of capital assets		**-**		2
Changes in non-cash working capital balances				
Accounts receivable		**9,931**		(8,178)
Prepaid expenses		**(86)**		205
Accounts payable and accrued liabilities		**5,462**		(3,374)
Pension expense		**1,392**		1,515
Accrued interest on long term investments		**11**		97
Contributions received during the year		**-**		6,000
	$	**5,734**	$	(7,405)
INVESTING ACTIVITIES				
Purchase of capital assets	$	**(6,150)**	$	(8,617)
Purchase of investments		**(142,166)**		(79,800)
Redemption of investments		**146,406**		91,140
Employer contributions		**(1,273)**		(1,381)
	$	**(3,183)**	$	1,342
Net increase (decrease) in cash and cash equivalents during the year		**2,551**		(6,063)
Cash and cash equivalents, beginning of year		**693**		6,756
Cash and cash equivalents, end of year	$	**3,244**	$	693
Represented by				
Cash and cash equivalents	$	**2,108**	$	440
Bank indebtedness		**-**		(237)
Cash and cash equivalents – contingency reserve		**1,136**		490
	$	**3,244**	$	693

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Legal Aid Ontario
Summary of Significant Accounting Policies

March 31, 2005

NATURE OF OPERATIONS
On December 18, 1998, the Ontario Legislative Assembly enacted the **Legal Aid Services Act**, 1998 whereby Legal Aid Ontario (the "Corporation") was incorporated without share capital under the laws of Ontario. The Corporation began operations on April 1, 1999 and is tax exempt under the **Income Tax Act.**

The **Legal Aid Services Act**, 1998 establishes the following mandate for the Corporation:

- To promote access to justice throughout Ontario for low-income individuals by providing high quality legal aid services
- To encourage and facilitate flexibility and innovation in the provision of legal aid services
- To recognize the diverse legal needs of low-income individuals and disadvantaged communities
- To operate within a framework of accountability for the expenditure of public funds

The affairs of the Corporation are governed and managed by a Board of eleven Directors appointed by the Lieutenant Governor in Council. While the Corporation operates independently from the Province of Ontario and the Law Society of Upper Canada, it is accountable for the expenditure of public funds and for the provision of legal aid services in a manner that both meets the needs of low-income individuals and is cost-effective and efficient.

BASIS OF ACCOUNTING
The Corporation follows the deferral method of accounting for contributions.

Accumulated surplus represents the excess of revenue over expenses related to the Corporation's program delivery and administrative activities.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles except for the revenue recognition policy relating to client contributions, judgments, costs and settlements where revenue is recognized when cash is received.

REVENUE RECOGNITION
Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue if the amount to be received can be reasonably estimated and collection is reasonably assured. Due to uncertainty in collections, client contributions, judgments, costs and settlements recognized are equal to cash received during the preceding year.

EXPENSE RECOGNITION
Expenses are recognized on an accrual basis. Certificate program costs include amounts billed to the Corporation by lawyers and an estimate of amounts for work performed by lawyers but not yet billed to the Corporation.

CASH AND CASH EQUIVALENTS
Cash and cash equivalents consist of cash on hand and balances with banks plus highly liquid investments with original maturities of three months or less.

Legal Aid Ontario
Summary of Significant Accounting Policies

March 31, 2005

INVESTMENTS
Short term investments are stated at the lower of cost or market value. Long term investments are stated at cost and are written down when there is a permanent impairment in value. Purchase premiums or discounts on bonds are amortized on a straight-line basis over the life of the particular securities. Government and corporate bonds are carried at amortized cost. Any writedowns or gains and losses on the disposal of investments are recorded in the year they occur as either an increase or decrease in investment income. Gains and losses on disposal are calculated based on the average cost of the securities sold.

CAPITAL ASSETS
Capital assets are recorded at cost less accumulated amortization. Amortization is provided on the straight-line basis over the estimated useful life of the asset as follows:

Furniture and office equipment	- 5 years
Computer hardware and software	- 3 years
Custom-designed software	- 5 years
Enterprise-wide software	- 7 years
Leasehold improvements	- over the term of lease

DEFERRED CONTRIBUTIONS
Deferred special initiatives contributions represent unspent resources relating to the Province of Ontario funded projects. Unspent amounts are held for expenditures in subsequent periods or settlement by the Province.

Deferred capital contributions related to capital assets represents the unamortized portion of contributions used for the acquisition of capital assets. Amortization of the deferred contribution is provided on the same basis as the related asset.

PENSIONS
Substantially all of the Corporation's employees are enrolled in a defined contribution plan. The cost of pension benefits for defined contribution plans are charged to operations as contributions become due. The Corporation also has a small number of employees enrolled in a defined benefit plan. The costs of pension benefits earned by the employees covered by the defined benefit plan is actually determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, terminations and retirement ages of plan members. Adjustments for plan amendments, changes in assumptions and actuarial gains and losses are charged to operations over the expected average remaining service life of the employee group which is approximately 11 years.

USE OF ESTIMATES
The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

FINANCIAL INSTRUMENTS
Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest rate, currency or credit risks arising from its financial instruments. In management's opinion, the carrying amount of the Corporation's financial instruments approximate fair value unless otherwise noted.

Legal Aid Ontario
Notes to Financial Statements

March 31, 2005

1. Funding by the Province of Ontario

Section 71 of the **Legal Aid Services Act**, 1998 requires the Corporation and the Attorney General of Ontario to enter into a Memorandum of Understanding ("MOU") every five years. The purpose of the MOU is to clarify the operational, administrative, financial, and other relationships between the Attorney General and the Corporation.

The Memorandum of Understanding which was signed on December 22, 2000 remains in effect until a new MOU is signed. The Corporation and the Attorney General of Ontario are currently in discussion over the next MOU.

(a) Contributions received from the Province of Ontario were allocated as follows:

	2005 ($000's)	2005 ($000's)
Contributions	**$ 252,858**	$ 250,447
Realization of deferred contributions (Note 7)	**60**	3,518
Amortization of deferred contributions (Note 7)	**1,839**	2,083
	$ 254,757	$ 256,048

(b) Included in contributions from the Province of Ontario for the year ended March 31, 2005 is an amount of $50.6 million (2004 - $50.6 million) representing an allocation of funds from a lump sum transfer by the Federal Government to the Province in connection with criminal law, the Youth Criminal Justice Act, and other expenditures for unique pressures through a cost-sharing arrangement.

(c) Subsection 66(3) of the **Legal Aid Services Act**, 1998 allows the Corporation to designate any surplus or deficit in a fiscal year to either or both of the two subsequent fiscal years with the approval of the Attorney General, unless under Subsection 69(2) it is ordered by the Minister of Finance to pay its surplus into the Consolidated Revenue Fund.

2. Cash and cash equivalents

Cash and cash equivalents include Government of Canada treasury bills of $1.187 million (2004 -$0.386 million) which mature in fiscal 2006 and bear interest of 2.01% to 2.42% (2004 - 2.06% to 2.18%).

The Corporation has an available line of credit in the amount of $5 million which remained unused as of March 31, 2005. The credit facility bears interest at prime rate and is unsecured.

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2005

3. Accounts Receivable

	2005 ($000's)	2004 ($000's)
Client accounts receivable	$ 12,997	$ 13,400
Due from Law Foundation	1,876	1,330
Other receivables	3,590	13,664
	$ 18,463	$ 28,394

The Corporation has a client contribution program for legal aid applicants who do not meet the corporation's financial eligibility requirements for a non-contributory certificate. These applicants receive the assistance they need by entering into a contribution agreement, by which they undertake to repay the Corporation over time for the services provided to them. Contribution agreements may include monthly payments and/or liens on property. The balance of client accounts receivable is based on the actual cash received during the fiscal year.

4. Investments

	2005 ($000's)		2004 ($000's)	
	Cost	**Market**	Cost	Market
Canada bonds Interest rates from 3.25% to 7.25%, maturing from September 2005 to January 2011	$ 16,602	$ 16,826	$ 13,802	$ 14,084
Provincial bonds Interest rates from 4.75% to 7.75%, maturing from June 2005 to December 2011	23,799	24,245	26,721	27,630
Corporate bonds Interest rates from 4.1% to 7.0%, maturing from June 2005 to January 2010	12,056	12,282	16,957	17,494
Accrued bond interest	723	723	734	734
	$ 53,180	$ 54,076	$ 58,214	$ 59,942
Less: Contingency reserve				
- short term (Note 9)	$ (1,679)	$ (1,693)	$ (1,950)	$ (1,982)
- long term (Note 9)	(6,383)	(6,523)	(16,857)	(17,524)
	$ (8,062)	$ (8,216)	$ (18,807)	$ (19,506)
	$ 45,118	$ 45,860	$ 39,407	$ 40,436
Represented by				
Short term investments	$ 9,520	$ 9,602	$ 2,607	$ 2,645
Long term investments	35,598	36,258	36,800	37,791
	$ 45,118	$ 45,860	$ 39,407	$ 40,436

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2005

4. Investments (Continued)

The Corporation has developed an investment policy in accordance with the statutory requirements outlined in Sections 7(1), 7(2), 7(3) and 7(4) of Ontario Regulation 107/99 made under the **Legal Aid Services Act**, 1998. The investments held by the Corporation as at March 31, 2005 are in compliance with the statutory requirements. The Corporation earned total investment income of $3.1 million in 2005 (2004 - $4.5 million).

5. Capital Assets

	2005 ($000's)		2004 ($000's)	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Furniture and office equipment	**$ 3,112**	**$ 2,442**	$ 3,090	$ 2,156
Computer hardware and software	**16,522**	**15,144**	15,788	13,952
Custom-designed software	**817**	**817**	817	817
Enterprise-wide software	**15,628**	**1,515**	10,623	-
Leasehold improvements	**4,931**	**3,648**	4,597	3,101
	$ 41,010	**$ 23,566**	$ 34,915	$ 20,026
Net book value		**$ 17,444**		$ 14,889

6. Accounts Payable and Accrued Liabilities

	2005 ($000's)	2004 ($000's)
Legal accounts - billings received but not paid	**$ 21,488**	$ 21,288
- work performed but not yet billed	**32,382**	25,934
Rent inducements	**77**	100
Trade and other payables	**5,979**	7,101
Vacation pay	**692**	733
	$ 60,618	$ 55,156

At year end, management estimates the liability for work conducted by private lawyers that has not yet been billed by these lawyers to the Corporation to be approximately $32.4 million (2004 - $25.9 million). This estimate uses a methodology that incorporates average costs and time frames for similar cases over a period of 7 years.

Due to the uncertainty involved in the estimation process, there will likely be a difference between the estimated and actual liability for legal accounts. In the opinion of management, the actual liability will fall within a range of plus 20% to minus 20% ($25.9 million to $38.9 million). Any adjustment of the estimated liability would result in a corresponding increase or decrease in expenses for the "certificate program," the "excess (deficiency) of revenue over expenses for the year", and the "accumulated surplus".

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2005

7. Deferred Contributions

Changes in deferred special initiatives and capital contributions relating to Province of Ontario funded projects are as follows:

		2005 ($000's)		2004 ($000's)
Deferred special initiatives contributions				
Balance, beginning of year	$	60	$	-
Contributions received during the year		-		6,000
Transferred upon acquisition of capital assets		-		(2,422)
Realization of deferred contributions (Note 1(a))		(60)		(3,518)
	$	-	$	60
Deferred capital contributions				
Balance, beginning of year	$	5,128	$	4,789
Contributions for capital assets		-		2,422
Amortization of deferred contributions (Note 1(a))		(1,839)		(2,083)
	$	3,289	$	5,128
	$	3,289	$	5,188

8. Changes in Net Assets Invested in Capital Assets

		2005 ($000's)		2004 ($000's)
Balance, beginning of year	$	9,761	$	4,156
Amortization		(3,595)		(2,671)
Amortization of deferred contributions		1,839		2,083
Purchase of capital assets		6,150		8,617
Contributions for capital assets		-		(2,422)
Disposal of capital assets		-		(2)
	$	14,155	$	9,761
Represented by				
Capital assets (Note 5)	$	17,444	$	14,889
Deferred capital contributions (Note 7)		(3,289)		(5,128)
	$	14,155	$	9,761

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2005

9. Contingency Reserve

Section 66(4) of the **Legal Aid Services Act**, 1998, requires the Corporation to maintain a contingency reserve fund as prescribed. Section 6 of Ontario Regulation 107/99, made under the Legal Aid Services Act, required the Corporation to pay into the account, which was to be established for the purpose of holding the reserve fund, the capital amount of $20 million. The Corporation met these requirements in 2000/2001. The Regulation also requires the Corporation to obtain advance approval from the Attorney General for any withdrawal beyond $5 million of this capital amount and for the Corporation to provide an explanation of why the withdrawal is needed, a schedule for repayment, and a statement of the Corporation's plans for preventing a similar need from arising in future.

On June 19, 2003 the Province directed the Corporation to use the contingency reserve to fund the cost of the tariff increase which came into effect on August 1, 2002. The amount withdrawn from the contingency reserve to the cost of the August 2002 tariff increase incurred in 2004/2005 was $10.658 million (2004 - $9.095 million).

Due to financial constraints, the Corporation currently has no plans to replenish the contingency reserve resulting from withdrawals to pay for the cost of the August 2002 tariff increase.

	2005 ($000's)	2004 ($000's)
Balance, beginning of year	$ **18,398**	$ 27,493
Transfer from contingency reserve to accumulated surplus	**(10,658)**	(9,095)
Balance, end of year	**$ 7,740**	$ 18,398

Represented by

	2005 ($000's)	2004 ($000's)
Cash and cash equivalents	**$ 1,138**	$ 490
Due from (due to) accumulated surlus	**(1,458)**	(899)
Investments - short term (Note 4)	**1,679**	1,950
Investments - long term (Note 4)	**6,383**	16,857
	$ 7,740	$ 18,398

Cash and cash equivalents - contingency reserve includes treasury bills of $1.136 million (2004 - $0.490 million) as at March 31, 2005, which will mature between April and May 2006 and bear interest of 2.01% to 2.42% (2004 - 1.99% to 2.13%).

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2005

10. Clinic Law Services

The Corporation provides funding to community clinics enabling them to provide legal aid services to the community they serve on a basis other than fee for service. The community clinics are organizations structured as corporations without share capital and are governed and managed by a board of directors. Community Clinics are independent from, but accountable to, the Corporation under Sections 33 to 39 of the **Legal Aid Services Act**, 1998. Each community clinic is independently audited and are required to provide audited financial statements to the Corporation for the funding period.

The total grant to community clinics consist of:

	2005 ($000's)	2004 ($000's)
Payments to and on behalf of clinics	**$ 53,349**	$ 52,311
Administrative costs	**1,665**	1,727
	$ 55,014	$ 54,038

11. Commitments and Contingencies

(a) The Corporation issues certificates to individuals seeking legal aid assistance. Each certificate issued authorizes legal services to be performed within the tariff guidelines. At March 31, 2005 management estimates that a potential $56 million could still be incurred on certificates issued on or before March 31, 2005 over and above the billings received to date and management's estimate of work performed but not yet billed.

(b) The Corporation leases various office premises and equipment throughout the Province. The base rent and estimated operating costs based on prior period information under these leases for the next five years are approximately as follows:

	Base Rent ($000's)	Operating Cost ($000's)	Total ($000's)
2006	$ 3,806	$ 2,924	$ 6,730
2007	3,418	2,703	6,121
2008	3,183	2,559	5,742
2009	1,745	1,210	2,955
2010	743	409	1,152
Thereafter	801	525	1,326
	$ 13,696	$ 10,330	$ 24,026

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2005

11. Commitments and Contingencies (continued)

(c) The Corporation is the defendant in a number of lawsuits arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not likely to be significant and are not determinable at this time. Losses, if any, will be accounted for in the period of settlement.

Some of the above lawsuits are covered by insurance after the application of a deductible of up to $0.05 million, depending on when the event of the claim occurred and the nature of the claim.

12. Pensions

The Corporation has a pension plan to provide retirement benefits for its employees. The plan has two components: a defined contribution component and a defined benefit component.

Defined Contribution Component

The defined contribution component of the plan covers 566 (2004 - 566) employees which is the majority of employees. The Corporation makes pension contributions to the defined contribution component of the plan which is limited to making regular payments to match the amount contributed by the employees for current service. The Corporation's pension expense for the year relating to this component of the plan was $1.274 million (2004 - $1.381 million).

Defined Benefit Component

The defined benefit component of the plan covers 15 (2004 - 16) participants. Under this benefit plan, benefits at retirement are related to years of service and remuneration during the years of employment. It is subject to actuarial valuations for funding purposes at intervals of not more than three years. The next actuarial valuation will be performed in fiscal 2006 on the value at January of 2005. The Corporation makes pension contributions to this component of the plan in amounts recommended by the actuary.

The Corporation made no pension contribution to this component of the plan in the current year due to actuarial surplus financial position of the defined benefit plan.

For the year ended March 31, 2005, an actuarial valuation for accounting purposes was performed using the following assumptions:

Discount rate	6.5%
Salary increases	4.5%
Expected rate of return on assets	6.0%

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2005

12. Pensions (continued)

The actuarial valuation for accounting purposes for the year ending March 31, 2005 indicated an actuarial surplus of $0.023 million (2004 - $0.184 million), resulting from accrued benefit obligation of approximately $2.311 million (2004 - $2.046 million) and fair value of plan assets available to provide for these benefits of approximately $2.334 million (2004 - $2.230 million). The pension expense for the year was $0.030 million (2004 - $0.048 million pension income) and the pension accrued benefit liability (asset) as at March 31, 2005 was $0.024 million (2004 - ($0.006) million). During the year, employees contributed $0.037 million (2004 - $0.035 million) and the Corporation paid benefits of $0.046 million (2004 - $0.008 million).

The Board of the Corporation approved the establishment of a supplementary pension benefit for designated executive members. Under the supplementary benefit plan, benefits at retirement are related to years of service and remuneration during the years of employment. The Plan is unfunded and the benefits will be paid by the Corporation as they become due. The accounting valuation for the unfunded retirement plan has been performed as at March 31, 2005.

For the year ended March 31, 2005, an actuarial valuation for accounting purposes was performed using the following assumptions:

Discount rate	4.75%
Salary increases	3.0%

The actuarial valuation for accounting purposes for the year ending March 31, 2005 indicated the Corporation's pension expense on this benefit for the year was $0.088 million (2004 - $0.085 million); the pension accrued benefit obligation as at March 31, 2005 was $0.568 million (2004 - $0.516 million); and the accrued benefit liability as at March 31, 2005 was $0.335 million (2004 - $0.247 million). During the year, the employee and the Corporation made no payments to the plan (2004 - $ nil).

13. Comparative Figures

Certain comparative figures have been reclassified to conform with current year presentation.

KPMG LLP
Chartered Accountants
Suite 3300 Commerce Court West
PO Box 31 Stn Commerce Court
Toronto ON M5L 1B2
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

AUDITORS' REPORT

To the Board of Directors of the Metropolitan Toronto Convention Centre Corporation and the Minister of Tourism and Recreation

We have audited the balance sheet of the Metropolitan Toronto Convention Centre Corporation as at March 31, 2005 and the statements of operations, deficiency and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada

June 21, 2005

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Balance Sheet
March 31, 2005, with comparative figures for 2004

	2005	2004
Assets		
Current assets:		
Cash	$ 2,342,069	$ 2,255,896
Cash committed for capital projects	564,000	269,757
Customer deposits	6,797,773	5,187,510
Accounts receivable	2,109,947	2,100,183
Inventories	318,133	333,949
Prepaid expenses	555,639	431,707
	12,687,561	10,579,002
Capital assets (note 2)	129,227,009	131,166,909
Employee future benefits (note 5)	1,140,600	546,600
	$ 143,055,170	$ 142,292,511
Liabilities and Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,413,390	$ 5,164,664
Deferred revenue	6,797,773	5,187,510
	11,211,163	10,352,174
Deficiency	(11,006,698)	(10,910,368)
Contributed surplus (note 3)	142,850,705	142,850,705
Commitments (note 4)		
Subsequent event (note 3)		
	$ 143,055,170	$ 142,292,511

See accompanying notes to financial statements.

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Statement of Operations

Year ended March 31, 2005, with comparative figures for 2004

	2005	2004
Revenue:		
Food and beverage	$ 19,339,201	$ 15,300,437
Facility rentals	11,471,067	9,875,249
Parking	5,439,900	5,590,053
Other	6,935,216	6,038,068
	$ 43,185,384	$ 36,803,807
Gross operating profit	$ 25,078,049	$ 20,481,057
Operating expenses	17,146,751	15,210,934
Net operating income	7,931,298	5,270,123
Amortization, net of reallocation to operating expenses for parking garage of $117,204 (2004 - $99,696)	4,503,028	4,739,558
Net gain on employee future benefit (note 5)	725,400	–
Net income	$ 4,153,670	$ 530,565

Statement of Deficiency

Year ended March 31, 2005, with comparative figures for 2004

	2005	2004
Deficiency, beginning of year	$ (10,910,368)	$ (7,940,933)
Net income	4,153,670	530,565
Distribution payment to Ontario Financing Authority	(4,250,000)	(3,500,000)
Deficiency, end of year	$ (11,006,698)	$ (10,910,368)

See accompanying notes to financial statements.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Statement of Cash Flows

Year ended March 31, 2005, with comparative figures for 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Net income	$ 4,153,670	$ 530,565
Amortization which does not involve cash	4,620,232	4,839,254
	8,773,902	5,369,819
Change in non-cash operating working capital:		
Accounts receivable	(9,764)	507,610
Inventories	15,816	48,992
Prepaid expenses	(123,932)	(152,358)
Employee future benefits	(594,000)	333,800
Accounts payable and accrued liabilities	(751,274)	(346,999)
	7,310,748	5,760,864
Financing:		
Distribution payment to Ontario Financing Authority	(4,250,000)	(3,500,000)
Repayment of contributed surplus	–	(2,501,083)
	(4,250,000)	(6,001,083)
Investments:		
Recovery of asset costs	–	2,501,083
Additions to capital assets	(2,680,332)	(1,830,332)
	(2,680,332)	670,751
Increase in cash	380,416	430,532
Cash, beginning of year	2,525,653	2,095,121
Cash, end of year	$ 2,906,069	$ 2,525,653

See accompanying notes to financial statements.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements

Year ended March 31, 2005

The Metropolitan Toronto Convention Centre Corporation (the "Corporation") is a government business enterprise of the Ministry of Tourism and Recreation of the Province of Ontario and incorporated as a corporation without share capital under Bill 141, the Metropolitan Toronto Convention Centre Corporation Act, 1988. The Corporation is also a Crown agency under the same act and is exempt from income taxes.

The Corporation operates a convention facility for conventions, trade shows, consumer shows, corporate and food and beverage events and parking facilities.

1. Significant accounting policies:

(a) Revenue recognition:

Revenue from facility rentals, food and beverage sales, and the use of the Corporation's parking facilities is recognized when services are provided. Cancellation fees are recognized when an event is cancelled.

(b) Inventories:

Inventories are recorded at the lower of cost and net realizable value.

(c) Capital assets:

Capital assets which are financed by government grants are shown net of applicable grants.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimate undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

1. Significant accounting policies (continued):

Amortization is charged on a straight-line basis over the following estimated useful lives of the assets:

Building	50 years
Furniture, fixtures and computer equipment	3 - 10 years
Leasehold improvements	5 - 20 years

(d) Deferred revenue:

Deferred revenue represents customer deposits received for future use of the Corporation's facilities. Deposits are applied against the customer's billing.

(e) Financial instruments:

The carrying values of cash, cash committed for capital projects, customer deposits, accounts receivable and accounts payable and accrued liabilities approximate fair values due to their short-term nature.

(f) Use of estimates:

The preparation of the financial statements requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets; valuation allowances for receivables; and assets and obligations related to employee future benefits. Actual results could differ from those estimates.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

2. Capital assets:

			2005	2004
	Cost	Accumulated amortization	Net book value	Net book value
Building	$ 217,255,750	$ 31,814,779	$ 185,440,971	$ 189,727,146
Furniture, fixtures and computer equipment	16,090,963	12,339,322	3,751,641	3,538,497
Leasehold improvements	28,552,680	28,265,198	287,482	803,734
	261,899,393	72,419,299	189,480,094	194,069,377
Less government grants	85,914,604	25,661,519	60,253,085	62,902,468
	$ 175,984,789	$ 46,757,780	$ 129,227,009	$ 131,166,909

3. Contributed surplus:

	2005	2004
Opening contributed surplus	$ 142,850,705	$ 145,351,788
Payment of settlement proceeds	–	(2,501,083)
Closing contributed surplus	$ 142,850,705	$ 142,850,705

Pursuant to an Order in Council, Ontario Financing Authority ("OFA") released the Corporation, as of March 30, 2003, from all its obligations under the temporary expansion financing facility.

Additionally during 2003, the Corporation resolved a dispute regarding the construction of the South Facility, resulting in a $9,500,000 settlement, plus interest, payable to the Corporation. Of this amount, $7,446,127 was received in the year ended March 31, 2003. The remaining amount of $2,501,083, including interest, was received in the year ended March 31, 2004. The Corporation recorded the amounts received as reductions in capital assets.

In accordance with the Order in Council discussed above, the Corporation remitted all proceeds received as a result of the settlement to the Province of Ontario in the year that the amounts were received. The balance of the temporary financing facility as at March 31, 2003 was transferred to contributed surplus. Accordingly, the Corporation recorded the amount remitted in the year ended March 31, 2004 as a reduction in contributed surplus.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

3. Contributed surplus (continued):

The Corporation agreed to make a minimum distribution payment to the Province of Ontario annually in the amount of $2,500,000 less any amount of payments-in-lieu of property taxes which it makes within that year and annually any such further amounts agreed to in writing by the Corporation and the OFA. The Board of Directors approved a resolution to forward an additional distribution in the amount of $1,750,000 (2004 - $1,000,000) to the OFA for a total of $4,250,000 (2004 - $3,500,000). The Corporation has remitted this distribution as at March 31, 2005.

Subsequent to year-end, the Board of Directors approved a $400,000 distribution to the OFA. This amount was paid May 5, 2005 and will be reflected in next year's financial statements.

4. Commitments:

The Corporation is committed to minimum annual distributions to the OFA as discussed in note 3, as well as minimum annual lease payments (including various estimates for executory costs) under various operating leases for facility rental premises, parking premises, office premises, vehicles, computer equipment and equipment, as follows:

2006	$ 5,524,931
2007	5,559,635
2008	5,626,252
2009	5,708,323
2010	5,794,497
Thereafter	357,783,292
	$ 385,996,930

5. Employee future benefits:

The Corporation maintains defined benefit pension plans. Contributions are made by employees at specified rates and by the sponsor in such amounts and at such times as determined by the consulting actuaries. The plan provides pension benefits based on the length of service and final average earnings. In addition, certain retired employees also receive health and other post-retirement benefits paid for by the Corporation.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

5. Employee future benefits (continued):

The Corporation accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension and other retirement benefits. The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The measurement date of the plan assets and accrued benefit obligation coincides with the Corporation's fiscal year, except for the defined benefit plan whose measurement date is December 31. The most recent actuarial valuations of the benefit plans for funding purposes (and the next required valuations) will be as follows:

(i) Defined benefit registered pension plan - December 31, 2004 (December 31, 2007).

(ii) Other post-employment plans - March 31, 2004 (March 31, 2007).

(iii) Retirement compensation agreement - March 31, 2005 (March 31, 2006).

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

5. Employee future benefits (continued):

As shown in the following table, the Corporation has a deficit of $125,000 (2004 - $644,900) for its employee future benefit plans. The funding deficit is offset by unamortized net actuarial losses of $1,265,600 (2004 - $1,191,500) and results in an employee future benefit asset of $1,140,600 (2004 - $546,600) recorded in the financial statements. During the year, the Corporation undertook an exercise to formalize which employees were eligible for other post-employment benefits. This analysis resulted in a change in management's estimate and a reduction in the accrued benefit obligation. As a result, a gain of $854,300, which is the gross gain of $1,008,900 less the related unamortized year actuarial loss of $154,600, has been recognized during the year.

Effective January 1, 2005, the Corporation also established a defined contribution registered pension plan covering its eligible new hourly and salaried employees. The Corporation offered its current employees the option of keeping their membership as a defined benefit member or switching to become a defined contribution member. Of the 259 employees enrolled in the defined benefit registered pension plan, 63 accepted an offer by the Corporation to convert to the defined contribution registered pension plan. These conversions have resulted in the settlement of the accrued benefit obligation and related reduction in plan assets in the defined benefit registered pension plan. Additionally, the Corporation recognized the net unamortized actuarial loss of $128,900, which resulted in a net gain of $725,480, when considering the gain from the change in estimate above. These conversions are subject to regulatory approval by the Financial Services Commission of Ontario, though management does not anticipate any issues.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

5. Employee future benefits (continued):

Information about the Corporation's pension plan and employee benefit arrangements are detailed in the table below:

	2005		2004	
	Pension plan	Employee benefits	Pension plan	Employee benefits
Plan assets:				
Market value, beginning of year	$ 9,499,400	$ 655,100	$ 7,666,200	$ 649,500
Actual return (loss) on plan assets	834,000	(17,800)	1,280,100	22,400
Employer contributions	830,400	10,400	465,200	46,200
Employee contributions	302,700	–	298,400	–
Benefits paid	(200,600)	(67,000)	(210,500)	(63,000)
Settlements	(1,106,900)	–	–	–
Market value, end of year	$ 10,159,000	$ 580,700	$ 9,499,400	$ 655,100
Plan obligation:				
Accrued benefit obligation, beginning of year	$ 9,036,600	$ 1,762,800	$ 7,817,800	$ 1,652,700
Current service cost	1,092,700	42,700	871,300	63,600
Interest cost	651,900	53,500	558,000	109,500
Benefits paid	(200,600)	(67,000)	(210,500)	(63,000)
Settlements	(1,101,900)	–	–	–
Actuarial losses	489,500	38,400	–	–
Curtailment	–	(1,008,900)	–	–
Past service cost	–	75,000	–	–
Accrued benefit obligation, end of year	$ 9,968,200	$ 896,500	$ 9,036,600	$ 1,762,800
Plan surplus (deficit):				
Market value less accrued benefit obligation, end of year	$ 190,800	$ (315,800)	$ 462,800	$ (1,107,700)
Unamortized net actuarial loss	1,120,800	144,800	960,700	230,800
Accrued benefit asset (liability)	$ 1,311,600	$ (171,000)	$ 1,423,500	$ (876,900)
Benefit plan expense:				
Current service cost, net of employee contributions	$ 790,000	$ 42,700	$ 572,900	$ 63,600
Interest cost	651,900	53,500	558,000	109,500
Actual loss (return) on plan assets	(834,000)	17,800	(556,000)	(22,400)
Actuarial losses	489,500	69,900	–	–
Net amortization	(284,000)	(25,100)	105,300	9,800
Settlement/curtailment loss (gain)	128,900	(854,300)	–	–
Net defined benefit plan expense (recovery)	942,300	(695,500)	680,200	160,500
Defined contribution plan cost	54,500	–	–	–
Net benefit plan expense (recovery)	$ 996,800	$ (695,500)	$ 680,200	$ 160,500

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

5. Employee future benefits (continued):

The net accrued pension benefit asset, net of valuation allowance is included in the Corporation's balance sheet.

The percentage of the fair value of plan assets by major category is as follows:

	2005	2004
Canadian equity securities	21.8%	25.7%
Global equity securities	29.4%	28.8%
Fixed income securities	48.8%	45.5%

The significant assumptions used in accounting for the plan are as follows (weighted average):

	Pension benefit plan		Other benefit plan	
	2005	2004	2005	2004
Accrued benefit obligation:				
Discount rate	6.25%	6.50%	6.25%	6.50%
Rate of compensation increase	4.00%	4.00%	–	–
Benefit costs for the years:				
Discount rate	6.50%	6.50%	6.50%	6.50%
Expected long-term rate of return on plan assets	7.00%	7.00%	3.50%	3.50%
Rate of compensation increase	4.00%	4.00%	–	–

Assumed health care cost trend rates at December 31:

	2005	2004
Initial health care cost trend rate	11.0%	6.0%
Cost trend rate declines to	5.0%	6.0%
Year that the rate reaches the rate it is assumed to remain at	2011	–

Northern Ontario Heritage Fund Corporation

Office of the Auditor General of Ontario

Auditor's Report

To the Northern Ontario Heritage Fund Corporation
and to the Minister of Northern Development and Mines

I have audited the balance sheet of the Northern Ontario Heritage Fund Corporation as at March 31, 2005 and the statements of revenue and expenses and net investment by the Province of Ontario and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 9, 2005

Gary R. Peall, CA
Deputy Auditor General

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Balance Sheet
As at March 31, 2005

	2005 ($000s)	2004 ($000s)
Assets		
Cash and cash equivalents (Note 3)	**200,048**	200,811
Accrued interest	**2,359**	2,146
Loans receivable (Note 4)	**29,207**	26,761
	231,614	229,718
Patten Post Diversification Fund under administration (Note 5)	**6,943**	10,960
	238,557	240,678
Liabilities		
Patten Post Diversification Fund under administration (Note 5)	**6,943**	10,960
Commitments (Note 8)		
Net investment by the Province of Ontario	**231,614**	229,718
	238,557	240,678

See accompanying notes to financial statements.

On behalf of the Board:

Chair

Director

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Revenue and Expenses and Net Investment by the Province of Ontario
For the Year Ended March 31, 2005

	2005 ($000s)	2004 ($000s)
Revenue		
Province of Ontario grant		
Operating	**60,000**	60,000
Administration (Note 7)	**836**	847
Interest on cash and cash equivalents	**5,480**	7,351
Interest on loans receivable	**1,070**	909
	67,386	69,107
Expenses		
Grants	**61,873**	79,386
Forgivable loans	**2,152**	3,931
Credit and investment losses, net of recoveries (Note 6)	**376**	(111)
Administration (Note 7)	**1,089**	1,214
	65,490	84,420
Excess of revenue over expenses (expenses over revenue)	**1,896**	(15,313)
Net investment by the Province of Ontario, beginning of year	**229,718**	245,031
Net investment by the Province of Ontario, end of year	**231,614**	229,718

See accompanying notes to financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Cash Flows
For the Year Ended March 31, 2005

	2005 ($000s)	2004 ($000s)
Lending, investing and financial assistance activities		
Loan disbursements	**(5,805)**	(1,497)
Loan repayments and recoveries	**2,418**	6,902
Grants and forgivable loans	**(62,394)**	(83,743)
Interest received on loans receivable	**23**	48
	(65,758)	(78,290)
Financing activities		
Cash contributions from the Province for:		
Lending and financial assistance activities	**60,000**	60,000
Administration	**836**	847
	60,836	60,847
Operating activities		
Interest received on cash and cash equivalents	**5,248**	10,534
Administration costs	**(1,089)**	(1,214)
	4,159	9,320
Decrease in cash and cash equivalents	**(763)**	(8,123)
Cash and cash equivalents, beginning of year	**200,811**	208,934
Cash and cash equivalents, end of year	**200,048**	200,811

See accompanying notes to financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements
March 31, 2005

1. NATURE OF THE BUSINESS

The Corporation was established, without share capital, on June 1, 1988 under the *Northern Ontario Heritage Fund Act.* The purpose of the Corporation is to fund infrastructure improvements and economic development opportunities in Northern Ontario by providing financial assistance by way of conditional contributions, forgivable performance loans, incentive term loans and loan guarantees. As an Ontario Crown agency, the Corporation is exempted from federal and provincial income taxes under the *Income Tax Act (Canada).*

In December 2004, the mandate of the Corporation was refocused as part of the Northern Prosperity Plan to increase the number of sustainable jobs and private sector employment opportunities available in Northern Ontario. The aim of the refocused mandate is to allow the Corporation to work with Northern Ontario entrepreneurs, companies and business organizations while continuing to support infrastructure and community development projects. To achieve these goals, the Corporation will deliver targeted programs under five new themes; growing jobs, youth, energy conservation opportunities, emerging technology, and community development.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies used to prepare these statements are summarized below.

(a) Basis of Accounting

The financial statements have been prepared using the accrual method of accounting.

(b) Transactions with the Province of Ontario

The Province of Ontario contributes funds to finance the lending and financial assistance activities and reimburses the Corporation for certain administration expenses. The Province's investment is reduced by the net cost of operations.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of funds on deposit in chartered banks and short-term investments on deposit with the Ontario Financing Authority. Investments are carried at cost.

(d) Loans Receivable

Loans receivable are stated at their estimated net realizable value. Interest-free loans are discounted at the average provincial borrowing rate to determine the present value of the loan. The difference between the face value of the loan and its present value is in substance, a grant, and is recognized as grants expense in the year when the loan is made. The amount of the loan discount is amortized to interest income over the term of the loan.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements
March 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Provision for Credit Losses

Credit losses arise on loans receivable issued by the Corporation. In addition to specific write-offs and write-downs, a provision for credit losses is maintained in an amount considered adequate to absorb anticipated credit-related losses. The provision for losses on loans consists of provisions on specific loans and a general provision, and is deducted from loans receivable.

The amounts written off and written down in the year, net of realized recoveries of amounts written off and written down in prior years, and changes in provisions, are charged to credit and investment losses, net of recoveries, in the Statement of Revenue and Expenses and Net Investment by the Province of Ontario.

(f) Revenue Recognition

Government grants are recognized when received. Interest income is recognized on the accrual basis.

(g) Forgivable Loans

Generally, loans are forgiven on condition that the borrower has met certain requirements after the loan is disbursed. The Corporation expenses forgivable loans when disbursed.

(h) Use of Estimates

Preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

3. CASH AND CASH EQUIVALENTS

The *Northern Ontario Heritage Fund Act* restricts investments to securities issued or guaranteed by the provinces, Canada, United States, United Kingdom, the International Bank for Reconstruction and Development and any Canadian Schedule I or II bank, and other investments as authorized by the Lieutenant Governor in Council. The Corporation, through an Investment Management Agreement with the Ontario Financing Authority, invests excess funds in securities as allowed by the Act.

Cash and cash equivalents consist of:

	2005 ($000s)	2004 ($000s)
Cash	**18,886**	31,355
Short-term investments	**181,162**	169,456
	200,048	200,811

Short-term investments consist of treasury bills (maturing within 365 days) which yielded 2.68% on average (2004 – 2.58%) and have a market value that approximates carrying value. All treasury bills are redeemable on demand.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements
March 31, 2005

4. LOANS RECEIVABLE

	2005 ($000s)	2004 ($000s)
Current	**6,031**	3,094
Long-term	**35,103**	34,648
Provision for credit losses	**(10,172)**	(9,791)
Loan discount	**(1,755)**	(1,190)
	29,207	26,761

A specific provision for credit losses of $8,551,914 has been provided on loans receivable of $12,551,904. The balance of the provision is a general provision.

Generally, loans bear fixed interest rates ranging from 0% to 9.25% and are fully repayable within 20 years from the date disbursed.

The changes in the loan discount balances are as follows:

	2005 ($000s)	2004 ($000s)
Balance, beginning of year	**1,190**	2,470
Add: Amount of loan discount (credited) charged to grants expense	**1,631**	(425)
Less: Amount amortized to interest on loans receivable revenue	**(1,066)**	(855)
Balance, end of year	**1,755**	1,190

5. PATTEN POST DIVERSIFICATION FUND UNDER ADMINISTRATION

The Corporation is responsible for the administration of a Fund whose proceeds were received from Ontario Power Generation Incorporated. The objective of the Fund is to benefit communities that suffered economic hardship as a result of uranium mine closures in the Elliot Lake area. The Corporation is responsible for processing applications for funding according to established funding criteria until the balance in the fund is disbursed.

The activity of the Fund was as follows:

	2005 ($000s)	2004 ($000s)
Investment income	**204**	402
Disbursements to communities	**(4,221)**	(4,444)
Net results for the year	**(4,017)**	(4,042)
Fund balance, beginning of year	**10,960**	15,002
Fund balance, end of year	**6,943**	10,960

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements
March 31, 2005

5. PATTEN POST DIVERSIFICATION FUND UNDER ADMINISTRATION (CONTINUED)

	2005 ($000s)	2004 ($000s)
The Fund balance is represented by:		
Cash (Cheques issued in excess of funds on deposit)	**788**	(2,813)
Treasury bills maturing in 90 days or less	**6,155**	13,761
Accrued interest	**-**	12
	6,943	10,960

6. CREDIT AND INVESTMENT LOSSES, NET OF RECOVERIES

Credit and investment losses, net of recoveries, shown in the Statement of Revenue and Expenses and Net Investment by the Province of Ontario are as follows:

	2005 ($000s)	2004 ($000s)
Recoveries	**(5)**	(17)
(Decrease) increase in provision for doubtful loans	**381**	(94)
Net expense	**376**	(111)

7. ADMINISTRATION

Certain costs of administration such as salaries and benefits of employees, their travel, other standard government supplies and accommodation costs are borne by the Province of Ontario through the Ministry of Northern Development and Mines. Details are as follows:

	2005 ($000s)	2004 ($000s)
Salaries and benefits	**743**	773
Transportation and communications	**185**	189
Services	**59**	98
Marketing	**82**	139
Supplies and equipment	**20**	15
	1,089	1,214
Less: expenses borne by the Province	**836**	847
Expenses borne by the Corporation	**253**	367

In addition, the Ontario Development Corporation engages and pays a private sector asset management company to manage some of the Corporation's loan portfolios. The management fee is not reflected in the financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements
March 31, 2005

7. ADMINISTRATION (CONTINUED)

The Corporation provides pension benefits for all its permanent staff through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund which are both multi-employer defined benefit pension plans established by the Province of Ontario. The costs of the pension plans, and other post-retirement non-pension benefits provided to eligible staff are paid by Management Board Secretariat and are not included in these financial statements.

8. COMMITMENTS

Funds committed but not disbursed as at March 31 are approximately $92,311,000 (2004: $138,047,000).

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash and cash equivalents and loans receivable. The fair value of the cash and cash equivalents approximate carrying amounts due to the short–term nature of these investments. The fair value of loans receivable approximates carrying value as there is a provision for credit losses and the loans are discounted to their present value.

TVOntario

TFO tvo ILC

Box 200, Station Q
Toronto ON Canada M4T 2T1
Tel: 416.484.2626
Fax: 416.484.2732

C.P. 200, succursale Q
Toronto ON Canada M4T 2T1
Téléphone : 416.484.2626
Télécopieur : 416.484.2732

tvontario.org

Office of the
Chair and Chief Executive Officer
Du bureau de la
Présidente-directrice générale
ibassett@tvontario.org

Management's Responsibility for Financial Statements

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 6, 2005.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. The Internal Audit Department of the Ontario Educational Communications Authority (OECA) independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The OECA Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Board has appointed an Audit Committee from among its own members. The audit committee meets periodically with management, Internal Audit, and the Office of the Auditor General of Ontario to discuss audit, internal control, accounting policy, and financial reporting matters. The financial statements were reviewed jointly by the Audit and Finance Committees before approval by the Board of Directors.

The Office of the Auditor General of Ontario conducts an annual audit in accordance with Section II of the Ontario Educational Communications Authority Act. The auditor's report outlines the scope of the auditor's examination and opinion.

Isabel Bassett

Isabel Bassett
Chair and Chief Executive Officer

It's all about learning!
Les médias éducatifs, c'est notre affaire !

Office of the
Auditor General
of Ontario

Bureau du
vérificateur général
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To The Ontario Educational Communications Authority
and the Minister of Training, Colleges and Universities

I have audited the statement of financial position of The Ontario Educational Communications Authority as at March 31, 2005 as well as the statement of operations and equity, the statement of changes in equity and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Authority'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 Authority as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 6, 2005

Gary R. Peall, CA
Deputy Auditor General

THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

Statement of Financial Position
as at March 31, 2005

Assets	2005 ($000s)	2004 ($000s)
Current Assets		
Cash and short-term investments (note 3)	12,637	8,436
Accounts receivable (note 4)	2,640	4,698
Prepaid expenses	1,074	758
Inventories	476	467
	16,827	**14,359**
Accrued pension asset (note 5)	**2,751**	**3,410**
Investments held for Capital Renewal (note 6)	**3,293**	**4,046**
Net Capital Assets (note 7)	**19,389**	**21,431**
Total Assets	**42,260**	**43,246**
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	7,532	7,599
Deferred revenue (note 8)	8,673	5,248
Lease obligations (note 9)	21	38
	16,226	12,885
Non-Current Liabilities		
Lease obligations (note 9)	52	0
Employee future benefits (note 5)	3,420	2,495
Deferred capital contributions (note 10)	16,214	18,170
	19,686	20,665
Equity		
Invested in capital assets	6,395	7,269
Restricted – Accrued pension asset (note 5)	2,751	3,410
Unrestricted	(2,798)	(983)
	6,348	9,696
Total Liabilities and Equity	**42,260**	**43,246**
Commitments and Contingencies (notes 14 and 17)		

See accompanying Notes to Financial Statements.

On behalf of the Board:

Isabel Bassett
Chair

Director

THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

Statement of Operations and Equity
for the year ended March 31, 2005

	2005 ($000s)	2004 ($000s)
Revenues		
Government operating grants (note 11)	53,476	55,026
Government and corporate project funding (note 12)	5,998	5,663
Other earned revenue (note 13)	13,733	14,306
Amortization of deferred capital contributions (note 10)	2,988	2,361
	76,195	77,356
Expenses		
TVO programming services	23,405	22,997
TFO programming services	15,537	14,633
Independent Learning Centre (note 16)	8,966	9,015
Technical and production support services	15,613	16,421
Management and general expenses	4,882	4,942
Cost of other earned revenue (note 13)	4,729	4,981
Amortization of capital assets	4,319	3,537
Employee future benefits	2,092	1,941
	79,543	78,467
Excess of expenses over revenues	(3,348)	(1,111)
Equity, beginning of year	9,696	10,807
Equity, end of year	6,348	9,696

See accompanying Notes to Financial Statements.

THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

Statement of Changes in Equity
for the year ended March 31, 2005

	2005 ($000s)				2004 ($000s)
	Invested in Capital Assets	Restricted Accrued Pension Asset	Unrestricted	Total	Total
Balance, beginning of year	7,269	3,410	(983)	9,696	10,807
Excess of expenses over revenues	(1,584)	(1,109)	(655)	(3,348)	(1,111)
Contribution to the defined benefit plan	-	450	(450)	-	-
Investment in Capital assets	710	-	(710)	-	-
Balance, end of year	6,395	2,751	(2,798)	6,348	9,696

THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

Statement of Cash Flows
for the year ended March 31, 2005

	2005 ($000s)	2004 ($000s)
OPERATING ACTIVITIES		
Excess of expenses over revenues	(3,348)	(1,111)
Add/(deduct) non-cash items:		
Amortization of capital assets	4,319	3,537
Amortization of deferred capital contributions	(2,706)	(2,361)
Pension expense	659	1,169
Post retirement benefits	925	725
Gain on disposal of capital assets	(29)	(4)
Net change in non-cash working capital:		
Accounts receivable	2,058	(1,349)
Inventories	(9)	(16)
Prepaid expenses	(316)	(237)
Deferred revenue	3,425	2,025
Accounts payable and accrued liabilities	(67)	(2,349)
Cash provided by operating activities	**4,911**	**29**
INVESTING AND FINANCING ACTIVITIES		
Capital asset additions	(2,361)	(4,043)
Current year's deferred capital contributions	1,503	955
Proceeds from disposal of capital assets	113	34
Lease obligations	35	(64)
Cash used in investing and financing activities	**(710)**	**(3,118)**
Net increase/(decrease) in cash position during the year	4,201	(3,089)
Cash and short-term investments, beginning of year	8,436	11,525
Cash and short-term investments, end of year	12,637	8,436

See accompanying Notes to Financial Statements.

THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

Notes to Financial Statements
March 31, 2005

1. AUTHORITY AND MANDATE

The Ontario Educational Communications Authority (the Authority) is a provincial Crown Corporation that was created in June 1970 by the Ontario Educational Communications Authority Act. In accordance with the Act, the Authority's main objective is to initiate, acquire, produce, distribute, exhibit or otherwise deal in programs and materials in the educational broadcasting and communications fields.

The Authority is a registered charitable organization which may issue income tax receipts for contributions. As a Crown Corporation of the Province of Ontario, the Authority is exempt from income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements of the Authority have been prepared by management in accordance with Canadian generally accepted accounting principles.

(b) Inventories

Program support materials are valued at the lower of cost or net realizable value where cost is determined on a weighted average basis. Stores and supplies are valued at cost, where cost is determined on a first in, first out basis and is net of an allowance for obsolescence. Video and audio tapes are valued at the lower of cost or net realizable value, where cost is determined on a first in, first out basis.

(c) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Capital assets are amortized on a straight line basis over the following terms beginning the year following acquisition:

Building	30 years
Transmitters	17 years
Transmitter Monitoring Equipment	7 years
In House Technical Equipment	7 years
Leasehold Improvements	5 years
Computer Equipment	5 years
Office Furniture & Fixtures	15 years
Office Equipment	10 years
Vehicles	5 years

(d) Revenue recognition

1. Revenue from the licensing of program material is recognized when the rights to the program material are sold.

2. Membership contributions are recorded on a cash basis. Contributions from corporate sponsors are recognized when the contract is signed, except multi-year contributions that are recognized when the cash is received.

3. Grants and revenues received in the year for special purposes are deferred until the related expenses have been incurred.

4. Revenue from grants and contributions restricted for the purchase of capital assets is deferred and amortized over the same period as the related capital asset.

5. Student fees for courses and General Education Development testing are recognized as revenues at the time of registration.

(e) Employee Future Benefits

The Authority accrues its obligations under employee defined benefit plans and the related costs, net of plan assets. The following policies have been adopted:

1. The cost of pension benefits and other post retirement benefits is actuarially determined by independent actuaries using the projected benefit method and management's best estimate assumptions.

2. Past service cost and transitional asset or obligation are amortized over the expected average remaining service period of active plan members.

3. Actuarial gains (losses) are recognized to the extent that they exceed 10% of the greater of the accrued benefit obligation and the market value of plan assets. Amounts recognized are amortized over the average remaining service period of active plan members.

4. Pension fund assets are valued at market value.

(f) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. CASH AND SHORT-TERM INVESTMENTS

The Authority's investment policy restricts short-term investments to securities issued by or guaranteed as to principal and interest by Ontario, any other province of Canada, Canada or the United Kingdom, securities issued by the United States of America or deposit receipts, deposit notes, certificates of deposit, acceptances and other similar instruments issued or endorsed by any chartered bank to which the Bank Act (Canada) applies.

Cash and short-term investments of $12,637,000 (2004 - $8,436,000) include $11,593,000 (2004 - $7,137,000) of investments maturing within 90 days, yielding 2.2% (2004 – 2.5%) on average during the year, with a market value that approximates carrying value.

4. ACCOUNTS RECEIVABLE

	2005 ($000s)	2004 ($000s)
Project funding	1,200	2,934
Trade	855	1,015
Other	585	749
	2,640	4,698

5. EMPLOYEE FUTURE BENEFITS

The pension and other post-retirement benefit plans have the following components:

Registered pension plans: Most employees of the Authority are members of the Main Pension Plan which consists of a non-contributory defined benefits, best average earnings and years of service element and a contributory defined contribution element. Contract employees can only participate in a non-contributory defined contribution element within the Main Pension Plan. Certain eligible executives are members of an Executive Pension Plan which only has a non-contributory defined benefits, best average earnings element.

Unfunded retirement plan: The non-contributory defined benefits plan was adopted to preserve pension benefits in excess of the Federal Income Tax Act maximum accrued under the registered pension plans.

Post retirement benefit plan: The Authority offers non-pension post retirement benefits such as health care, dental care, and life insurance through defined benefits plans on a cost-sharing basis.

The most recent valuation of the defined benefit pension plans and the post retirement benefit plan was as of January 1, 2004.

Information about the Authority's pension and other benefit plans is as follows:

	Registered Pension Plans		Unfunded Retirement Plan		Post Retirement Plan	
	2005 ($000s)	2004 ($000s)	2005 ($000s)	2004 ($000s)	2005 ($000s)	2004 ($000s)
Market value of plan assets	82,236	76,975	0	0	0	0
Accrued benefit obligation	82,359	75,162	225	169	7,361	6,440
Plan surplus/(deficit)	(123)	1,813	(225)	(169)	(7,361)	(6,440)
Balance of unamortized amounts:						
Net transition (asset)/obligation	(8,745)	(9,634)	0	0	2,316	2,547
Past service cost	1,099	1,210	15	19	0	
Actuarial (gains)/losses	10,548	10,137	2	0	1,601	1,373
	2,902	1,713	17	19	3,917	3,920
Contributions - prior year	94	0	0	0	24	25
Use of surplus - prior year	(122)	(116)	0	0	0	0
Accrued benefit asset/(obligation)	2,751	3,410	(208)	(150)	(3,420)	(2,495)
Disclosed in the Statement of Financial Position as:						
Accrued pension asset	2,751	3,410				
Accounts payable and accrued liabilities			(208)	(150)		
Employee future benefits					(3,420)	(2,495)
Expenses for the year:						
Defined benefit plan	623	680	58	46	925	726
Defined contribution plan	486	489	0	0	0	0
	1,109	1,169	58	46	925	726
Contributions to the defined benefit plan	450	0	0	0	0	0
Benefits paid	2,754	2,520	0	0	184	159

The significant assumptions adopted in measuring the accrued benefit obligations and pension expenses are as follows:

	Registered Pension Plans		Unfunded Retirement Plan		Post Retirement Plan	
	2005	2004	2005	2004	2005	2004
Discount rate	5.75%	6.00%	5.75%	6.00%	5.75%	6.00%
Investment return	8.00%	8.00%	N/A	N/A	N/A	N/A
Salary rate increase	4.50%	4.50%	0.0%-4.5%	0.0%-4.5%	N/A	N/A
Health cost rate increase	N/A	N/A	N/A	N/A	8.50%	9.00%
Dental cost rate increase	N/A	N/A	N/A	N/A	4.50%	4.50%
Average remaining service lifetime	9-12	11-12	2-6	3-7	16	15

Defined benefit plan assets as at December 31 measurement date consist of:

	Percentage of Plan Assets	
Asset category	2004	2003
Equity securities	67%	67%
Debt securities	33%	33%

Eligible members of the employee plan and executive plan may also take advantage of an early retirement window that provides unreduced pension and bridging benefits if they retire between January 1, 2005 and December 31, 2005. The impact of this early retirement window is still undetermined and is not included as part of the plan experience.

6. INVESTMENTS HELD FOR CAPITAL RENEWAL

Since 1984, a portion of the funding received each year has been set aside to ensure that the Authority's technical capital assets keep pace with technological changes and can be maintained or replaced when needed. Available funds were invested in short-term deposits that earned an average interest rate of 2.2% (2004 – 2.8%) during the fiscal year. The changes in the fund were as follows:

	2005 ($000s)	2004 ($000s)
Balance, beginning of year	4,046	3,811
Allocation of grants - Ministry of Training, Colleges and Universities (note 11)	961	961
- Ministry of Education (note 11)	0	128
Interest earned	71	101
Drawing for capital acquisitions	(1,785)	(955)
Balance, end of year	3,293	4,046

7. NET CAPITAL ASSETS

Capital assets consist of the following:

	2005 ($000s)			2004 ($000s)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	236	0	236	236
Buildings	4,782	3,201	1,581	1,718
Transmitters	27,306	23,604	3,702	4,217
Transmitter monitoring equipment	1,105	910	195	241
In house technical equipment	26,391	20,189	6,202	7,120
Leasehold improvements	7,908	4,609	3,299	3,982
Computer equipment	6,859	4,497	2,362	2,425
Office furniture and fixtures	2,803	1,868	935	935
Office equipment	1,158	1,031	127	157
Vehicles	536	411	125	106
Construction in Progress	625	0	625	294
	79,709	60,320	19,389	21,431

8. DEFERRED REVENUE

	2005 ($000s)		2004 ($000s)
Government grants (note 11)	1,194	8,058	635
Government project funding (note 12)	6,864		4,548
Corporate project funding (note 12)	399		19
Other	216		46
	8,673		5,248

Expenditures related to the above deferrals have been budgeted for the 2006 fiscal year.

9. LEASE OBLIGATIONS

Lease obligations represent the balance of the commitments made under capital leases. The changes in the lease obligations balance are as follows:

	2005 ($000s)	2004 ($000s)
Lease obligations, beginning of year	38	102
Add: Capital leases additions	89	0
Less: Payments made on existing capital leases	(54)	(64)
Lease obligations, end of year	73	38
Current lease obligations	21	38
Non-current lease obligations	52	0
	73	38

10. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent contributions received for the purchase of capital assets and are recorded as revenue in the Statement of Operations and Equity when the related capital assets are amortized. The changes in the deferred contributions balance are as follows:

	2005 ($000s)	2004 ($000s)
Deferred capital contributions, beginning of year	18,170	19,341
Add: Allocation of grants - Ministry of Training, Colleges and Universities	961	961
- Ministry of Education	0	128
Interest earned	71	101
	19,202	20,531
Less: Drawing for capital acquisitions	(282)	-
Amortization of capital contributions	(2,706)	(2,361)
Deferred capital contributions, end of year	16,214	18,170

11. GOVERNMENT OPERATING GRANTS

	2005 ($000s)	2004 ($000s)
Provincial		
Ministry of Training, Colleges and Universities		
- Base Grant	48,040	48,040
Less: Amount allocated for capital renewal (note 6)	(961)	(961)
	47,079	47,079
Ministry of Education		
- Independent Learning Centre grant*	6,956	6,421
Less: Amount allocated for capital renewal (note 6)	0	(128)
Funding deferred from prior year	635	2,289
Funding deferred to future year (note 8)*	(1,194)	(635)
	6,397	7,947
Total government grants	53,476	55,026

*2005 Independent Learning Centre grant includes prepayment of April 2005 remittance of $535,000 which was received in March 2005. This amount is deferred to 2006.

12. GOVERNMENT AND CORPORATE PROJECT FUNDING

	2005 ($000s)	2004 ($000s)
Provincial project funding		
Ministry of Education		
- Early Reading and Early Math grant	4,177	5,848
- Other MED project funding	476	473
Other provincial project funding	115	212
Funding deferred from prior year (note 8)	4,548	809
Funding deferred to future year (note 8)	(6,864)	(4,548)
	2,452	2,794
Federal project funding		
Heritage Canada	2,160	2,350
Other	0	6
	2,160	2,356
Corporate project funding		
Funding received during the year	1,766	461
Funding deferred from prior year (note 8)	19	71
Funding deferred to future year (note 8)	(399)	(19)
	1,386	513
Total government and corporate project funding	5,998	5,663

13. OTHER EARNED REVENUE AND COST

	2005 ($000s)			2004 ($000s)		
	Revenue	Cost	Net Revenue	Revenue	Cost	Net Revenue
Development and Marketing						
Sales and Licensing	931	1,283	(352)	1,369	1,311	58
Membership and corporate donations	7,288	3,407	3,881	7,527	3,629	3,898
Total Development and Marketing	8,219	4,690	3,529	8,896	4,940	3,956
Cable revenue	2,142	39	2,103	2,170	41	2,129
ILC revenues	1,962	0	1,962	2,003	0	2,003
Others	1,410	0	1,410	1,237	0	1,237
	13,733	4,729	9,004	14,306	4,981	9,325

14. COMMITMENTS

The Authority has entered into capital and operating leases covering transmission facilities, offices, warehouses and equipment. Future lease payments are as follows:

Year ending March 31	($000s)
2006	1,533
2007	1,068
2008	523
2009	93
2010	83
	3,300
2011 and beyond	323
Total future lease payments	3,623

The building lease expires in August 2007. Negotiations for its renewal are underway.

15. CONTRIBUTED MATERIALS AND SERVICES

The Authority uses the services of volunteers to assist primarily in the membership area. The Authority also receives contributions of materials for use mainly in fund raising activities. Due to the difficulty of determining their fair value, contributed materials and services are not recognized in the financial statements.

16. THE INDEPENDENT LEARNING CENTRE

Under the terms of an agreement executed March 7, 2002 with the Ministry of Education and the Ministry of Training, Colleges and Universities, the Independent Learning Centre (ILC) was transferred to the Authority effective April 1, 2002.

The ILC provides a wide range of distance education courses, in English and in French that allow adults to earn secondary school diploma credits, upgrade their basic skills, or study for personal development. It also supports children who may not be able to access elementary day school programs. The General Education Development (GED) testing is also available through the ILC.
Funding for these activities includes a grant from the Ministry of Education and ILC earned revenues. The portion of the grant that has been identified for specific projects (course development) is deferred to the future year until the projects have been completed.

	2005 ($000s)	2004 ($000s)
Activities were funded by:		
Ministry of Education ILC grant (note 11)	6,956	6,421
Funding deferred from prior year	635	2,289
Funding deferred to future year	(1,194)	(635)
Funding allocated to capital renewal fund	0	(128)
ILC grant recognized	6,397	7,947
ILC earned revenues (note 13)	1,962	2,003
Total ILC grant and earned revenues	8,359	9,950

Expenditures related to the above deferrals have been budgeted for the 2006 fiscal year.

17. CONTINGENCIES

Contingencies refer to possible legal claims that have been made by or against the Authority, the ultimate outcome of which cannot be predicted with certainty. Adequate provisions have been made for those claims against the Authority that in the opinion of management may result in future settlements. Differences between provisions and actual settlements will be accounted for at the time of settlement. No amounts have been recognized in the accounts for claims made by the Authority. Any settlements will be accounted for at the time of settlement.

18. COMPARATIVE FIGURES

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

19. THE TVONTARIO FOUNDATION

The TVOntario Foundation was constituted as a public foundation under the Canada Corporations Act effective April 1, 1998. The Board of Directors of the Foundation is appointed by the Board of Directors of the Authority, with the members of the Foundation being comprised exclusively of members of the Board of Directors of the Authority. The Foundation is a registered charity under the Income Tax Act, whose objectives are to receive and maintain a fund or funds and to pay all or part of the principal and income to the Authority provided that the Authority maintains its status as a registered charity and continues to have as its objective the promotion of educational and/or children's programming.

In accordance with Canadian generally accepted accounting principles, the accounts of the Foundation are not consolidated in the financial statements of the Authority. The financial position and results of operations for the year ended March 31, 2005 were as follows:

Financial Position as at March 31st

	Unrestricted Fund ($000s)	Matching Gift Fund ($000s)	2005 Total ($000s)	2004 Total ($000s)
Assets				
Current assets				
Cash and short term investments	637	2,837	3,474	3,524
Total assets	637	2,837	3,474	3,524
Liabilities and Equity				
Liabilities				
Accrued liabilities	-	38	38	128
	-	38	38	128
Equity	637	2,799	3,436	3,396
Total liabilities and equity	637	2,837	3,474	3,524

Results of operations for the year ended March 31st

	Unrestricted Fund ($000s)	Restricted Funds: Matching Gift Fund ($000s)	Restricted Funds: Other Restricted ($000s)	2005 Total ($000s)	2004 Total ($000s)
Revenues					
Donations	89	-	150	239	101
Interest income	74	-	-	74	93
	163	-	150	313	194
Contribution to the Authority	-	273	-	273	128
Excess of revenues over contribution to OECA	163	(273)	150	40	66
Interfund transfer	150	-	(150)	0	0
Equity, beginning of year	324	3,072	-	3,396	3,330
Equity, end of year	637	2,799	-	3,436	3,396

Changes in equity for the year ended March 31st

		Restricted Equity			
	Unrestricted Fund ($000s)	Matching Gift Fund ($000s)	Other Restricted ($000s)	**2005 Total ($000s)**	**2004 Total ($000s)**
Balance, beginning of year	78	3,318	-	**3,396**	**3,330**
Excess revenues over contributions to the Authority	163	(273)	150	**40**	**66**
Reclassification of 2003 and 2004 interest income	118	(118)	-	**0**	**0**
Reclassification of 2004 contribution to the Authority	128	(128)	-	**0**	**0**
Interfund transfer	150	0	(150)	**0**	**0**
Balance, end of year	**637**	**2,799**	-	**3,436**	**3,396**

The Board of Directors of the Authority has approved the funding of the Foundation's operating expenditures through the Authority until March 31, 2007. The Foundation's net expenditures absorbed by the Authority were $42,000 during the year ended March 31, 2005 (2004- $101,000).

On December 2, 2004, the Deed of Gift was amended to clarify that the repayment obligation of the Matching Gift Fund to the Authority is limited to the capital amount of the fund and the fund will be reduced through disbursements to the Authority. Based on this resolution, the accumulated interest income on the Matching Gift Fund from inception is transferred from the Fund to unrestricted equity. The reclassification of 2003 and 2004 interest income increased the unrestricted equity balance and reduced the Fund balance by $118,000.

In compliance with the Income Tax Act, the Foundation recognized its current year disbursement quota of $235,000 (2004-$128,000) as a contribution to the Authority. An additional amount of $38,000 was also recognized to meet the commitment to match current year donations with funds from the Matching Gift Fund. The 2004 contribution to the Authority was originally charged to the unrestricted fund. On December 2, 2004 through the Deed of Gift amendment, the Board of Directors of the Foundation approved the payment of the current year as well as prior year disbursement quotas from the Matching Gift Fund. The reclassification increased the unrestricted equity balance and reduced the Fund balance by $128,000.

A restricted gift of $150,000 was received from the Alan Tanenbaum Family Trust in December 2004. The gift was designated by the donor to underwrite the licensing of Modigliani documentary for broadcast by the Authority. The total amount of the gift was disbursed through the 2005 contribution to the Authority from the Matching Gift Fund.

Short-term investments earned an average interest rate of 2.2% (2004 – 2.9%) during the fiscal year.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Electricity Financial Corporation have been prepared in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to May 6, 2005.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. Internal Audit Services of the Ministry of Finance independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and his opinion.

On behalf of Management:

Gadi Mayman

Chief Executive Officer and Vice-Chair (interim)

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Office of the Auditor General of Ontario

Bureau du vérificateur général de l'Ontario

AUDI ALTERAM PARTEM

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Electricity Financial Corporation
and to the Minister of Finance

I have audited the statement of financial position of the Ontario Electricity Financial Corporation as at March 31, 2005 and the statements of revenue, expense and unfunded liability and cash flow for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at March 31, 2005 and the results of its operations and its cash flow for the year then ended, in accordance with the accounting principles recommended for governments by the Canadian Institute of Chartered Accountants.

Toronto, Ontario
May 6, 2005

J.R. McCarter, CA
Auditor General

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Ontario Electricity Financial Corporation

Statement of Financial Position
as at March 31, 2005
($ Millions)

	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	$ 138	$ 8
Accounts receivable	523	355
Interest receivable	10	12
Current portion of notes receivable (Note 6)	300	250
	971	625
Payments-in-lieu of tax receivable (Note 11)	92	248
Due from Province of Ontario (Notes 5, 11)	351	351
Notes and loans receivable (Note 6)	12,074	12,080
Deferred debt costs	360	451
	$ 13,848	$ 13,755
LIABILITIES		
Current Liabilities		
Accounts payable	$ 302	$ 250
Due to electricity consumers (Note 12)	528	-
Interest payable	536	563
Short-term notes payable (Note 7)	1,146	1,177
Current portion of long-term debt (Note 7)	1,556	3,945
	4,068	5,935
Long-term debt (Note 7)	24,948	22,433
Power purchase contracts (Note 9)	3,785	4,021
Nuclear funding liability (Note 10)	1,410	1,916
	34,211	34,305
Contingencies and guarantees (Note 14)		
UNFUNDED LIABILITY (Notes 1, 3, 11)	(20,363)	(20,550)
	$ 13,848	$ 13,755

Approved on behalf of the Board of Directors:

Colin Andersen
Chair

Gadi Mayman
Vice-Chair (interim)

See accompanying notes to financial statements.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Ontario Electricity Financial Corporation

Statement of Revenue, Expense and Unfunded Liability
for the Year Ended March 31, 2005
($ Millions)

	2005	2004
REVENUE		
Debt retirement charge (Notes 1, 11)	$ 997	$ 1,000
Payments-in-lieu of tax (Notes 1, 11)	511	627
Interest	741	771
Power sales (Note 9)	610	510
Net reduction of power purchase contracts (Note 9)	236	104
Recovery of prior year expenditures - ECPPF (Note 12)	20	-
Other	10	10
Total Revenue	3,125	3,022
EXPENSE		
Interest - short-term debt	48	78
- long-term debt	1,737	1,812
Interest on nuclear funding liability (Note 10)	93	142
Amortization of deferred charges	69	91
Electricity Consumer Price Protection Fund (Note 12)	-	253
Power purchases (Note 9)	840	797
Temporary generation supply (Note 13)	-	70
Debt guarantee fee	138	134
Operating	13	12
Total Expense	2,938	3,389
Excess (deficiency) of revenue over expense	187	(367)
Unfunded Liability, beginning of year	20,550	20,183
Unfunded Liability, end of year	$ 20,363	$ 20,550

See accompanying notes to financial statements.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Ontario Electricity Financial Corporation

Statement of Cash Flow
for the Year Ended March 31, 2005
($ Millions)

	2005	2004
CASH FLOWS USED IN OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expense	$ 187	$ (367)
Adjustments for:		
Net reduction of power purchase contracts (Note 9)	(236)	(104)
Interest on nuclear funding liability (Note 10)	93	142
Amortization of deferred charges	69	91
Payments-in-lieu of tax receivable	156	(30)
Other items	198	(163)
Cash provided from (required by) operations	467	(431)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt issues	3,741	5,490
Less long-term debt retired	3,498	2,279
Long-term debt issued (retired), net	243	3,211
Short-term debt issued (retired), net	(31)	(2,236)
Payment towards nuclear funding liability (Note 10)	(600)	(1,200)
Repayment of notes receivable	51	661
Cash provided from (required by) financing activities	(337)	436
Increase in cash and cash equivalents	130	5
Cash and cash equivalents, beginning of year	8	3
Cash and cash equivalents, end of year	$ 138	$ 8
Interest paid during the year and included in excess (deficiency) of revenue over expense	$ 1,812	$ 1,883

See accompanying notes to financial statements.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Notes to Financial Statements

1) Electricity Sector Reform

Effective April 1, 1999, pursuant to the *Electricity Act, 1998*, Ontario Hydro was continued as a corporation without share capital under the name Ontario Electricity Financial Corporation (OEFC). It is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada). OEFC is a Crown agency created to manage the debt and administer the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities. These other successor entities include:

- Ontario Power Generation Inc. (OPG), an electricity generation company;
- Hydro One Inc. (Hydro One), a regulated electricity transmission and distribution business;
- Independent Electricity System Operator (IESO), the regulated centralized independent system coordinator responsible for directing system operations and operating the electricity market; and
- Electrical Safety Authority (ESA), which performs a regulatory function related to electrical inspections.

On April 1, 1999, the respective business units, including assets, liabilities, employees, rights and obligations of the former Ontario Hydro were transferred to OPG and Hydro One (and their subsidiaries) and the IESO for $8.5 billion, $8.6 billion and $78 million respectively in exchange for debt payable to OEFC. On the same day, the Province exchanged equity of $5,126 million and $3,759 million in OPG and Hydro One respectively for debt payable to OEFC.

OEFC debt, liabilities and associated financing costs will be repaid from interest on notes receivable from the Province and successor entities, and, as provided under the *Electricity Act, 1998* the dedicated electricity revenues in the form of payments-in-lieu (PILs) of corporate income, capital and property taxes made by the successor entities and municipal electric utilities. Residual debt is serviced through a Debt Retirement Charge (DRC) paid by electricity consumers at a rate of 0.7 cents/kWh for most Ontario consumers. The Ontario Financing Authority, an agency of the Province that is responsible for borrowing and investing monies for the Province and other public bodies, provides day-to-day management services to OEFC.

On December 9, 2004, the *Electricity Restructuring Act, 2004* was passed, resulting in a combination of a fully regulated and competitive electricity sector with different generators receiving prices set through a variety of mechanisms. Electricity generated from OPG's nuclear and baseload hydro generation assets receive regulated prices, and electricity from those generators with existing or new contracts receive prices as determined by their contracts. Consumers pay a blend of these costs including the pass-through of regulated prices for OPG-regulated plants, the full costs for existing and new contracts for generation and market prices for other generation facilities. The Act also created the Ontario Power Authority to ensure an adequate long-term supply of electricity.

2) Summary of Significant Accounting Policies

Basis of Accounting

As OEFC is a government organization, these financial statements are prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty in these financial statements exists in the valuation of the power purchase contracts and the estimated defeasance date for OEFC's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and will be updated annually to reflect new information as it becomes available.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Deferred Debt Costs

Deferred debt costs includes the unamortized amounts related to unrealized foreign exchange gains or losses resulting from the translation of long-term debt issued in foreign currencies and discounts, premiums or commissions arising from the issuance of debt or the acquisition of debt prior to maturity. These costs are amortized to operations over the life of the underlying debt.

Revenue Recognition

Revenues are recognized in the period in which they are earned.

Foreign Currency Translation

Debt is composed of short-, medium- and long-term bonds, notes and debentures. Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the hedge agreements. Other foreign currency debt, liabilities and assets are translated to Canadian dollars at period-end rates of exchange and any exchange gains or losses are deferred and amortized over the remaining term to maturity.

Power Purchase Contracts

The liability for power purchase contracts was originally calculated by discounting estimated losses over the life of the contracts. Under the *Electricity Restructuring Act, 2004*, OEFC began receiving actual contract prices for power from ratepayers, effective January 1, 2005, and will no longer incur losses on these power purchase contracts. The Ministry of Finance estimates that the bulk of the liability will be eliminated over 12 years as existing electricity contracts expire.

The cost of power under the new contracts for renewable energy supply announced in November 2004, and the revenues from the re-sale of this power to the market, will be recorded as the power is generated and re-sold under the contracts.

3) Going Concern

OEFC is dependent on the Province to borrow to finance maturing debt and to cover any cash shortfalls in the Corporation. It is also dependent on the government's long-term plan to defease the unfunded liability described in Note 11.

4) Cash and Cash Equivalents

Cash and cash equivalents includes cash on deposit and highly liquid investments with maturities of less than three months. They are recorded at cost, which approximates current market value.

5) Due from Province of Ontario

The Province has committed to dedicate the combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC. For the year ended March 31, 2005, earnings in the subsidiaries did not exceed the Province's financing cost of its investment. Consequently, no dedicated income transfer has been reflected (March 2004 – Nil).

ONTARIO ELECTRICITY FINANCIAL CORPORATION

6) Notes and Loans Receivable

($ millions)

	Maturity date	Interest rate	Interest payable	March 31, 2005	March 31, 2004
Province of Ontario	2039 – 2041	5.85	Monthly	$ 8,885	$ 8,885
OPG	2006 – 2011	5.44 to 6.65	Semi-annually	3,295	3,200
IESO	2009	7.90	Semi-annually	78	78
				12,258	12,163
Less: Current portion of notes receivable				300	250
				11,958	11,913
Add: Loans receivable from non-utility generators (NUGs) (See Note 9)				116	167
				$ 12,074	$ 12,080

OEFC has agreed with OPG and the IESO not to sell notes owing from these successor entities without their prior approval.

In 2002, OEFC had agreed with OPG to defer principal repayments of $200 million originally due in March and September 2002 until December 2004. These maturities totalling $200 million have been further deferred until December 2006. In addition, OEFC had agreed with OPG to defer principal repayments totalling $500 million originally due in the period March 2003 to September 2004 to new maturity dates of March 2005 to September 2006.

In January 2005, OEFC agreed with OPG to further defer principal repayments of $200 million due in March 2005 to March 2010 and to defer principal repayments of $300 million due in September 2005 to September 2010. In addition, OPG issued an interest-bearing promissory note for $95 million maturing March 2010 in lieu of an interest payment due to OEFC in March 2005.

With respect to fiscal 2005–06, OEFC has agreed to accept an interest-bearing promissory note from OPG for $98 million maturing in 2010 in lieu of the scheduled interest payment due from OPG in September 2005. In addition, as outlined in an agreement between OPG and OEFC dated April 28, 2005, OEFC has agreed to provide up to $600 million to OPG to be advanced during the period ending March 31, 2006. On April 29, 2005, OEFC advanced $400 million to OPG under the agreement. This advance and any further advances under the agreement will be recorded in the accounts of OEFC as they occur.

Set out below is a summary by year of maturity of OPG's debt to OEFC:

($ millions)

Fiscal Year	Amount
2005-06	$ 300
2006-07	700
2007-08	400
2008-09	375
2009-10	707
2010-11	625
2011-12	188
Total	**$ 3,295**

ONTARIO ELECTRICITY FINANCIAL CORPORATION

7) Debt

Debt at March 31, 2005 is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

($ millions) Currency	Canadian Dollar	U.S. Dollar	Other Foreign	2005 Total	2004 Total
Maturing in:					
1 year	2,211	491	—	2,702	5,122
2 years	2,285	829	—	3,114	1,556
3 years	528	1,385	—	1,913	2,813
4 years	3,496	388	—	3,884	1,581
5 years	1,629	—	140	1,769	3,483
1-5 years	10,149	3,093	140	13,382	14,555
6-10 years	5,548	1,615	307	7,470	5,708
11-15 years	484	—	—	484	648
16-20 years	3,273	—	—	3,273	3,678
21-25 years	2,191	—	—	2,191	2,116
26-50 years	850	—	—	850	850
Total	**$22,495**	**$4,708**	**$447**	**$27,650**	**$27,555**

The effective rate of interest on the debt portfolio was 6.52 percent (March 2004 - 6.54 percent) after considering the effect of derivative instruments used to manage interest rate risk. The longest term to maturity is to October 17, 2031. Total foreign currency denominated debt at March 31, 2005 was $5.2 billion (March 2004 - $4.5 billion), 100 percent of which (March 2004 – $4.5 billion or 100 percent) was fully hedged to Canadian funds. Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

	March 31, 2005			March 31, 2004		
($ millions)	Held by the Province	Guaranteed by the Province	Total	Held by the Province	Guaranteed by the Province	Total
Short-term debt	1,146	—	1,146	1,177	—	1,177
Current portion of long-term debt	1,056	500	1,556	3,697	248	3,945
Long-term debt	14,608	10,340	24,948	11,520	10,913	22,433
	$16,810	**$10,840**	**$27,650**	**$16,394**	**$11,161**	**$27,555**

Fair value of debt issued approximates amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing OEFC's debt, fair value is estimated using discounted cash flows and other valuation techniques and is compared to public market quotations where available. These estimates are affected by the assumptions made concerning discount rates and the amount and timing of future cash flows.

The estimated fair value of OEFC debt at March 31, 2005 was $31.6 billion (March 2004 – $32.2 billion). This is higher than the book value of $27.7 billion (March 2004 – $27.6 billion) because current interest rates are generally lower than the interest rates at which the debt was issued and because of exchange rate movements. The fair value of debt does not reflect the effect of related derivative contracts.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

8) Risk Management and Derivative Financial Instruments

OEFC employs various risk management strategies and operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost-effective manner. A variety of strategies are used including the use of derivative financial instruments ("derivatives"). Derivatives are financial contracts, the value of which is derived from underlying instruments. OEFC uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. This allows OEFC to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options.

Foreign exchange or currency risk is the risk that foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, OEFC uses derivative contracts to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current policy allows unhedged foreign currency debt principal and related hedge transactions in foreign currencies to reach a maximum of 5 percent of total debt. At March 31, 2005, the actual unhedged level was 0.1 percent (March 2004 – 0.1 percent) of total debt.

Floating rate risk is the exposure of OEFC to changes in short-term interest rates. OEFC reduces its exposure to rate changes by entering into derivative contracts that convert floating interest payments to fixed interest payments. The current policy allows unhedged floating rate debt, net of liquid reserves, to reach a maximum of 20 percent of total debt. At March 31, 2005, OEFC's floating rate debt as a percentage of total debt was 8.5 percent (March 2004 – 8.0 percent).

Liquidity risk is the risk that OEFC will not be able to meet its current short-term financial obligations. As explained in Note 3, OEFC is dependent on the Province to borrow and on-lend the funds required to refinance maturing debt and to cover any cash shortfalls in the Corporation.

The table below presents a maturity schedule of OEFC's derivatives, by type, outstanding at March 31, 2005, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Derivative Portfolio Notional Value ($ millions)

As at March 31, 2005

Maturity in Fiscal Year	2006	2007	2008	2009	2010	6-10 Years	Over 10 Years	TOTAL 2005	TOTAL 2004
Cross-currency swaps	425	829	868	387	517	1,287	—	4,313	3,357
Interest rate swaps	1,429	2,282	1,200	988	1,241	3,138	1,404	11,682	8,348
Forward foreign exchange contracts	1,395	—	—	—	—	—	—	1,395	1,578
Other [1]	62	111	—	—	—	—	—	173	112
Total	**$ 3,311**	**3,222**	**2,068**	**1,375**	**1,758**	**4,425**	**1,404**	**$17,563**	**$13,395**

(1) Other includes options and futures.

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which OEFC has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2005.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Credit Risk Exposure ($ millions)	March 31, 2005	March 31, 2004
Gross credit risk exposure(1)	6,797	5,398
Less: Netting(2)	(7,177)	(5,787)
Net credit risk exposure(3)	$ (380)	$ (389)

Notes:

(1) Gross credit risk exposure includes credit exposure on swaps, options, futures, forward rate agreements and forward foreign exchange agreements.

(2) Contracts do not have coterminous settlement dates. However, master agreements provide for close-out netting.

(3) Total exposure to counterparties with positive exposure (meaning that counterparties owed OEFC) was $22 million (March 2004 — $130 million) and the total exposure to counterparties with negative exposure (meaning that OEFC owed the counterparties) was $402 million (March 2004 — $519 million) for a total net credit exposure of $(380) million (March 2004 — ($389) million).

The gross credit risk exposure represents the amount of loss that OEFC would incur if every counterparty to which OEFC had credit risk exposure were to default at the same time and the netting of individual counterparty credit risk exposure was not allowed. OEFC manages its credit risk exposure from derivatives by entering into contractual agreements (master agreements) that provide for termination netting and, if applicable, payment netting with virtually all of its counterparties. The net credit risk exposure includes the mitigating impact of these netting provisions.

OEFC manages its credit risk exposure by regularly monitoring compliance with credit limits and by dealing with counterparties with high credit quality. At March 31, 2005, OEFC's most significant concentration of credit risk was with one A+ rated counterparty, which represented more than 10 percent of the credit risk exposure. The net cost to OEFC, if it had to replace the swap contracts with this counterparty would be $20 million (2004 — $60 million).

9) Power Purchase Contracts

Power purchase contracts and related loan agreements were entered into by Ontario Hydro with non-utility generators (NUGs) located in Ontario. As the legal continuation of Ontario Hydro, OEFC is the counterparty to these contracts. The contracts, expiring on various dates to 2048, provided for the purchase of power at prices that were expected to be in excess of the market price. Accordingly, a NUG liability was recorded at $4,286 million on a discounted cash-flow (DCF) basis when Ontario Hydro was continued as OEFC on April 1, 1999. Prior to open access in May 2002, power purchased from NUGs was resold at cost to the revenue pool managed by OPG. After the market opened, OEFC sustained annual losses on power purchased from NUGs. The DCF model was updated as at March 31, 2003, which reduced the estimated liability by $422 million to $3,745 million. This revaluation change from 2002–03 is being amortized to operations over a 10-year period.

Under legislated reforms to the electricity market, OEFC began receiving actual contract prices for power from ratepayers, effective January 1, 2005, and will no longer incur losses on these power purchase contracts. The Ministry of Finance estimates that the bulk of the liability will be eliminated over 12 years as existing electricity contracts expire.

During the year, OEFC purchased power in the amount of $840 million (March 2004 — $797 million) and sold this power for $610 million (March 2004 — $510 million). Loans receivable from NUGs decreased during the year by $51 million to $116 million (March 2004 — $167 million), primarily due to principal repayments.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Statement of Liability for Power Purchase Contracts ($ millions)
As at March 31, 2005

	2005	2004
Liability, beginning of year	$ 3,683	$ 3,745
Interest charged during the year*	163	221
Deduct estimated in-year loss	(357)	(283)
Subtotal	3,489	3,683
Add: Unamortized Revaluation Changes		
Gross Revaluation	422	422
Accumulated Amortization	(126)	(84)
	296	338
	$ 3,785	**$ 4,021**

* Effective January 1, 2005, interest is no longer added to the liability.

During the year, the Ministry of Energy issued a Request for Proposals for the delivery of 300 MW of new renewable energy supply. OEFC entered into contracts for 395 MW under the RFP. Under the contracts, OEFC has the unilateral right to assign the contracts to the Ontario Power Authority (OPA). Responsibility for these contracts had not yet been transferred at March 31, 2005. The cost of power purchased under these contracts, and the revenues from the resale of this power to the market, will be recorded as the power is generated and resold under the contracts.

10) Nuclear Funding Liability

OEFC as the continued Ontario Hydro assumed a liability in the amount of $2,378 million representing nuclear waste management and asset removal liabilities that were incurred prior to April 1, 1999. In March 2002, the Province and OPG entered into the Ontario Nuclear Funds Agreement (ONFA) to establish, fund and manage segregated funds to ensure that sufficient funds are available to pay for costs of nuclear waste management and station decommissioning.

The Board of Directors of OEFC approved the funding of the Decommissioning Segregated Fund, established by OPG, over a four-year period, thus discharging the nuclear funding liability. OEFC contributed $1,200 million towards the fund liability on July 24, 2003, and $600 million on March 31, 2005.

Interest is accrued at a rate equal to the Ontario Consumer Price Index plus 3.25 percent in accordance with the terms of ONFA which were finalized on July 24, 2003. A commitment-in-lieu of $1,410 million as at March 31, 2005 (March 2004 — $1,916 million) has been provided to the Decommissioning Segregated Fund.

11) Unfunded Liability

The opening unfunded liability of $19.4 billion at April 1, 1999 was composed of $38.1 billion in liabilities assumed from old Ontario Hydro less the value of assets transferred to OEFC at April 1, 1999, including $17.2 billion in notes receivable and $1.5 billion in loans receivable and other assets. Pursuant to the *Electricity Act, 1998* and consistent with the principles of electricity restructuring, the government has a long-term plan in place to retire OEFC liabilities from within the electricity sector. The Plan includes cash flows from the following sources as at April 1, 1999:

Notes receivable from the Province of $8.9 billion, OPG of $3.4 billion, Hydro One of $4.8 billion and IESO for $0.1 billion for a total of $17.2 billion as a result of the transfer of assets to successor companies;

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Payments-in-lieu of corporate income, capital and property taxes made by OPG, Hydro One and municipal electric utilities;

Debt Retirement Charge to be paid by ratepayers based on the consumption of electricity; and

Electricity Sector Dedicated Income — Consistent with the government's commitment to keep electricity income in the electricity sector, the combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries will be allocated to the retirement of OEFC's debt.

The long-term plan supports estimates that OEFC's obligations will likely be defeased in the years ranging from 2012 to 2020.

12) Electricity Consumer Price Protection Fund

On November 11, 2002, the Province announced a program designed to provide electricity to low volume and designated consumers at a fixed price of 4.3 cents/kWh until at least 2006, retroactive to May 1, 2002. Power generators continued to receive the free market price as set in the IESO electricity market. The program was supported and administered through the Electricity Consumer Price Protection Fund (ECPPF) managed by OEFC.

On December 18, 2003, the *Ontario Energy Board Amendment Act (Electricity Pricing), 2003* was passed into law to remove, effective April 1, 2004, the 4.3 cents/kWh price freeze in favour of a pricing structure that better reflects the true cost of electricity, including a strong incentive to conserve energy. Effective April 1, 2004, the 4.3 cents/kWh fixed price plan was ended and an interim pricing plan was introduced whereby the first 750 kWh consumed in any month is priced at 4.7 cents /kWh and consumption above that level is priced at 5.5 cents/kWh. These legislated pricing plans were supported by the ECPPF.

For the period April 1, 2004 to March 31, 2005, ECPPF reflected a surplus of $704 million (2004, net cost $253 million). Pursuant to the *Electricity Pricing Act, 2003* and regulations thereto, the responsibility for managing the ECPPF was transferred to a new agency, the Ontario Power Authority, effective January 1, 2005. Accordingly, $176 million of the fiscal 2005 surplus was transferred to the OPA representing the payments required to be made for the first quarter of 2005. The remaining surplus of $528 million is reflected as a liability on the balance sheet and will be returned to consumers.

In addition, OEFC recovered $20 million during the year related to Fund expenditures prior to April 1, 2004 as a result of OEFC's ongoing audit of claims from the Fund made by local distribution companies.

13) Temporary Generation Supply

In April of 2003, OEFC was directed to undertake a project to install 200 to 400 MW of temporary generation to provide support to Ontario's electricity reserves during the summer and fall of 2003.

OEFC arranged for the installation of 249 MW of gas-fired generation by the summer of 2003 at a cost of $70 million. Since all of the contracts expired on December 31, 2003, there is no current year expense for this item.

14) Contingencies and Guarantees

OEFC is involved in various legal actions arising out of the ordinary course and conduct of business, some of which relate to the former Ontario Hydro prior to the establishment of OEFC on April 1, 1999. Under the terms of the April 1, 1999 restructuring of Ontario Hydro, each successor entity (OPG, Hydro One, ESA and IESO, and their respective subsidiaries) is responsible for any liabilities relating to those operations of the former Ontario Hydro that were transferred to it. In the event any such liabilities remained with OEFC, the successor entity is also required to indemnify OEFC. With respect to legal actions relating to operations of Ontario Hydro that were retained by OEFC, the outcome and ultimate disposition of

ONTARIO ELECTRICITY FINANCIAL CORPORATION

these legal actions is not determinable at this time. Accordingly, no provision for the above actions is reflected in the financial statements. Settlements of these contingencies, if any, will be reflected in the period in which settlement occurs.

Subject to a $10 million and $20 million deductible respectively, OEFC has agreed to indemnify Hydro One and OPG in respect of any adverse claim to title to any asset, right or thing transferred or intended to be transferred to the companies at April 1, 1999, and any failure of the transfer order to transfer such assets, rights or things and with respect to payment to or from or other dealing with any equity account of Ontario Hydro, including certain related litigation. The Province of Ontario has guaranteed any liability arising from these indemnifications.

OEFC is contingently liable under guarantees given to third parties that have provided long-term financing to certain independent power producers in connection with the power purchase agreements described in Note 9. These guarantees total approximately $91 million at March 31, 2005 (2004 — $102 million).

15) Related Party Transactions

In the normal course of operations, OEFC has transactions with the following related parties, all of which have been disclosed in the notes to the financial statements. Each of the following entities is included in the Province's financial statements:

a) Ontario Power Generation Inc.

b) Hydro One Inc.

c) Independent Electricity System Operator

d) Ontario Power Authority

e) Ontario Financing Authority

Ontario Energy Board

MANAGEMENT'S RESPONSIBILITY

The Ontario Energy Board's management is responsible for the integrity and fair presentation 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 preparation of financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods.

The Board maintains systems of internal accounting controls designed to provide reasonable assurance that reliable financial information is available on a timely basis and that the Board assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed and approved by the Board's Management Committee. In addition the financial statements have been audited by the Auditor General of Ontario, whose report follows.

Catherine Barker-Hoyes
Managing Director, Business Services
June 28, 2005

Office of the
Auditor General
of Ontario

Bureau du
vérificateur général
de l'Ontario

AUDI ALTERAM PARTEM

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Energy Board

I have audited the statement of financial position of the Ontario Energy Board as at March 31, 2005 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Board'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 Board as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 28, 2005

Gary R. Peall, CA
Deputy Auditor General

Ontario Energy Board
STATEMENT OF FINANCIAL POSITION
As at March 31, 2005

	2005 $	2004 $
ASSETS		
Current Assets:		
Cash	12,381,544	9,371,846
Accounts receivable	8,100,336	69,213
Hearing costs to be assessed	289,675	182,029
Deposits and prepaid expenses	100,700	94,774
Total Current Assets	20,872,255	9,717,862
Capital assets (note 4)	3,433,610	734,562
TOTAL ASSETS	**24,305,865**	**10,452,424**
LIABILITIES		
Current Liabilities:		
Deferred recovery revenue (note 5)	12,695,954	1,611,694
Accounts payable and accrued liabilities	6,639,286	1,095,344
Due to the Province of Ontario (note 7)	126,390	6,306,584
Total Current Liabilities	19,461,630	9,013,622
Long-term Liabilities:		
Deferred revenue related to capital assets (note 9)	3,285,310	734,562
Deferred rent inducement (note 8)	854,685	0
Total Long-term Liabilities	4,139,995	734,562
TOTAL LIABILITIES	**23,601,625**	**9,748,184**
NET ASSETS (note 7)	**704,240**	**704,240**
TOTAL LIABILITIES AND NET ASSETS	**24,305,865**	**10,452,424**

See accompanying notes to financial statements

On behalf of the Management Committee:

Howard Wetston
Chair

Gordon Kaiser
Vice-Chair

Ontario Energy Board
STATEMENT OF OPERATIONS AND NET ASSETS
Period Ended March 31

	Year ended 2005 $	8 months ended 2004 $
REVENUE		
Interest income	300,081	84,724
Licence fees	24,500	11,500
Other income	0	704,240
	324,581	800,464
Recovery of Costs:		
General cost recovery (note 5)	23,761,007	12,562,447
Hearing costs	218,960	214,651
Amort. of deferred revenue related to capital assets	240,204	0
	24,220,171	12,777,098
TOTAL REVENUE	24,544,752	13,577,562
EXPENSES		
Staff and board member costs	14,960,222	7,781,726
Consulting and professional	4,518,271	2,229,628
Premises	1,649,958	1,221,903
General program costs	1,082,485	761,579
Intervenor Funding	882,202	0
Office and administration	726,794	649,281
Information technology	484,616	229,205
Amortization	240,204	0
TOTAL EXPENSES	24,544,752	12,873,322
SURPLUS OF REVENUE OVER EXPENSES	**0**	**704,240**
Net Assets, beginning of period	704,240	0
NET ASSETS, end of period	**704,240**	**704,240**

See accompanying notes to financial statements

Ontario Energy Board
STATEMENT OF CASH FLOWS
Period Ended March 31

	Year ended 2005 $	8 months ended 2004 $
Net inflow (outflow) of cash related to the following activities:		
RECOVERY OF COSTS		
General cost assessments	29,545,565	18,404,398
Hearing costs assessed	111,316	32,622
Less: amounts related to activity pre Aug 1, 2003	0	(3,495,695)
	29,656,881	14,941,325
OPERATING		
Revenue other than cost recovery	324,581	800,464
Expenses	(24,544,752)	(12,873,322)
Adjustments for:		
Amortization	240,204	0
Changes in non-cash working capital:		
Accounts receivable	(8,031,123)	(69,213)
Deposits and prepaid expenses	(5,926)	(94,774)
Deferred recovery revenue	8,090,652	0
Accounts payable and accrued liabilities	5,543,942	1,095,344
Deferred rent inducement	854,685	0
	(17,527,737)	(11,141,501)
FINANCING		
Due to the Province of Ontario	(6,180,194)	6,306,584
	(6,180,194)	6,306,584
INVESTING		
Capital asset purchases	(2,939,252)	(734,562)
	(2,939,252)	(734,562)
NET INCREASE IN CASH	3,009,698	9,371,846
Cash, beginning of period	9,371,846	0
Cash, end of period	12,381,544	9,371,846

See accompanying notes to financial statements

Ontario Energy Board
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2005

1. NATURE OF THE CORPORATION

The Ontario Energy Board ("the Board") is the regulator of Ontario's natural gas and electricity industries. The Board also provides advice on energy matters referred to it by the Minister of Energy and the Minister of Natural Resources.

Effective August 1, 2003 and pursuant to the *Ontario Energy Board Act,1998* the Ontario Energy Board was continued as a corporation without share capital empowered to fully recover its costs from gas and electricity industry participants.

On December 9, 2004, the *Electricity Restructuring Act, 2004* was passed. That *Act* amended the *Ontario Energy Board Act, 1998* to, among others, change the objectives of the Board and transfer the Market Surveillance Panel (formerly a panel of the Independent Electricity Market Operator) to the Board effective January 1, 2005.

As an Ontario Crown Agency, the Agency is exempted from federal and provincial income taxes under the Income Tax Act (Canada), and goods and services taxes under the Excise Tax Act.

2. SCOPE OF THE FINANCIAL STATEMENTS

These financial statements present the results of operations of the Board from the date of establishment of the Board as a corporation without share capital on August 1, 2003 for the 8 months ended March 31, 2004, and the second fiscal year ended March 31, 2005.

3. 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 include:

a) Revenue Recognition

The Board follows the deferral method of accounting for cost recoveries. Recognition of cost-recovery revenue is matched to the expenses of the Board as follows:

- Recovery of hearing costs, assessed under section 30 of the *Ontario Energy Board Act*, is recognized as related expenses are incurred.
- General cost recovery, assessed under section 26 of the *Ontario Energy Board Act*, is recognized to the extent of expenses of the Board not otherwise recovered that are in excess of license fees and investment income. General cost recovery related to capital asset expenditures is deferred. Deferred revenue related to capital assets is amortized and recognized as revenue on the same basis that the underlying capital assets are amortized.

Ontario Energy Board
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2005

License fees and investment income are recognized as revenue when received and receivable, respectively.

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 the acquisition, as follows:

Office furniture and equipment	5 years
Computer equipment and related software	3 years
Audio visual equipment	3 years
Leasehold improvements	over term of lease

c) Financial Instruments

The Board does not use derivative financial instruments. The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate fair values, due to their short-term nature.

d) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles require that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and recoveries for the year. Actual amounts could differ from these estimates.

e) Employee Benefit Plans

The Board 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 Board has insufficient information to apply defined benefit plan accounting to this pension plan.

The Board also established a supplementary unfunded pension plan for certain full-time members. The Board accrues its obligations and the related cost under this supplemental unfunded pension plan. For purpose of valuation, the actuarial liability and the current service cost is determined by independent actuaries using the projected benefit method, prorated on management's best estimate assumptions.

Ontario Energy Board
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2005

The Board is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Province of Ontario.

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 2005	Net Book Value 2004
	$	$	$	$
Office furniture and equipment	1,484,348	6,984	1,477,364	34,902
Computer equipment and related software	1,733,415	233,220	1,500,195	699,660
Audio visual equipment	224,576	0	224,576	0
Leasehold improvements	231,475	0	231,475	0
	3,673,814	240,204	3,433,610	734,562

5. INDUSTRY ASSESSMENTS FOR 2004-05

During Fiscal 2004-05, the gas and electricity industry participants were assessed estimated costs for the 2004-05 fiscal year based on forecasted amounts. Amounts assessed in excess of actual costs will reduce the assessments for 2005-06 and are reported as Deferred Recovery Revenue on the Statement of Financial Position. Actual costs and calculation of the deferred recovery revenue are outlined in the following tables.

a) Actual Costs for Year Ended March 31, 2005

	Statement of Operations
	$
Staff and board member costs	14,960,222
Consulting and professional	4,518,271
Premises	1,649,958
General program costs	1,082,485
Intervenor Funding	882,202
Office and administration	726,794
Information Technology	484,616
Total Expenses excluding amortization	24,304,548
Hearing cost recovery, licence fees, interest income	(543,541)
General Cost Recovery	23,761,007

Ontario Energy Board
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2005

b) Deferred Recovery Revenue at March 31, 2005

		2005 $
Assessments		29,545,565
Less: General cost recovery revenue		23,761,007
Deferred recovery revenue related to 2004-05 activity		5,784,558
2003-04 True-up		1,611,694
Remaining 2003-04 deferred recovery revenue related to capital assets		494,360
2005-06 1st Quarter Billing		8,090,652
Deferred recovery revenue at March 31, 2005		15,981,264
Financial Statement Presentation:		
Deferred recovery revenue related to capital assets		3,285,310
2004-05 True-up	4,605,302	
Adjustment for 2005-06 1st Quarter Billing	8,090,652	
Deferred recovery revenue		12,695,954
Total deferred recovery revenue at March 31, 2005		15,981,264

6. EMPLOYEE FUTURE BENEFITS

The Board's contribution to the Public Service Pension Plan for the 2004-05 fiscal year was $733,303 (2004 - $500,123) and is included in staff and board member costs on the Statement of Operations and Net Assets.

7. RELATED PARTY TRANSACTIONS

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

a) The Ministry of Energy provided operating services in the handover of the business to the Board in the amount of $62,546.

Ontario Energy Board
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2005

b) The Ministry of Finance provided communication support services and shared conference call facilities to the Board in the amount of $63,844.

c) One-time Transition Funding

The Ministry of Energy provided a grant of $704,240 related to the substantial transfer of Ministry employees to the Board on March 29, 2004.

8. DEFFERED RENT INDUCEMENT & OPERATING LEASE COMMITMENTS

The Board entered into a lease commitment for its office space during the Fiscal year, which included various lease inducements. Deferred rent inducement represents the benefit of operating lease inducements which are being amortized on a straight-line basis over 15 years, being the term of the lease.

The minimum annual payments under the operating lease for the next 15 years and in aggregate are as follows:

2006	$	2,013,621
2007		2,040,407
2008		2,067,756
2009		2,095,679
2010		2,159,593
2011 and thereafter		24,491,128
	$	34,868,184

9. DEFERRED REVENUE RELATED TO CAPITAL ASSETS

As part of the leasehold inducements included in the lease agreement, the Landlord paid for $148,300 of leasehold improvements on behalf of the Board in fiscal 2004-05. As a result, these leasehold improvements which are included in capital assets were not included in deferred revenue related to capital assets.

Net Book Value of Capital Assets 2004-05	$3,433,610
Less: Leasehold Improvements paid by Landlord	$ 148,300
Deferred Revenue related to Capital Assets	$3,285,310

Ontario Financing Authority

Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Financing Authority have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 10, 2005.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for overseeing that management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

Gadi Mayman
Chief Executive Officer and Vice-Chair (interim)
Ontario Financing Authority
June 10, 2005

Ontario Financing Authority

Auditor's Report

Office of the Auditor General of Ontario

Bureau du vérificateur général de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 2005, and the statement of net income and retained earnings, and the cash flow statement for the year then ended. These financial statements are the responsibility of the Authority'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 Authority as at March 31, 2005 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 10, 2005

J.R. McCarter, CA
Auditor General

Ontario Financing Authority

Balance Sheet

As at March 31, 2005

(in thousands of dollars)		**2005**		***2004***
ASSETS				
Current assets				
Cash	$	146	*$*	*141*
Accounts receivable		3,155		*2,852*
Due from agencies (note 4 (iii))		805		*1,140*
Loans receivable (note 2)		6		*6*
Total current assets	**$**	**4,112**	***$***	***4,139***
Long-term assets				
Capital assets (note 3)		2,225		*1,866*
Loans receivable (note 2)		79,021		*79,027*
Total assets	**$**	**85,358**	***$***	***85,032***
LIABILITIES AND RETAINED EARNINGS				
Current liabilities				
Accounts payable and accrued liabilities	$	5,380	*$*	*4,718*
Due to the Province of Ontario—Agencies		805		*1,140*
Due to the Province of Ontario—OMIC debt (note 2)		6		*6*
Total current liabilities	$	6,191	*$*	*5,864*
Long-term debt				
Due to CPP and the Province of Ontario (note 2)		79,031		*79,037*
Total liabilities	$	85,222	*$*	*84,901*
Retained earnings		136		*131*
Total liabilities and retained earnings	**$**	**85,358**	***$***	***85,032***

See accompanying notes to financial statements.

Approved on behalf of the Board:

Colin Andersen
Chair

Gadi Mayman
Chief Executive Officer and Vice-Chair (interim)

Ontario Financing Authority

Statement of Net Income and Retained Earnings

For the year ended March 31

(in thousands of dollars)		2005		*2004*
REVENUE				
Interest	$	7,600	$	*7,600*
Cost recovery from the Province of Ontario (Note 4(ii))		14,970		*13,423*
Total revenue	**$**	**22,570**	**$**	***21,023***
EXPENSES				
Interest on long-term debt	$	7,595	$	*7,596*
Salaries, wages and benefits		10,900		*10,298*
Administrative and general		2,987		*2,338*
Amortization		1,083		*787*
Total expenses	**$**	**22,565**	**$**	***21,019***
Net income from operations for the year	$	5	$	*4*
Retained earnings, beginning of the year		131		*127*
Retained earnings, end of the year	$	136	$	*131*

See accompanying notes to financial statements.

Ontario Financing Authority

Cash Flow Statement

For the year ended March 31

(in thousands of dollars)		**2005**		***2004***
Cash flows from operating activities				
Income from continuing operations	$	5	*$*	*4*
Adjustments to reconcile net income to funds provided by operating activities:				
Amortization		1,083		*787*
Net change in accounts receivable, payable and accrued liabilities		359		*892*
Cash flows from operating activities	$	1,447	*$*	*1,683*
Cash flows from financing activities				
Repayments to the Province re: OMIC loans	$	(6)	*$*	*(5)*
Repayments from holders of OMIC loans		6		*5*
Cash flows from/(used in) financing activities	$	—	*$*	*—*
Cash flows from investing activities				
Purchase of capital assets	$	(1,442)	*$*	*(1,678)*
Cash flows used in investing activities	$	(1,442)	*$*	*(1,678)*
Net increase in cash	$	5	*$*	*5*
Cash at beginning of the year		141		*136*
Cash at end of the year	**$**	**146**	***$***	***141***

See accompanying notes to financial statements.

Ontario Financing Authority

Notes to Financial Statements

For the year ended March 31, 2005

BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown, on November 15, 1993, by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA's objects are:

- To assist public bodies and the Province of Ontario to borrow and invest money;
- To develop and carry out financing programs, issue securities, manage cash, currency and other financial risks on behalf of the Province or any public body;
- To provide such other financial services as are considered advantageous to the Province or any public body;
- Any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act of Canada*.

1. SIGNIFICANT ACCOUNTING POLICIES

(i) General: The financial statements are prepared in accordance with Canadian generally accepted accounting principles prescribed by the Canadian Institute of Chartered Accountants.

(ii) Capital assets: Capital assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below, starting in the year of acquisition, i.e., half year depreciation is charged in the year of acquisition and half year in the year of disposal, irrespective of the date of acquisition or disposal.

Furniture and equipment	5 years
Computer hardware	3 years
Leasehold improvements	remaining life of lease

(iii) Measurement uncertainty: The preparation of the financial statements of the OFA requires management to make estimates and assumptions based on information available at the time of preparation of the financial statements and will be adjusted annually to reflect new information as it becomes available.

2. ONTARIO MUNICIPAL IMPROVEMENT CORPORATION (OMIC)

In accordance with the *Capital Investment Plan Act, 1993*, the Ontario Municipal Improvement Corporation's (OMIC) assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) and the Province, which OMIC used to make loans to municipalities and school boards under similar terms as its debt.

As at March 31, 2005, the portion of long-term debt maturing in 2005–06 is $6,000 ($6,000 also matured in 2004–05) and is due to the Province. Long-term debt (maturing in the year ended March 31, 2007 and future) is comprised of debt due to the Province of $10,000 and to the Canada Pension Plan of $79 million (March 31, 2004 - $16,000, and $79 million respectively, maturing in the year ended March 31, 2006 and future).

Ontario Financing Authority

The terms of the outstanding debt are as follows:
(*in thousands of dollars*)

	As at March 31, 2005		*As at March 31, 2004*	
Year ended March 31	**Principal Maturing**	**Effective Average Interest Rate (%)**	***Principal Maturing***	***Effective Average Interest Rate (%)***
2005	—		*6*	*11.25*
2006	6	11.25	*6*	*11.25*
2007–10	—		*—*	
1–5 years	$ 6		*$ 12*	
6–10 years	79,031	9.61	*79,031*	*9.61*
Total	**$ 79,037**		***$ 79,043***	

3. CAPITAL ASSETS

The net book value (NBV) of capital assets is as follows:

(*in thousands of dollars*)

	Cost	Accumulated Amortization	NBV March 31, 2005	*NBV March 31, 2004*
Furniture and equipment	$ 362	$ 261	$ 101	*$ 84*
Computer hardware	7,443	5,792	1,651	*1,395*
Leasehold improvements	1,068	595	473	*387*
Total	**$ 8,873**	**$ 6,648**	**$ 2,225**	***$ 1,866***

4. TRANSACTIONS WITH THE PROVINCE AND OTHER PUBLIC BODIES

(i) Financing activities between the Province and other Public Bodies: Acting as a financial conduit for the Province, the OFA provides financing to various public bodies, the repayment of which is expected from third-party revenues. The funds for these loans are advanced to the OFA by the Province under a credit facility of $2.16 billion. Repayments received from public bodies by the OFA are forwarded to the Province. These transactions are not reflected in these financial statements. In compliance with the Ontario Financing Authority Lending Policy adopted by its Board of Directors on December 17, 1997, each advance received by the OFA under the current facility bears interest at a rate that is equivalent to the rate of interest payable to the OFA on the corresponding loan to a public body(ies). As at March 31, 2005, $807 million (March 31, 2004—$131 million), including accrued interest, was advanced by the Province to the OFA and must be repaid by the OFA on or before August 31, 2027.

Funds generally are advanced by the OFA to public bodies under interim financing arrangements consisting of a number of promissory notes for terms not exceeding one year. Interest is payable on the principal outstanding. The promissory notes later are converted to term debt and repayment terms are finalized. As at March 31, 2005, the receivables represent debentures, except for the promissory note from the Centennial Centre of Science and Technology, line of credit to the Ontario

Ontario Financing Authority

Northland Transportation Commission and short-term loans to the Ontario Power Authority.

The following represents amounts receivable by the OFA on behalf of the Province, including accrued interest. These are related party transactions, with the exception of those with the Toronto District School Board, the Corporation of the City of Windsor and the Ontario Power Authority.

	(*in thousands of dollars*)	
	March 31, 2005	***March 31, 2004***
Ontario Lottery and Gaming Corporation	$ 685,490	*$ —*
Toronto District School Board	55,200	*55,200*
Ontario Northland Transportation Commission	35,440	*51,111*
Corporation of the City of Windsor	23,393	*24,221*
Ontario Power Authority	6,782	*—*
Centennial Centre of Science and Technology	250	*500*
	$ 806,555	*$ 131,032*

The Ontario Lottery and Gaming Corporation (OLGC) is a Crown agency of the Province under the *Ontario Lottery and Gaming Corporation Act, 1999*. Members of the corporation are appointed by the Lieutenant Governor in Council. The OLGC loan of $794 million (outstanding as at March 31, 2005—$685 million) was issued on June 30, 2004, to purchase the casino complex in Niagara Falls. This is a five-year loan at 4.3821 percent maturing in June 2009.

The Toronto District School Board has been incorporated under the *Education Act* and is existing under the laws of the Province of Ontario. Public school trustees are elected to represent the public school supporters in the City of Toronto. The 10-year debenture of $55.2 million was issued on March 31, 2004, at 3.999 percent. Interest and principal repayments commence in March 2008.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990.* Members of the Commission are appointed by the Lieutenant Governor in Council.

- The ONTC debentures (outstanding as at March 31, 2005—$24.9 million) were issued in three stages: $3.9 million at 5.64 percent, maturing in April 2008; $12.7 million at 6.37 percent, maturing in August 2014; and $19 million at 5.6 percent, maturing in December 2014.
- In addition, the Minister of Finance directed the OFA on March 31, 2004, to assume the Province's lines of credit to ONTC of up to $27 million, which expired on March 31, 2005. The entire amount available of $27 million on the lines of credit were drawn as at March 31, 2005. However, by Order in Council dated March 31, 2005, the ONTC was released from its obligation to repay $20.3 million under the existing credit facilities and approval was received to extend ONTC's operating lines of credit until March 2008 for a maximum of $13 million. As at March 31, 2005, amount drawn on the extended lines of credit was $6.7 million.
- Also, during the year ended March 31, 2005, ONTC received short-term loans totalling $3.8 million at 3.0–3.21 percent. These loans of $3.8 million were subsequently consolidated on January 1, 2005 into a 15-year long-term debenture at 5.22 percent maturing in January 2020.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The

Ontario Financing Authority

financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of provincial division courthouse and city police headquarters. This is a 20-year debenture at 6.41 percent maturing in March 2021.

The Ontario Power Authority (OPA), established in December 2004, is not a Crown agency, but rather a not-for-profit corporation. OPA received short-term loans totalling $76.6 million at 2.63–2.65 percent of which $69.8 million was repaid before the end of the year. The balance outstanding as at March 31, 2005, was $6.8 million.

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act*. Its Board of Trustees is appointed by the Lieutenant Governor in Council. Under the loan agreement, rate of interest on the principal outstanding (not to exceed $1.0 million) is OFA's lending rate, reset and payable monthly. The interest rate as at March 31, 2005, was 2.72 percent (March 31, 2004—2.28 percent). The borrower agrees to repay one quarter of the aggregate principal sum at the end of each fiscal year with the final principal repayment on March 31, 2006.

(ii) Investing for Related Parties: In the normal course of operations, the OFA provides investment management services to other public bodies as listed below. Funds managed on behalf of other public bodies, as at March 31, 2005 (which are not reflected in these financial statements), are as follows:

(*in thousands of dollars*)

	March 31, 2005	*March 31, 2004*
Ontario Strategic Infrastructure Financing Authority	$ 1,916,823	*$ 1,302,976*
Northern Ontario Heritage Fund Corporation	187,317	*183,217*
Ontario Realty Corporation	132,291	*111,498*
Ontario Immigration Investor Corporation	185,895	*62,330*
Ontario Trillium Foundation	103,267	*99,737*
Ontario Securities Commission	31,997	*31,996*
Algonquin Forestry Authority	2,560	*1,852*
	$ 2,560,150	***$ 1,793,606***

The OFA also manages debt and investment on behalf of the Province, including the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the Ontario Nuclear Funds Agreement (ONFA). The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to dispose of nuclear waste and used fuel, and to decommission nuclear power stations. The agreement came into force during 2003–04.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2005, was $15 million (March 31, 2004—$13.4 million).

(iii) Due from Agencies

a) **Ontario Electricity Financial Corporation (OEFC):** The OEFC is the agency responsible for servicing and retiring the debt and certain other liabilities of the former Ontario Hydro. The OFA provides financial services and advice to OEFC and manages its debt portfolio estimated at $27.6 billion as at March 31, 2005 (March 31, 2004—$27.6 billion) on a fee-for-service basis.

Ontario Financing Authority

b) **Ontario Strategic Infrastructure Financing Authority (OSIFA)—formerly OMEIFA:** OSIFA was established as a Crown agency under the *Ontario Municipal Economic Infrastructure Financing Act, 2002*. As per 2004 Budget, OSIFA's mandate is to provide affordable infrastructure renewal loans to meet municipal, health, education, post-secondary and housing priorities. In the 2005 Budget, OSIFA's loan program was broadened so that loans also will be available to municipalities for investments in local culture, tourism and recreation infrastructure projects.

The OFA manages the debt of OSIFA, which includes loans from the Province of Ontario of $1 billion, loans from Ontario Clean Water Agency of $120 million, Ontario Opportunity Bonds of $323 million, Infrastructure Renewal Bonds of $650 million and Commercial Paper of $314 million as at March 31, 2005, and provides investment, cash and related financial management services on a fee-for-service basis.

Total costs incurred on behalf of OEFC and OSIFA are netted against OFA costs and are not reflected in the statement of net income. These costs and the total receivable from these agencies as at March 31, 2005, are as follows:

(*in thousands of dollars*)

	Costs incurred March 31, 2005	**Balance outstanding March 31, 2005**	***Balance outstanding March 31, 2004***
OEFC	$ 2,207	$ 558	*$ 695*
OSIFA	1,078	247	*445*
Total	**$ 3,285**	**$ 805**	***$ 1,140***

5. FUTURE EMPLOYEE BENEFITS

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit plan. This plan was accounted for as a defined contribution plan, as the OFA had insufficient information to apply defined benefit plan accounting to this pension plan. The cost of the pension plan is paid by Management Board Secretariat and is not reported in the financial statements. In addition, the cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not reported in the financial statements.

6. FINANCIAL INSTRUMENTS

The carrying amounts for cash, accounts receivable, loans receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

Given that the terms and amounts of the OFA's long-term receivables offset the OFA's long-term debt, providing fair values for these instruments would not add any more useful information to that which has already been presented in these financial statements.

7. CONTINGENCIES AND COMMITMENTS

The OFA, in the ordinary course and conduct of its business, may be exposed to various legal proceedings. At March 31, 2005, the OFA was not aware of any material or actual legal proceedings against the OFA, except for those arising from the operation of the POSO until the date of its sale on March 31, 2003. Such contingencies would include civil litigation and grievance proceedings. There are no material claims outstanding. Settlements, if any, relating to POSO, concerning these contingencies, will be accounted for by the Province in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

Ontario Financing Authority

8. COMPARATIVE FIGURES

Certain of the 2003–04 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2004–05.

9. SALARY DISCLOSURE

The *Public Sector Salary Disclosure Act, 1996* requires disclosure of Ontario Public Sector employees paid remuneration (e.g., salary, performance-based pay and severance) during the year in excess of $100,000. The amounts paid to such individuals in calendar 2004 are listed below:

Name	Position	Remuneration Paid	Taxable Benefits
Charles Allain	Director (A), Debt Management	$ 178,154	$ 240
Ken Broadbent	Manager, Foreign Exchange	$ 124,813	$ 175
Joseph Campos	Director, Risk Control	$ 151,573	$ 234
Edmundo Castellanes	Manager, Risk Control Operations	$ 106,412	$ 164
Robert Coke	Director, Strategic & Operations Research	$ 106,317	$ 187
Donna Crux	Manager, Account Management	$ 101,426	$ 173
James Devine	Manager, Medium-Term Notes & Private Placements	$ 152,752	$ 214
Bryan Everitt	Manager, IT Bus. Sol. & Oper. Support	$ 107,685	$ 188
Susan Guinn	Director, Retail Markets	$ 113,432	$ 195
Andrew Hainsworth	Manager, Funding	$ 143,805	$ 197
Douglas Harrington	Manager, Risk Control Financial Engineering	$ 131,161	$ 214
Serge Imbrogno	Director, Electricity Finance	$ 108,327	$ 188
John Logie	Manager, Financial Engineering	$ 123,224	$ 173
Michael Manning	Executive Director (A), Capital Markets	$ 224,798	$ 299
Gadi Mayman	Vice-Chair & CEO, OFA (interim)	$ 294,363	$ 428
John McKendrick	Director, Corporate Finance	$ 100,538	$ 175
Christine Moszynski	Director, Capital Markets Treasury	$ 130,495	$ 211
Dermot Muir	Legal Counsel	$ 157,053	$ —
David Peters	Manager, Debt Management	$ 151,247	$ 214
Ken Russell	Legal Counsel	$ 161,806	$ 276
Karen Sadlier-Brown	ADM, Corporate & Electricity Finance	$ 142,012	$ 249
Corey Simpson	Director, Legal Services	$ 180,705	$ 291
Linda Smith	Manager, Electricity and Nuclear Fund	$ 113,991	$ 164
Jeffery Telford	Manager, IT Infrastructure Management	$ 103,864	$ 177

ONTARIO HOUSING CORPORATION

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Ontario Housing Corporation have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to April 7, 2005.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on a periodic basis and reports its findings to management and to the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board of Directors reviews and approves the financial statements.

The financial statements have been audited by the Deputy Auditor General. The Deputy Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

Toni Farley
General Manager
Ontario Housing Corporation

Office of the Auditor General of Ontario

Bureau du vérificateur général de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Housing Corporation
and to the Minister of Municipal Affairs and Housing

I have audited the statement of financial position of Ontario Housing Corporation as at December 31, 2004 and the statement of operations and accumulated deficit for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at December 31, 2004, and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Peall

Toronto, Ontario
April 7, 2005

Gary R. Peall, CA
Deputy Auditor General

ONTARIO HOUSING CORPORATION
Statement of Financial Position
As at December 31, 2004

	2004	2003
	(thousands of dollars)	
ASSETS		
Cash	98,820	98,795
Investments in Properties (note 2)	26,389	31,531
Due from Province of Ontario	47	670
	125,256	**130,996**
Non-Profit Housing Fund (note 3)	1,360,586	1,360,523
	1,485,842	**1,491,519**
LIABILITIES		
Accounts Payable and Accrued Liabilities	64,894	67,076
Current Portion of Long-Term Debt	36,970	34,745
Long-Term Debt (note 4)	912,518	952,960
	1,014,382	**1,054,781**
Non-Profit Housing Fund (note 3)	1,360,586	1,360,523
CONTINGENT LIABILITIES (note 5)		
ACCUMULATED DEFICIT	(889,126)	(923,785)
	1,485,842	**1,491,519**

See accompanying notes to financial statements

On Behalf of the Board:

Director

General Manager

ONTARIO HOUSING CORPORATION
Statement of Operations and Accumulated Deficit
For the Year Ended December 31, 2004

	2004	2003
	(thousands of dollars)	
Revenues:		
Subsidies from Province:		
- Debt Service Obligations	97,679	97,824
- Interest Differential in Non-Profit Housing Fund (note 3)	16,888	16,888
- Bursary Revenue from Ministry (note 6)	1,150	1,150
Interest Received from Student Housing	1,963	2,078
Bursary Revenue from Service Managers (note 6)	27	-
Total Revenues	**117,707**	**117,940**
Expenses:		
Debenture Interest:		
- Devolved Properties	62,230	64,462
- Student Housing	1,963	2,078
Interest Differential in Non-Profit Housing (note 3)	16,888	16,888
Bursary Program (note 6)	1,150	1,325
Bursary Program - Service Managers (note 6)	27	-
Miscellaneous	190	139
Total Expenses	**82,448**	**84,892**
Excess of revenues over expenses (note 7)	**35,259**	**33,048**
Return of Capital to Province	(600)	-
Accumulated Deficit, Beginning of Year	(923,785)	(956,833)
Accumulated Deficit, End of Year	**(889,126)**	**(923,785)**

See accompanying notes to financial statements

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2004

NATURE OF OPERATIONS

The Ontario Housing Corporation is an agency of the Ministry of Municipal Affairs and Housing and is continued under the *Ontario Housing Corporation Act* R.S.O. 1990 c.0.21.

Until December 31, 2000 the Corporation was the largest landlord in Ontario, owning approximately 84,000 public housing units. Under the *Social Housing Reform Act 2000* (SHRA), ownership of the public housing units was transferred, effective January 1, 2001, to Local Housing Corporations (LHCs) which are controlled by Municipal Services Managers. The *SHRA* required that the assets be transferred to the LHCs for no consideration, which resulted in a significant loss to the Corporation and its current accumulated deficit.

The Corporation retained its Investment in Student Housing and certain other assets. It also retained responsibility for administering the Corporation's debts, the Non-Profit Housing Fund, and contingent liabilities. The Corporation's debt service payments and other expenses are recovered from the Ministry of Municipal Affairs and Housing, in the form of subsidies.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed by the Corporation are summarized below:

i. Subsidies from the province are accounted for as revenue, and revenue is recognized when related expenses are incurred.

ii. The Accumulated Deficit will be reduced each year by an amount equal to the portion of the subsidy from the province required to cover principal payments on the Corporation's long-term debt.

iii. A statement of cash flows has not been included in these financial statements because the information it would provide is readily apparent from the other financial statements and accompanying notes.

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2004

2. INVESTMENTS IN PROPERTIES

The Corporation's investments in properties are as follows:

	2004	2003
	(thousands of dollars)	
(a) Student Housing	25,277	30,377
(b) Provincial Housing	1,112	1,154
	26,389	31,531

(a) Student Housing

This investment represents funds advanced to universities and colleges to cover building costs for student accommodation projects. Each advance is associated with a specific long-term debt obligation of the Corporation and each educational institution makes semi-annual payments to the Corporation equal to the payments on the Corporation's corresponding long-term debt. When the debt is fully repaid, title to the properties will be transferred to the respective institutions. During 2004, one university repaid the advance on projects having an original cost of $5,391,000.

	2004	2003
	(thousands of dollars)	
Original Cost	39,486	44,877
Less: Accumulated Capital Repayments	14,209	14,500
	25,277	30,377

(b) Provincial Housing

All properties have been transferred to municipal LHCs except one for which certain legal issues have not been resolved. The funds advanced to cover the cost of this project are associated with a specific long-term debt obligation of the Corporation and the Corporation receives a subsidy from the Province equal to the annual payment on this debt.

	2004	2003
	(thousands of dollars)	
Original Cost	1,262	1,262
Less: Accumulated Capital Repayments	150	108
	1,112	1,154

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2004

3. NON-PROFIT HOUSING FUND

The Province of Ontario authorized the Corporation to borrow funds from the Canada Pension Plan Investment Fund and loan the funds as mortgages to non-profit housing corporations and universities and colleges to build, acquire or lease housing units. The CPP funds were borrowed from 1989 to 1992 and are repayable 20 years from the date of issuance of the debentures. Interest is payable semi-annually at various rates based on individual debentures – weighted average rate of 10.3%.

The majority of the CPP funds were initially loaned to non-profit housing corporations. However, during the 1993-2000 period these loans were refinanced in the private sector and, because the debentures could not be repaid ahead of their maturity dates, the funds were loaned to the Province.

As of December 31, 2004 the Fund consisted of:

	2004	2003
	(thousands of dollars)	
Assets		
Cash	3,963	3,900
Loans to Province of Ontario	1,157,212	1,157,212
Mortgages to Universities and Colleges	166,128	166,128
Interest Receivable	33,283	33,283
	1,360,586	1,360,523
Liabilities and Fund Balance		
Canada Pension Plan Investment Fund	1,323,340	1,323,340
Interest Payable	33,283	33,283
Fund Balance	3,963	3,900
	1,360,586	1,360,523

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2004

The interest rates on the mortgages to universities and colleges are the same as those payable on the Corporation's corresponding debentures. However, the interest rates on the loans to the Province reflect the lower rates in effect at the time they were made and thus the interest payments are not sufficient to service the debentures. The Corporation receives an interest differential subsidy from the Ministry of Municipal Affairs and Housing to cover the shortfall.

Details of the transactions related to the fund balance are as follows:

	2004	2003
	(thousands of dollars)	
Balance – Beginning of Year	3,900	3,811
Interest Earned – Loans, Mortgages, Bank	119,152	119,178
Interest Differential Subsidy from the Ministry of Municipal Affairs and Housing	16,888	16,888
Interest Paid on CPP Debentures	(135,977)	(135,977)
Balance – End of Year	3,963	3,900

In 2005, the Corporation will transfer the fund balance, $3,963,000 to the Province as these funds are surplus to the Corporation's needs.

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2004

4. LONG TERM DEBT

Long term debt is comprised of the following:

	2004	2003
	(thousands of dollars)	
Canada Mortgage and Housing Corporation	847,479	881,544
Loans Repayable to Province	102,009	106,161
	949,488	987,705
Less: Current Portion	36,970	34,745
	912,518	952,960

The Corporation borrowed funds from the Canada Mortgage and Housing Corporation (CMHC) and received capital funds from the Province of Ontario to finance investments in real property – now devolved to Local Housing Corporations. The capital funds provided by the Province, which had previously been included in Contributed Surplus, have been reclassified as Loans Repayable to Province, with interest and principal payments being made to the Minister of Finance. The interest expense is included in the Statement of Operations and Accumulated Deficit and is off-set by the subsidy from the Ministry of Municipal Affairs and Housing.

Interest on both the CMHC debt and the Loans Repayable to Province is payable at various rates based on individual agreements – the weighted average rates are 6.8% and 7.1% respectively (2003 – 6.8% and 7.1% respectively). Interest expense for the year totaled $64.2 million (2003 – $66.5), $7.3 million (2003 – $7.6) of which was paid to the Province.

Scheduled payments of principal and interest over the next five years are as follows:

	CMHC Debentures	Loans Repayable to Province	Total
		thousands of dollars	
2005	90,604	11,306	101,910
2006	90,499	11,274	101,773
2007	90,379	11,248	101,627
2008	90,300	11,227	101,527
2009	90,203	11,199	101,402

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2004

5. CONTINGENT LIABILITIES

a) The Corporation previously entered into loan insurance agreements with CMHC pertaining to mortgage loans on projects funded under various provincially-funded non-profit housing programs administered by the Ministry. Under these agreements, CMHC has insured mortgage loans made by lenders approved under the National Housing Act for the purpose of purchasing, improving, constructing or altering housing units. While the insurance is provided by CMHC, the Corporation is liable to CMHC for any net costs, including any environment liabilities, incurred as a result of loan defaults on projects funded by the Province. The Ministry of Municipal Affairs and Housing will reimburse any costs incurred by the Corporation. As of December 31, 2004, there were $4.8 billion of mortgage loans outstanding on provincially funded projects. To date, there have been no claims for defaults on the insured mortgage loans.

b) Under the SHRA, the Corporation retained the liability for cleaning up environmentally contaminated sites within the former public housing portfolio. Regent Park, formerly owned by the Corporation, is being re-developed by the Toronto Community Housing Corporation (TCHC). The cost of Regent Park remediation is unknown at this time. In March 2005, the Corporation contributed $507,000 to the TCHC for Regent Park remediation and has committed an additional $80,000 to be paid later in 2005.

c) The Corporation is a defendant in a legal suit. It is not possible to predict the cost to the Corporation, if any, of the resolution of the dispute.

6. BURSARY PROGRAM

The Dr. Albert Rose Bursary program offers financial assistance to rent-geared-to-income tenants in Ontario who wish to acquire a post-secondary education. The available funding, $1,150,000 in 2004, is divided equally among eligible tenants subject to maximum grants of $3,000 for full-time and $1,000 for part-time students. Municipal Service Managers were invited to participate in this program with respect to tenants in their areas and in 2004 certain managers provided $27,000 in additional program funding.

7. EXCESS OF REVENUES OVER EXPENSES

The subsidies from the Province include amounts intended to cover the interest and principal payments on the Corporation's long-term debt. The interest is included in the Corporation's expenses and the excess of revenues over expenses represents the principal payments.

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 2004

8. ADMINISTRATIVE EXPENSES

The Ministry of Municipal Affairs and Housing provides administrative services to the Corporation at no charge.

9. DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Corporation's financial instruments, as explained below, are based on relevant market prices and information available at December 31, 2004. The fair value estimates are not necessarily indicative of the amounts that the Corporation might receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value of the amount due from the Province of Ontario and accounts payable and accrued liabilities approximate their carrying values because of the short-term nature of these items.

The fair value of CMHC debentures is based on the future cash flows associated with each instrument discounted using an interest rate based on debt instruments with similar characteristics. At December 31, 2004, the aggregate fair value of the CMHC debentures was more than their aggregate book value by $129.0 million (2003 – $114.2 million).

Since the Corporation is controlled by the Province of Ontario, the fair value of loans repayable to province ($97.3 million at December 31, 2004) has not been calculated.

10. COMPARATIVE FIGURES

Certain amounts from the 2003 financial statements have been reclassified to conform to the current year's presentation.

ONTARIO IMMIGRANT INVESTOR CORPORATION (OIIC)

Responsibility for Financial Accounting

Management and the Board of Directors are responsible for the financial statements presented. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The preparation of financial statements necessarily involves the use of estimates based on management's judgement.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

These financial statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor General's examination and his opinion.

On behalf of management

Neil Smith
President

Diane Frith
Chief Financial Officer

Office of the
Auditor General
of Ontario

Bureau du
vérificateur général
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
Tel: (416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Immigrant Investor Corporation
and to the Minister of Economic Development and Trade

I have audited the balance sheet of the Ontario Immigrant Investor Corporation as at March 31, 2005 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 24, 2005

Gary R. Peall, CA
Deputy Auditor General

ONTARIO IMMIGRANT INVESTOR CORPORATION

Balance Sheet
As at March 31, 2005

	2005 ($ 000)	2004 ($ 000)
ASSETS		
Cash	30	28
Accounts receivable	7,897	1,751
Investments (Note 3)	193,935	65,173
Deferred commission charges (Note 5)	9,073	2,169
	210,935	69,121
LIABILITIES AND RETAINED EARNINGS		
Liabilities		
Accounts payable	283	125
Repayable Provincial Allocations (Note 4)	205,359	66,198
	205,642	66,323
Retained Earnings	5,293	2,798
	210,935	69,121

See accompanying notes to financial statements.

Approved on behalf of the Board:

Don Black

Chair

Neil Smith

Director

ONTARIO IMMIGRANT INVESTOR CORPORATION

Statement of Operations and Retained Earnings
For the Year Ended March 31, 2005

	2005 ($ 000)	2004 ($ 000)
Revenue		
Interest income	5,353	2,389
Recovery of deferred commission charges expensed (Note 5)	6	—
	5,359	2,389
Expenses (Note 6)		
Amortization of deferred commission charges (Note 5)	2,580	685
Investment management fee (Note 3)	284	125
	2,864	810
Net Income	2,495	1,579
Retained earnings, beginning of year	2,798	1,219
Retained earnings, end of year	5,293	2,798

See accompanying notes to financial statements.

ONTARIO IMMIGRANT INVESTOR CORPORATION

Statement of Cash Flows
For the Year Ended March 31, 2005

	2005 ($ 000)	2004 ($ 000)
Cash provided by (used in) operating activities		
Net income	2,495	1,579
Changes in non-cash items related to operations		
Accounts receivable	(6,146)	297
Deferred commission charges	(6,904)	(753)
Accounts payable	158	(105)
	(10,397)	1,018
Cash (used in) provided by investing and financing activities		
Investments	(128,762)	(22,721)
Repayable provincial allocations	139,161	21,730
	10,399	(991)
Net (decrease) increase in cash	2	27
Cash, beginning of year	28	1
Cash, end of year	30	28

See accompanying notes to financial statements.

ONTARIO IMMIGRANT INVESTOR CORPORATION

Notes to Financial Statements
March 31, 2005

---

1. NATURE OF CORPORATION

The Ontario Immigrant Investor Corporation was established as a corporation without share capital on April 30, 1999 pursuant to Ontario Regulation 279/99 made under the *Development Corporations Act.*

The Corporation was established in order to participate in a revised federal Immigrant Investor Program (IIP). Under the new IIP, each participating province is required to establish a vehicle to receive and invest immigrant investor dollars for the purposes of creating or continuing employment in Canada in order to foster the development of a strong and viable economy. Each participating province, in turn, guarantees immigrant investors that their investment will be repaid after five years with no interest.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting
The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(b) Investments
Investments are stated at cost. For those investments purchased at a discount, the costs are adjusted for the accrued interest earned.

(c) Use of Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Financial Instruments
The carrying amount of cash, accounts receivable and accounts payable approximates fair value due to the short-term maturities of these instruments. The carrying values of investments and of repayable provincial allocations also approximate their fair value due to the nature of these instruments. It is management's opinion that the Corporation is not exposed to significant interest rate, currency or credit risks arising from its financial instruments.

3. INVESTMENTS

Investments are fixed income securities issued by the Province of Ontario, maturing within five years, with yields up to 5.42%.

The investment portfolio is managed by the Ontario Financing Authority (OFA) in accordance to the terms and conditions set out in an agreement signed between the OFA, the Corporation and the Province. The OFA receives an investment management fee for performing these services.

ONTARIO IMMIGRANT INVESTOR CORPORATION

Notes to Financial Statements
March 31, 2005

4. REPAYABLE PROVINCIAL ALLOCATIONS

The Corporation incurs long-term obligations from funds received under the federal Immigrant Investor Program in accordance with the terms and conditions set out in an agreement signed in June 1999 between the federal Minister of Citizenship and Immigration and the Corporation. The agreement states that the federal Minister, as agent of the Corporation, receives funds from immigrant investors and transfers Ontario's share of the funds (Provincial Allocation) to the Corporation. The Corporation will repay any Provincial Allocations received without interest at expiry of the Allocation Period, being five years from the date the Provincial Allocation was originally received. An investor's application for permanent residence may be withdrawn by the Investor or denied by the federal government. If this happens, the Provincial Allocation pertaining to the Investor is due and repayable by the Corporation within 90 days of written notification from the investor for repayment. Funds received pertaining to applications still being processed by the federal government are also considered repayable within 90 days.

Pursuant to Order-in-Council 1243/99, the Province guarantees the repayment of the Provincial Allocations when due. The repayment schedule on Provincial Allocations is as follows:

	($ 000)
Due 90 days on request	2,237
Due fiscal year 2006	6,612
Due fiscal year 2007	18,903
Due fiscal year 2008	16,943
Due fiscal year 2009	21,342
Due fiscal year 2010	139,322
	205,359

5. DEFERRED COMMISSION CHARGES

Commencing in fiscal 2002, the Corporation paid a commission to the intermediaries for introducing new immigrant investors who successfully apply for permanent residence in Ontario under the federal Immigrant Investor program. The commission is amortized to expense on a straight-line basis over the same period as the related Repayable Provincial Allocations, which is normally five years. Amortization begins in the fiscal year when the allocation related to the commission is received. The deferred charges represent the unamortized balance of the commissions. If the application for permanent residence is withdrawn by the immigrant investor or denied by the federal government, the Corporation recovers the commission in the year when this occurs.

	($ 000)
Balance, beginning of year	2,169
Commissions paid	9,493
Commissions recovered	(9)
Amortization	(2,580)
Balance, end of year	9,073

ONTARIO IMMIGRANT INVESTOR CORPORATION

Notes to Financial Statements
March 31, 2005

---

5. DEFERRED COMMISSION CHARGES (CONTINUED)

A total of $15,396 in commissions were recovered during the year, $6,158 of which had previously been amortized to expense, leaving an unamortized balance of $9,238 in deferred commissions recovered.

6. EXPENSES

Administrative support including accommodation, financial, legal and human resource services are provided by the Ministry of Economic Development and Trade without charge.

OSIFA

Responsibility for Financial Accounting

The accompanying consolidated financial statements of OSIFA have been prepared in accordance with accounting principles recommended for governments by CICA and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. Management Board Secretariat's Internal Audit Services, which provide audit services to the Ministry of Finance, independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the audit committee of the board of directors.

The board of directors, through the audit committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The audit committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the board of directors.

The financial statements have been audited by the Auditor General. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with accounting principles recommended for governments by CICA. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor General's examination and his opinion.

On behalf of management,

Bill Ralph	Gregg Smyth
Chief Executive Officer	Vice President and Chief Financial Officer

OSIFA

Office of the Auditor General of Ontario

Bureau du vérificateur général de l'Ontario

AUDI ALTERAM PARTEM

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Strategic Infrastructure Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Strategic Infrastructure Financing Authority as at March 31, 2005, and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Authority'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 Authority as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with the accounting principles recommended for governments by the Canadian Institute of Chartered Accountants.

Toronto, Ontario
June 3, 2005

Gary R. Peall, CA
Deputy Auditor General

Ontario Strategic Infrastructure Financing Authority

OSIFA

BALANCE SHEET

As at March 31, 2005
(in thousands of dollars)

	March 31 2005	March 31 2004
ASSETS		
Current assets		
Cash	$ 202	$ 290
Interest receivable	12,254	1,972
Short-term investments	1,240,212	1,302,976
Total current assets	1,252,668	1,305,238
Non-current assets		
Loans receivable from municipalities (Note 2)		
– Construction Advances	218,851	133,998
– Debentures	239,492	–
Long-term investments (Note 13)	676,611	–
Debt issue costs (Note 3)	6,855	1,383
Deferred costs (Note 13)	1,537	–
Capital assets (Note 4)	219	166
Total non-current assets	1,143,565	135,547
Total assets	$ 2,396,233	$ 1,440,785
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	$ 1,907	$ 1,232
Interest payable (Note 6)	8,613	5,829
Commercial Paper (Note 7)	314,187	–
Total current liabilities	324,707	7,061
Long-term debt		
Ontario Opportunity Bonds (Note 8)	323,364	323,404
Infrastructure Renewal Bonds (Note 9)	650,000	–
Due to the Ontario Clean Water Agency (Note 10)	120,000	120,000
Due to the Province of Ontario (Note 10)	1,000,000	1,000,000
Total long-term debt	$ 2,093,364	1,443,404
Total liabilities	2,418,071	1,450,465
Deficit	(21,838)	(9,680)
Total liabilities and deficit	$ 2,396,233	$ 1,440,785

See accompanying notes to the financial statements

Approved on behalf of the Board of Directors:

Colin Andersen, Chair

Bill Ralph, Chief Executive Officer

OSIFA

STATEMENT OF OPERATIONS AND DEFICIT

For the year ended March 31, 2005
(*in thousands of dollars*)

		March 31 2005		March 31 2004
REVENUE				
Interest Revenue				
Investments	$	31,650	$	38,916
Municipal Loans		5,021		407
Total revenue		36,671		39,323
EXPENSES				
Interest Expense				
Province of Ontario Loan		22,369		27,575
Ontario Opportunity Bonds		13,668		12,447
Infrastructure Renewal Bonds		2,867		–
Ontario Clean Water Agency Loan		2,696		3,317
Commercial Paper		2,074		-
Total interest expense		43,674		43,339
Salaries, wages and benefits		2,527		1,760
Administrative and general		1,891		1,570
Sales and marketing		249		1,995
Amortization of debt issue costs		385		306
Amortization of capital assets		90		33
Amortization of deferred costs		13		-
Total expenses		48,829		49,003
Loss from operations		12,158		9,680
Deficit at beginning of the period		9,680		–
Deficit at end of the period	$	21,838	$	9,680

See accompanying notes to the financial statements

OSIFA

STATEMENT OF CASH FLOWS

For the year ended March 31, 2005
(in thousands of dollars)

	March 31 2005	March 31 2004
OPERATING ACTIVITIES		
Loss from operations	$ (12,158)	$ (9,680)
Adjustments for items not affecting cash:		
Amortization of capital assets	90	33
Amortization of debt issue costs	385	306
Amortization of deferred costs	13	–
Issue of loans to municipalities less repayments	(324,345)	(133,998)
Net decrease (increase) in working capital	370,128	(1,297,887)
Cash flows provided by (used in) operating activities	34,113	(1,441,226)
FINANCING ACTIVITIES		
Proceeds/(Redemptions) from Ontario Opportunity Bonds	(40)	323,404
Proceeds from Infrastructure Renewal Bonds	650,000	–
Proceeds of loan from the Ontario Clean Water Agency	–	120,000
Proceeds of loan from the Province of Ontario	–	1,000,000
Deferred Costs	(1,550)	-
Debt Issue Costs	(5,857)	(1,689)
Cash flows provided by financing activities	642,553	1,441,715
INVESTING ACTIVITIES		
Acquisition of long term investments	(676,611)	–
Acquisition of capital assets	(143)	(199)
Cash flows used in investing activities	(676,754)	(199)
Net (decrease) increase in cash	(88)	290
Cash, beginning of the period	290	–
Cash, end of the period	$ 202	$ 290

See accompanying notes to the financial statements

OSIFA

Notes to Financial Statements

For the year ended March 31, 2005
(tabular amounts are in thousands of dollars)

Background
On May 18, 2004, the Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) was renamed the Ontario Strategic Infrastructure Financing Authority (OSIFA). All of OMEIFA's assets and liabilities continue to be assets and liabilities of OSIFA, including commitments made under the 2003-04 municipal concessionary loan program (OMEIFA program) and the Series 2003-1 Ontario Opportunity Bond program. OSIFA has also established an infrastructure renewal loan program (OSIFA program) that operates on a cost pass-through basis.

In accordance with the *Ontario Strategic Infrastructure Financing Authority Act, 2002*, OSIFA's objects are:

- to provide financing for municipalities and for other public bodies as may be specified by legislation;
- to obtain funding for its activities; and
- to undertake any additional objects as directed by the Lieutenant Governor in Council.

As a Crown corporation, OSIFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* of Canada.

1. Significant Accounting Policies

Basis of accounting
These financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) as recommended in the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the CICA Handbook for private sector corporations in Canada.

Measurement uncertainty
The preparation of the financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from these estimates.

OSIFA

Loans receivable

Loans with concessionary terms are discounted using OSIFA's average cost of borrowing to determine the present value of the loan. The difference between the face value of the loan and its present value is in substance, a grant.

Loans with significant concessionary terms are recorded at face value discounted by the amount of the grant portion. The grant portion is recognized as an expense at the date of issuance of the loan and amortized to revenue over the term of the loan. Loans with non-significant concessionary terms are recorded at face value. OSIFA has adopted a policy whereby if the value of the concession is greater than 25% of the total loan, then the loan will be considered to have significant concessionary terms. Loans receivable are stated at their estimated net realizable value.

Hedge accounting

OSIFA is exposed to interest rate fluctuations during the intervening period between the issuance of Infrastructure Renewal Bonds and initiating debentures with municipalities. To manage this interest rate risk, OSIFA utilizes financial instruments with similar characteristics to hedge against the debt. OSIFA has formally documented its risk management objective and strategy for undertaking these various hedging transactions, including relationships between the hedging instrument and the hedged item.

The hedging instruments are classified under long-term investments. Gains and losses resulting from hedging activities are classified as deferred costs and are being deferred and amortized to operations over the life of the underlying debt.

Short-term investments

Short-term investments include money market securities with maturities of less than twelve months. As at March 31, 2005 the interest rates ranged from 2.53% to 3.63% on these money market securities. The short-term investments are recorded at cost, which approximates market.

Debt issue costs

Debt issue costs were incurred on the sale of Ontario Opportunity Bonds and Infrastructure Renewal Bonds. These costs are amortized over the life of the bond issue.

Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful life of the assets beginning in the fiscal year of acquisition, with a half-year provision in the year of acquisition and half-year in the year of disposal. The estimated useful lives of the assets are as follows:

Computer equipment	3 years

OSIFA

2. Loans Receivable From Municipalities

For the year ended March 31, 2005, no loans with significant concessionary terms have been advanced; as a result all loans are recorded at face value.

Construction loans of $219 million are receivable from forty nine municipalities. During the period, the interest rate on these construction loans, which is one half of the average of Prime and 30 day Bankers' Acceptances on the OMEIFA program and 30 day Bankers' Acceptances plus ten basis points on the OSIFA program, ranged from 1.45% to 1.72% and 2.15% to 2.71% respectively. OSIFA also converted construction loans into debentures of $239 million for thirty six municipalities, with terms ranging from 5 to 40 years. The interest rate on these debentures ranged from 2.17% to 3.05% on the OMEIFA program and 4.36% to 4.94% on the OSIFA program.

3. Debt Issue Costs

	Cost	Accumulated Amortization	Net March 31 2005	Net March 31 2004
Ontario Opportunity Bonds	1,689	643	1,046	1,383
Infrastructure Renewal Bonds	5,857	48	5,809	-
Total	**$ 7,546**	**$ 691**	**$ 6,855**	**$ 1,383**

4. Capital Assets

	Cost	Accumulated Amortization	Net March 31 2005	Net March 31 2004
Computer equipment	342	123	219	166
Total	**$ 342**	**$ 123**	**$ 219**	**$ 166**

5. Accounts Payable And Accrued Liabilities

	March 31 2005	March 31 2004
Trade payables and accrued liabilities	92	10
Due to Ontario Financing Authority		
– Administrative Services	247	445
– OSIFA Operating Costs	1,568	777
Total	**$ 1,907**	**$ 1,232**

6. Interest Payable

	March 31 2005	March 31 2004
Ontario Opportunity Bonds accrued interest	5,497	5,574
Infrastructure Renewal Bonds accrued interest	2,867	–
Ontario Clean Water Agency accrued interest	249	255
Total	**$ 8,613**	**$ 5,829**

7. Commercial Paper

In November 2004, OSIFA commenced issuing notes under a commercial paper program. The program is administered by the OFA and is authorized to issue a maximum of $500 million for terms of up to one year. During the period, interest on the notes ranged from 2.44% to 2.67%. As at March 31, 2005, notes outstanding under the program aggregated $315 million, with a deferred interest cost of $813 thousand.

8. Ontario Opportunity Bonds

OSIFA has outstanding $323 million in tax-exempt Ontario Opportunity Bonds. These bonds bear interest at 4.25% per annum and mature on May 6, 2008. Interest is paid semi-annually on May 6th and November 6th until maturity. During the period $40 thousand of Ontario Opportunity Bonds were redeemed.

9. Infrastructure Renewal Bonds

On February 24, 2005, OSIFA issued $650 million of Infrastructure Renewal Bonds. The bonds bear interest at 4.60% per annum and mature on June 1, 2015. Interest is paid semi-annually on June 1st and December 1st until maturity.

10. Due to the Ontario Clean Water Agency and the Province Of Ontario

The Ontario Clean Water Agency ("OCWA") is a related party and has provided a twenty-year subordinated loan of $120 million to OSIFA in exchange for a promissory note which matures on March 1, 2023. The interest on the note is paid quarterly, with the interest rate set at four basis points below the average one month Certificate of Deposit Overnight Rate.

The Province of Ontario has provided OSIFA with a fifty-year subordinated loan of $1 billion in exchange for a promissory note which matures on March 31, 2053. The interest on the note is reset quarterly and payable quarterly at the Province's three-month treasury bill rate.

The $1.12 billion provides: (i) credit protection to investors in unsubordinated OSIFA debt such as Infrastructure Renewal Bonds and Ontario Opportunity Bonds; (ii) a liquidity backstop for OSIFA's financing needs; and (iii) a stable long-term capital base that enables OSIFA to achieve a high credit rating.

11. Related Party Transactions

In addition to the loans from OCWA and the Province of Ontario, OSIFA receives administrative services from the Ontario Financing Authority ("the OFA") on a fee for service basis. For the year ended March 31, 2005, services in the amount of $1,077,680 (1,076,466 – 2004) have been received from the OFA. OSIFA has paid $830,700 for these services, with the remaining balance included in accounts payable and accrued liabilities.

12. Future Employee Benefits

OSIFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit plan established by the Province of Ontario. The cost of the pension plan is paid by Management Board Secretariat and is not included in the financial statements. In addition, the cost of post-retirement, non-pension employee benefits is also paid by Management Board Secretariat and is not included in the financial statements.

13. Financial Instruments

The carrying amounts for cash, interest receivable, short-term investments, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

Hedging instruments are classified under long-term investments – $677 million. Gains and losses resulting from hedging activities are classified as deferred costs – $1.5 million and are being deferred and amortized to operations over the life of the underlying debt.

14. Contingencies

OSIFA, in the ordinary course and conduct of its business, may be exposed to various legal proceedings. At March 31, 2005, OSIFA was not aware of any such proceedings in process.

15. Commitments

On August 18, 2003, the Minister of Finance announced that 88 communities will be eligible for up to $1 billion in low-interest loans to strengthen local communities. As at March 31, 2005, loans in the amount of $386 million were issued to sixty four municipalities on the 2003-04 OMEIFA program.

On December 20, 2004 the Minister of Finance announced that 109 communities will be eligible for up to $1.2 billion as part of OSIFA's municipal infrastructure renewal loan program. As at March 31, 2005, loans in the amount of $72 million were issued to thirteen municipalities on the 2004-05 OSIFA program.

OSIFA

16. Economic Dependence

OSIFA is dependent on the Province of Ontario for the provision of funds to generate interest and investment income which is used to support the concessions provided to municipalities and to recover operating expenses. Based on the Province's support in providing a fifty-year loan, OSIFA is considered a going concern.

17. Salary Disclosure

The Public Sector Salary Disclosure Act, 1996, requires disclosure of Ontario Public Sector employees paid remuneration (e.g. salary, performance based pay and severance) during the year in excess of $100,000. The amounts paid to such individuals in calendar 2004 are listed below:

Name	Position	Remuneration Paid in 2004	Remuneration Paid in 2003
Dermot Muir	Legal Counsel	$ 157,052	$ 144,937
Bill Ralph	Chief Executive Officer	$ 131,739	$ 158,670
Gregg Smyth	VP, Community Finance and CFO	$ 116,852	$ 115,429
Susan McGovern	VP, Community Relations and Communication	$ 108,218	$ 109,819

18. Subsequent Event Disclosure

On May 11, 2005 as part of the 2005 Ontario Budget, the Minister of Finance announced that OSIFA's loan program would be broadened to provide loans for municipal culture, tourism and recreation infrastructure projects. It was also announced that Ontario Universities would be able to apply for OSIFA loans and that energy conservation projects would be a key OSIFA priority for both the municipal and university sectors.

Ontario Place Corporation

responsibility for financial reporting

The management of Ontario Place Corporation is responsible for the integrity and fair presentation of the financial statements accompanying this report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Ontario Place maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable, the company assets and liabilities are adequately accounted for, and assets are safeguarded.

The financial statements have been reviewed by Ontario Place's Audit Committee and have been approved by its Board of Directors. In addition, the financial statements have been audited by the Auditor General of Ontario, whose responsibility it is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report that appears as part of the financial statements outline the scope of the Auditor's examination and opinion.

Glenn Dobbin
General Manager

Marsha O'Connor, CMA
Senior Manager, Finance

Office of the
Auditor General
of Ontario

Bureau du
vérificateur général
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To Ontario Place Corporation
and to the Minister of Tourism and Recreation

I have audited the balance sheet of Ontario Place Corporation as at December 31, 2004 and the statements of operations and equity, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at December 31, 2004, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 10, 2005

Gary R. Peall, CA
Deputy Auditor General

ONTARIO PLACE CORPORATION

Balance Sheet
As at December 31, 2004

	2004 ($ 000)	2003 ($ 000)
ASSETS		
Current		
Cash (Note 8)	3,138	1,712
Accounts receivable	1,036	973
Inventory	151	3
Prepaid expenses	48	40
	4,373	2,728
Capital Assets (Note 3)	113,380	114,533
	117,753	117,261
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	3,319	2,305
Due to the Province of Ontario	11	1,434
Deferred revenue	167	216
	3,497	3,955
Deferred Capital Contributions (Note 4)	12,980	13,424
Unspent Deferred Capital Contributions	524	—
	13,504	13,424
Equity		
Invested in capital assets (Note 5)	100,400	101,109
Retained income (deficit)	352	(1,227)
	100,752	99,882
	117,753	117,261

Commitments and Contingencies (Note 7, 8, 9)

See accompanying schedules and notes to financial statements.

Approved on behalf of the Corporation.

Director

Director

ONTARIO PLACE CORPORATION

Statement of Operations and Equity
For the Year Ended December 31, 2004

	2004 ($ 000)	2003 ($ 000)
Operating revenue (Schedule 1)	13,750	10,941
Administrative and operating expenses (Schedule 2)	15,199	14,279
Operating deficit before the following	(1,449)	(3,338)
Province of Ontario operating grants	3,028	1,209
Amortization of deferred capital contributions	1,415	1,575
Amortization of capital assets	(2,124)	(2,283)
	2,319	501
Net income (loss) for the year	870	(2,837)
Equity, beginning of year	99,882	102,719
Equity, end of year	100,752	99,882

See accompanying schedules and notes to financial statements.

ONTARIO PLACE CORPORATION

Statement of Changes in Equity
For the Year Ended December 31, 2004

	2004 ($ 000)			2003 ($ 000)
	Invested in Capital Assets	Retained Income (Deficit)	Total	Total
Balance, beginning of year	101,109	(1,227)	99,882	102,719
Net income (loss)	(709)	1,579	870	(2,837)
Balance, end of year	100,400	352	100,752	99,882

See accompanying schedules and notes to financial statements.

ONTARIO PLACE CORPORATION

Statement of Cash Flows
For the Year Ended December 31, 2004

	2004 ($ 000)	2003 ($ 000)
Operating Activities		
Net income (loss) for the year	870	(2,837)
Adjustments against net income not requiring an outlay of cash		
▪ Amortization of capital assets	2,124	2,283
▪ Amortization of deferred capital contributions	(1,415)	(1,575)
Net change in non-cash working capital	(677)	1,625
Cash generated from (used in) operating activities	902	(504)
Investing Activities		
Capital asset acquisitions – net	(971)	(3,000)
Cash used in investing activities	(971)	(3,000)
Financing Activities		
Capital grants received	1,495	2,810
	1,495	2,810
Increase (decrease) in cash during the year	1,426	(694)
Cash, beginning of year	1,712	2,406
Cash, end of year	3,138	1,712

See accompanying schedules and notes to financial statements.

ONTARIO PLACE CORPORATION

Schedules of Operating Revenue and Administrative and Operating Expenses
For the Year Ended December 31, 2004

	2004 ($ 000)	2003 ($ 000)
Schedule 1		
Operating Revenue		
Admissions	6,402	5,316
Parking	1,864	1,612
Retail sales	1,506	622
Concessions and catering	1,009	982
Marina	686	607
Cinesphere revenues	426	419
Sponsorship revenue	562	480
Interest income	63	60
Amphitheatre	822	632
Other revenue	410	211
	13,750	10,941
Schedule 2		
Administrative and Operating Expenses		
Salaries and wages	5,762	6,020
Employee benefits (Note 6)	801	754
Advertising	2,053	1,670
Programming and entertainment	938	1,060
Cost of retail sales	931	508
Site maintenance	823	791
General and administration (Note 8)	1,098	1,020
Supplies	661	676
Utilities	1,057	784
Janitorial	492	404
Transportation and communication	241	285
Professional consulting	165	142
Other	177	165
	15,199	14,279

See accompanying notes to financial statements.

ONTARIO PLACE CORPORATION

Notes to Financial Statements
December 31, 2004

1. NATURE OF OPERATION

Ontario Place Corporation, (the "Corporation" or "Ontario Place") a provincial Crown agency, operates a park built on a 96-acre site extending through three islands created using landfill along the Toronto waterfront. The park includes a wide variety of programs, attractions and facilities which capture the spirit of Ontario by featuring distinctive and quality attractions for all ages. The site is intended to provide visitors with an appreciation of the Province's resources and accomplishments.

The fees charged for admission and the various attractions within the park are subject to approval by the Province of Ontario (the "Province"). The Province also provides grants to partially cover the costs of activities, programs and rejuvenation of the park.

In addition to the various attractions and activities operated directly by Ontario Place, the Corporation entered into a number of licence, ground lease and special event agreements with various private-sector companies for the 2004 season.

As an Ontario Crown agency, the Corporation is exempted from federal and provincial income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements are the representations of management prepared in accordance with Canadian generally accepted accounting principles.

(b) Inventory

Supplies inventory is valued at cost.

(c) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the assets as indicated below:

Buildings	25 years
Attractions	10 years
Equipment, fixtures	10 years
Computer equipment	4 years

(d) 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 amount 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.

ONTARIO PLACE CORPORATION

Notes to Financial Statements
December 31, 2004

3. CAPITAL ASSETS

Capital assets consists of the following:

	2004 ($ 000)			2003 ($ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land, waterlots	101,660	—	101,660	101,660
Buildings	7,155	2,610	4,545	4,431
Attractions	10,530	5,464	5,066	5,715
Equipment, Fixtures	6,467	4,396	2,071	2,640
Computer Equipment	52	14	38	87
	125,864	12,484	113,380	114,533

4. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the amount of restricted grants received for the purchase of depreciable capital assets. Purchased assets have been capitalized and the corresponding grant has been deferred and will be amortized into income on the same basis that the assets are amortized. The changes in the deferred capital contributions balance are as follows:

	2004 ($ 000)	2003 ($ 000)
Balance, beginning of year	13,424	12,189
Amount amortized to revenue	(1,415)	(1,575)
Capital grants received	1,495	2,810
Balance, end of year	13,504	13,424

5. INVESTED IN CAPITAL ASSETS

The invested in capital asset balance represents the net amount of the Corporation's investment in capital assets less the deferred capital contribution balance at year end.

ONTARIO PLACE CORPORATION

Notes to Financial Statements
December 31, 2004

6. EMPLOYEE BENEFITS

(a) Pension Benefits

The Corporation provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are both multiemployer plans established by the Province of Ontario. These plans are accounted for as defined contributions plans as the Corporation is not provided with sufficient information to apply defined benefit accounting to these pension plans. Accordingly, the Corporation's share of contribution related to the PSPF and OPSEU pension funds for the year was $143,478 (2003 – $116,257) and is included in employee benefits in the Schedule of Administrative and Operating Expenses.

(b) Non-Pension Benefits

The costs of post-retirement non-pension employee benefits are paid by the Management Board Secretariat and are not included in the statement of operations and equity. Legislated severance payments are accrued for upon retirement or departure of eligible employees.

7. LEASE COMMITMENTS

Minimum lease payments for equipment rental and licence fees are $49,284 for 2005, $39,356 for 2006 and $48,673 for 2007 and thereafter.

8. CONTINGENT LIABILITY FOR PROPERTY TAXES

The Corporation believes, and had received a legal opinion in 1997 stating that it has no legal obligation to pay grants in lieu of property taxes relating to Ontario Place. As a result, in fiscal 1996/97, the Board of Directors of the Corporation passed a resolution declaring that, commencing with the 1996 taxation year, the Corporation will not make any payment or record any charges for property taxes or grants in lieu of property taxes with respect to those portions of Ontario Place property not occupied by tenants. The Corporation advised the then Ministry of Economic Development, Trade and Tourism, and the Ministry of Municipal Affairs and Housing of the Board's decision.

ONTARIO PLACE CORPORATION

Notes to Financial Statements
December 31, 2004

8. CONTINGENT LIABILITY FOR PROPERTY TAXES (CONTINUED)

Pertinent information with respect to property taxes recorded for the last four years is as follows:

Year	Property Tax Billed to Concessionaires	Corporation's Recognized Property Tax Liability for Premises Occupied by Concessionaires	Total Property Tax Billed to Conce-ssionaires and Accrued	Received from Concessionaires	Paid to the City of Toronto	Refund Received from the City of Toronto
2001	419,224	—	419,224	365,629	429,028	466,782
2002	288,943	—	288,943	258,483	—	—
2003	329,687	331,000	660,687	274,464	—	—
2004	300,482	483,000	783,482	275,501	—	—
Total	1,338,336	814,000	2,152,336*	1,174,077**	429,028	466,782

* the amount of $2,152,336 is included in the Corporation's year end balance for account payable and accrued liabilities.

** the amount of $1,174,077 is included in the Corporation's year end cash balance and in effect is being held in trust for the City of Toronto.

The Corporation did not receive a property tax bill from the City of Toronto in 2001 and 2002. In June 2003 and May 2004, the Corporation received the property tax bills totalling as follows:

- $2,800,318 for the years from 2001 to 2004 for the taxable portion of property occupied by concessionaires.
- $5,981,235 for the years from 2001 to 2004 for the grants in lieu of taxes for property occupied by the Corporation.

The amounts billed in June 2003 and May 2004 in excess of the property taxes already recorded as disclosed in the above table are in dispute with the City of Toronto and are not reflected in the Corporation's financial statements. It is the position of the Corporation that it will pay to the City of Toronto any funds it has already received from concessionaires, as well as the $814,000 accrued by the Corporation as of December 31, 2004 for premises occupied by concessionaires, but that it is not liable for any excess amounts. If it is determined that the Corporation must pay any excess amounts to the City, the Corporation will seek an additional grant from the Province to cover this payment. The Corporation has no ability to fund grants in lieu of taxes from existing operations.

ONTARIO PLACE CORPORATION

Notes to Financial Statements
December 31, 2004

9. CONTINGENCY

The Corporation has commenced legal action against a former concession partner for nonpayment of licence fees in the amount of $235,867. The defendants have counterclaimed for $1.5million. It is the opinion of the Corporation's legal advisors and Management that this matter is unlikely to settle. The likelihood of a loss to the Corporation, and the amount of loss is not determinable at this time.

10. COMPARATIVE FIGURES

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

Ontario Racing Commission

9th floor
20 Dundas Street West
Toronto ON M5G 2C2
Tel (416) 327-0520
Fax (416) 325-3478

Commission des courses de l'Ontario

9e étage
20 rue Dundas ouest
Toronto ON M5G 2C2
Tél (416) 327-0520
Téléc (416) 325-3478

Ontario

Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Racing Commission have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 10, 2005.

Management is responsible for the integrity of the financial statements and maintains a system of internal accounting and administrative control that is designed to provide reasonable assurance the financial information is relevant, reliable and accurate and that the Commission's assets are properly accounted for and adequately safeguarded.

The appointed Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The Commission meets periodically with management and the Office of the Auditor General to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and to satisfy itself that each party is properly discharging its responsibilities.

The financial statements have been audited by the Office of the Auditor General. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:

John L. Blakney
Chief Executive Officer

Gregory A. Fernandes
Director, Finance and Administration

June 10, 2005

Office of the
Auditor General
of Ontario

Bureau du
vérificateur général
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416)327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Racing Commission
and to the Minister of Consumer and Business Services

I have audited the balance sheet of the Ontario Racing Commission as at March 31, 2005 and the statements of operations and accumulated 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 from 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 10, 2005

Gary R. Peall, CA
Deputy Auditor General

ONTARIO RACING COMMISSION

Balance Sheet
As at March 31, 2005

	2005 ($ 000)	2004 ($ 000)
ASSETS		
Current		
Cash	2,036	1,054
Accounts receivable	101	107
Prepaid expenses	48	53
	2,185	1,214
Capital assets (Note 7)	200	300
	2,385	1,514
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	1,000	854
Current portion of accrued benefit obligation [Note 5 (c)]	28	40
	1,028	894
Long-term		
Accrued benefit obligation [Note 5 (c)]	608	566
Net assets		
Accumulated surplus (Note 10)	749	54
	2,385	1,514

Commitments (Note 8)

See accompanying notes to financial statements.

Approved on behalf of the Commission:

Chair

Member

ONTARIO RACING COMMISSION

Statement of Operations and Accumulated Surplus
For the Year Ended March 31, 2005

	2005 ($ 000)	2004 ($ 000)
Revenue		
Track levy (Note 3)	6,027	6,219
Regulatory levy (Note 3)	3,005	1,591
Licence and registration fees	1,864	1,285
Fines and penalties	523	408
Interest income	24	23
Total revenue	11,443	9,526
Expenses		
Salaries and wages	5,130	5,023
Employee benefits (Note 5)	895	872
Services (Note 9)	3,281	2,763
Transportation and communication	1,115	985
Supplies	196	209
Amortization	131	90
Total expenses	10,748	9,942
Excess (deficiency) of revenue over expenses (Note 4)	695	(416)
Accumulated surplus, beginning of year	54	470
Accumulated surplus, end of year	749	54

See accompanying notes to financial statements.

ONTARIO RACING COMMISSION
Statement of Cash Flows
For the Year Ended March 31, 2005

	2005 ($ 000)	2004 ($ 000)
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses	695	(417)
Amortization	131	90
	826	(327)
Changes in non-cash items		
Non-cash operating working capital	145	(123)
Accrued benefit obligation	42	110
	187	(13)
	1,013	(340)
Cash used for investing activity		
Purchase of capital assets	(31)	(100)
Net change in cash position	982	(440)
Cash position, beginning of year	1,054	1,494
Cash position, end of year	2,036	1,054
Cash is composed of:		
General	1,036	354
Reserve (Note 10)	1,000	700
	2,036	1,054

See accompanying notes to financial statements.

ONTARIO RACING COMMISSION

Notes to Financial Statements
March 31, 2005

1. OBJECTS OF THE COMMISSION

Effective December 15, 2000, the *Racing Commission Act, 2000* continued the Ontario Racing Commission (the "Commission") as an independent self-financing regulatory agency of the Crown. The Commission is responsible to govern, direct, control and regulate horse racing in the Province.

As an Ontario Crown agency, the Commission is exempted from federal and provincial income taxes under the *Income Tax Act* (Canada).

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies used to prepare these statements are summarized below.

(a) Capital Assets

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

Office furniture and fixtures	5 years
Computer equipment and software	3 years
Leasehold improvements	remaining term of lease

(b) Revenue Recognition

Track and regulatory levies are recognized as income in the year they pertain to.

Licence and registration fees are recognized as income when issued.

Revenue from fines and penalties, less a provision for uncollectible amounts, is recorded when such fines and penalties are imposed.

(c) Expense Recognition

Expenses are recognized on an accrual basis as incurred, in the year to which they relate.

(d) 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 amount of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual amounts could differ from these estimates.

ONTARIO RACING COMMISSION

Notes to Financial Statements
March 31, 2005

3. TRACK LEVY AND REGULATORY LEVY

The track levy is calculated as a percentage of total wagering at each racing association for the previous year. Effective July 1, 2003, the Commission introduced a new regulatory levy calculated as a percentage of purses paid at each racetrack during the previous year. The levies are established such that the total sum of the levies and other revenues received by the Commission will be sufficient to cover all costs associated with the operation of the Commission.

4. EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES

The large fluctuation in the excess (deficiency) of revenues over expenses resulted primarily because the Commission prepared its budget using the cash basis of accounting but used the accrual basis of accounting for the preparation of these financial statements. Certain expenses recorded in the 2004 fiscal year were not budgeted for payment until the 2005 fiscal year. The reported excess (deficiency) is therefore lower than planned in fiscal 2004 and higher than planned in fiscal 2005. The Commission has since adopted the accrual basis of accounting for the preparation of its budget.

5. EMPLOYEE BENEFITS

(a) Pension Benefits

The Commission provides pension benefits for all its permanent employees through participation in the Public Service Pension Fund (PSPF) which is a multi-employer defined benefit pension plan established by the Province of Ontario. The plan is accounted for as a defined contribution plan as the Commission has insufficient information to apply defined benefit plan accounting to the pension plan. The Commission's contributions related to the PSPF for the year were $308,669 (2004 – $298,210) and are included in employee benefits.

(b) Non-pension Benefits

The cost of post-retirement non-pension employee benefits is paid by the Management Board Secretariat and is not included in the Statement of Operations and Accumulated Surplus.

(c) Accrued Benefit Obligation

The accrued benefit obligation includes an accrual for employee severance payments. In fiscal 2005, the cost of this employee future benefit was $30,314 (2004 – $110,065) and is included in Employee Benefits.

6. MEMBERS' REMUNERATION

Total remuneration of the Chair and members of the Commission for the year was $125,851 (2004 – $104,365).

ONTARIO RACING COMMISSION

Notes to Financial Statements
March 31, 2005

7. CAPITAL ASSETS

	2005 ($ 000)			2004 ($ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment and software	251	156	95	156
Office furniture and equipment	104	35	69	73
Leasehold improvements	71	35	36	71
	426	226	200	300

8. COMMITMENTS

The Commission is committed under operating leases on head office premises and vehicles with future minimum rental payments due as follows:

	($ 000)
2006	439
2007	152
2008	29
	620

9. RELATED PARTY TRANSACTIONS

The Commission paid the Province of Ontario for: Ontario Provincial Police investigative and related services totalling $815,507 (2004 – $568,020); and for administrative services, information technology services, and use of computer equipment totalling $238,708 (2004 – $179,574).

10. RESERVE

Subsection 13(l) of the *Racing Commission Act, 2000* allows the Commission to retain its surplus funds unless, under subsection 13(2), it is ordered by the Minister of Consumer and Business Services to pay into the Consolidated Revenue Fund of the Province of Ontario the portion of its surplus funds as determined by the Minister. In fiscal 2002, the Commission obtained approval from the Ministry of Consumer and Business Services to establish a Reserve account not to exceed 25% of the Commission's annual operating budget. These funds will be used as an operating contingency against unanticipated revenue shortfalls.

ONTARIO RACING COMMISSION

Notes to Financial Statements
March 31, 2005

11. SALARY DISCLOSURE

Section 3(5) of the *Public Sector Salary Disclosure Act, 1996* requires disclosure of Ontario public-sector employees who were paid a salary in excess of $100,000 in calendar year 2004. For the Ontario Racing Commission, this disclosure is as follows:

Name	Position	Salary ($)	Taxable Benefits ($)
Bourgeois, Donald	Solicitor	151,414	5,127
Fernandes, Gregory	Director of Finance and Administration	135,031	2,219
Fines, William	Supervisor of Standardbred Racing	111,240	170
Hall, Edwin	Supervisor of Thoroughbred Racing	102,261	—
Milanovich, Jasmina	Manager of Corporate Affairs	102,004	156
Stone, Brent	Asst. Supervisor, Standardbred Racing	102,004	156
Stone, Terry	Director of Racing	145,898	207

ONTARIO REALTY CORPORATION

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Ontario Realty Corporation have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 8, 2005.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on a periodic basis and reports its findings to management and to the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board of Directors reviews and approves the financial statements.

The financial statements have been audited by the Deputy Auditor General of Ontario. The Deputy Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

Peter Oakes
Chief Financial Officer & Treasurer
June 8, 2005

Office of the
Auditor General
of Ontario

Bureau du
vérificateur général
de l'Ontario

AUDI ALTERAM PARTEM

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Realty Corporation,
Chair of the Management Board of Cabinet,
and to the Minister of Finance

I have audited the balance sheet of the Ontario Realty Corporation as at March 31, 2005 and the statements of operations and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 8, 2005

Gary R. Peall, CA
Deputy Auditor general

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

BALANCE SHEET

As at March 31		2005		2004
ASSETS				
Current assets				
Cash and cash equivalents	$	31, 874	$	33,600
Accounts receivable (note 7c)		4,462		2,703
Prepaid expenses		334		301
Future Recoveries from Management Board Secretariat (note 2)		564		770
		37,234		37,374
Capital assets (note 3)		6,673		4,349
Funds held in trust (note 4)		153,118		128,866
	$	197,025	$	170,589
LIABILITIES AND RETAINED EARNINGS				
Current liabilities				
Accounts payable and accrued liabilities	$	9,530	$	8,156
Provision for severance costs (note 2)		1,556		3,202
Deferred revenue (note 1a)		1,066		1,066
Current portion of capital lease obligations		-		533
		12,152		12,957
Capital lease obligations		-		254
Funds held in trust (note 4)		153,118		128,866
RETAINED EARNINGS		31,755		28,512
	$	197,025	$	170,589

Commitments (note 5)
Contingencies (note 6)
See Notes to Financial Statements
On behalf of the Board:

Director: ______________ Director: ______________
WMFENN

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

Year Ended March 31		2005		2004
REVENUES				
Management fees (note 7a)	$	33,911	$	31,482
Expense reimbursement - in lieu of fees (note 7a)		10,985		13,938
Direct recoverable costs (note 7a)		3,353		7,315
Bank interest and other income		778		692
	$	49,027	$	53,427
EXPENSES				
Salaries and benefits (note 2)	$	27,242	$	29,914
Direct operating expenses		15,468		14,236
Depreciation		3,049		1,964
Interest on capital lease obligations		25		50
	$	45,784	$	46,164
EXCESS OF REVENUES OVER EXPENSES BEFORE SEVERANCE COSTS		3,243		7,263
Provision for severance costs (note 2)		6		930
Recoverable from Management Board Secretariat (note 2)		(6)		(930)
EXCESS OF REVENUES OVER EXPENSES	$	3,243	$	7,263
RETAINED EARNINGS, BEGINNING OF YEAR		28,512		21,249
RETAINED EARNINGS, END OF YEAR	$	31,755	$	28,512

See Notes to Financial Statements

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

STATEMENT OF CASH FLOWS

Year Ended March 31	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 3,243	$ 7,263
Adjustments for:		
Depreciation	3,049	1,964
Provision for severance costs (note 2)	35	1,836
Recoverable from Management Board Secretariat (note 2)	6	930
	6,333	11,993
Changes in non cash working capital		
Decrease (increase) in accounts receivable	(1,759)	11,008
Decrease (increase) in prepaid expenses	(33)	142
Increase (decrease) in accounts payable and accrued liabilities	1,374	(168)
	5,915	22,975
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of capital assets (note 3)	(5,373)	(3,868)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Severance payments made during year (note 2)	(1,681)	(634)
Severance recoveries from Management Board Secretariat during year (note 2)	200	300
Repayment of capital lease obligations	(787)	(582)
	(2,268)	(916)
Net (decrease) increase in cash and cash equivalents	(1,726)	18,191
Cash and cash equivalents, beginning of year	33,600	15,409
Cash and cash equivalents, end of year	$ 31,874	$ 33,600

See Notes to Financial Statements

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2005

NATURE OF THE CORPORATION

The Ontario Realty Corporation (the Corporation) was established under the *Capital Investment Plan Act 1993* (the Act) as a Crown Corporation of the Province of Ontario (the Province). As a Crown Corporation and service organization of the Province the Corporation is exempt from income taxes.

The Corporation provides property management, real estate and project management services to ministries and agencies of the Ontario government that directly own assets or require the Corporation's real estate services. The Corporation manages 51.4 million rentable square feet: 42.8 million owned by the Province and 8.6 million leased from the private sector, as well as 90 thousand acres of land owned by the Province. The Corporation also provides property management services to the City of Greater Sudbury for one property.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue

Fees, expense reimbursement and direct recoverable costs are recognized as revenue when services are provided or the related expenses are incurred. Funds provided by Management Board Secretariat ("MBS") for future severances are deferred and recognized as other income in the year in which the related expenses are incurred.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current bank accounts, and short-term investments, if any, with terms to maturity of less than 90 days.

c) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions relating to revenues and expenses which affect the reported amounts of assets, liabilities and related disclosures as of the date of the financial statements. Actual amounts could differ from these estimates.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

d) Capital Assets

Capital assets costing more than one thousand dollars with a future useful life beyond the current year are capitalized at cost. They are depreciated over their estimated useful lives on a straight-line basis as follows:

Computer hardware and software	3 years
Custom software	5 years
Furniture, fixtures and office equipment	3 years
Leasehold improvements	5 years

e) Employee Pension Plans

Until November 29, 2001, the Corporation provided pension benefits to its classified full time employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Pension Fund, which are multiemployer defined benefit pension plans.

Effective November 30, 2001, amendments to the Capital Investment Plan Act 1993 stipulated that the Corporation's employees were no longer part of the Ontario Public Service. Employees who had participated in the Public Service Pension Fund or the Ontario Public Service Employees' Pension Fund continued, from November 30, 2001, as participants in the Public Service Pension Fund. This plan is accounted for as a defined contribution plan as the Corporation has insufficient information to apply defined benefit plan accounting.

Regular full-time employees hired after November 29, 2001 participate in a mandatory defined contribution pension and savings plan administered by a third-party administrator. The Corporation matches employees' contributions.

The pension expense represents the Corporation's contributions to the plans during the year.

2. SEVERANCE COSTS

Included in the Provision for severance costs on the balance sheet are the following:

Recoverable Severance

The recoverable severance provision relates to staff severance costs associated with the Corporation's re-organization in 1999 and the contracting out of its property management services, which resulted from MBS approving a new governance structure for the Corporation. These severance costs are recovered from MBS. The severance provision remaining at March 31, 2005 relates to employees on long-term disability.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

Corporate Realignment

During the 2003/04 fiscal year, the Corporation approved a new organizational structure for its portfolio management activities in order to improve services to its clients. This realignment is expected to be completed in the 2005/06 fiscal year.

As of March 31, 2005, total expected severance costs associated with the realignment were $2,807 of which $1,815 had been incurred. During the year ended March 31, 2005, the provision was increased by $41 to reflect the Corporation's revised estimate of total severance costs and is included in salaries and benefits in the Statement of Operations and Retained Earnings.

The changes in the provision for severance costs are as follows:

March 31	2005			2004		
	Recoverable Severance	Corporate Realignment	Total	Recoverable Severance	Corporate Realignment	Total
Balance - beginning of year	$770	$2,432	$3,202	$2,000	$0	$2,000
Increase (Decrease) of provision	(6)	41	35	(930)	2,766	1,836
Severance payments	(200)	(1,481)	(1,681)	(300)	(334)	(634)
Balance - end of year	$564	$992	$1,556	$770	$2,432	$3,202

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Capital assets consist of the following:

March 31			2005	2004
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computer hardware and software	$ 4,994	$ 4,035	$ 959	$ 235
Computer hardware and software under capital lease	-	-	-	689
Custom software	6,536	2,348	4,188	3,328
Furniture, fixtures and office equipment	706	274	432	27
Leasehold improvements	2,224	1,130	1,094	70
	$ 14,460	$ 7,787	$ 6,673	$ 4,349

During the year ended March 31, 2005, capital assets were acquired at an aggregate cost of $5,373 (2004 - $3,868 was purchased directly and $478 was acquired by means of capital leases).

Certain capital assets are not reflected in the financial statements as they are provided at no charge to the Corporation by MBS.

4. FUNDS HELD IN TRUST

The Corporation maintains several operating bank accounts and one short-term investment account, which it holds "in trust" and administers on behalf of MBS and the City of Greater Sudbury. They relate directly to the operation of several MBS owned and leased properties, or services provided to other ministries or agencies of the Province, as well as to the operation of one City of Greater Sudbury owned property. The portion of funds held in trust for MBS is $151,759 (2004 - $128,153).

Services supplied by third party contractors are funded through these accounts. Irregularities were uncovered at two service providers and losses sustained are recoverable pursuant to the indemnification by the service providers to the government under the terms of their contracts and as confirmed with both providers.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

5. COMMITMENTS

Operating leases are expensed in accordance with terms of the lease agreements. Under the terms of operating leases for the Corporation's office space, vehicles, and office equipment, the Corporation is committed to future rental payments as follows:

For the year ending March 31

2006	$	1,539
2007		1,492
2008		1,440
2009		1,410
2010		1,410
	$	7,291

6. CONTINGENCIES

The Corporation is acting as an agent of the Ontario Government. As such, the Corporation is entitled to be indemnified against all liabilities properly incurred in the course of exercising its actual authority on behalf of the Ontario Government.

7. RELATED PARTY TRANSACTIONS

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

a) The Corporation is economically dependant on the Province as all of the revenues received from the Province for the provision of services are under the control of the Minister/ Chair of Management Board of Cabinet.

The Corporation's prime sources of revenue are:

i. Management Fees

Market-based fees are charged for services provided for Property and Asset Management, and Project Management that are based on percentage of project costs, related to MBS owned assets.

ii. Expense Reimbursement – In Lieu of Fees

Pending the implementation of a full fee structure, corporate costs incurred by the Corporation (third party leases, negotiation services, financial services, legal, corporate relations/ communications and

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

human resource services) are funded by MBS as an annual allocation along with the administration costs associated with the sale and acquisition of properties on behalf of the ministries.

iii. Direct Recoverable Costs

In the North and East regions the Corporation staff co-ordinate and provide direct building operating and maintenance services in support of the portfolio. These costs are directly recoverable from MBS and funded from the operating and maintenance rental payments under accommodation agreements. In addition, out of pocket expenses associated with special projects undertaken on behalf of MBS were also recovered.

b) The *Capital Investment Plan Act* requires that any surplus funds shall, upon the instructions of the Minister of Finance, be paid to the Consolidated Revenue Fund of the Province of Ontario. In determining the amount payable, if any, the Minister of Finance shall ensure that the payment will not impair the Corporation's ability to pay its liabilities, to meet its obligations as they become due or to fulfill its contractual commitments. No such instructions have been received from the Minister of Finance.

c) The Corporation's accounts receivable include $4,295 (2004 - $2,589) from MBS and other Ministries.

d) Only classified full-time employees hired prior to November 30, 2001, who have more than ten years pensionable service upon retirement, are entitled to post-retirement non-pension benefits. The cost of these post-retirement non-pension employee benefits is paid by MBS and is not included in the Statement of Operations and Retained Earnings.

e) As a result of the Corporation's relationship with the Province, the following related party transactions also exist and have been disclosed in the following notes to the financial statements.

- Summary of Significant Accounting Policies - Revenue (Note 1a)
- Severance Costs (Note 2)
- Capital Assets (Note 3)
- Funds Held in Trust (Note 4)

8. PENSION PLANS

The Corporation's required contributions to the pension plans (see note 1e) for the year ended March 31, 2005 were $1,206 (2004–$1,307) and are included in salaries and benefits in the Statement of Operations and Retained Earnings.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments.

10. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with current year's presentation.

ONTARIO SECURITIES COMMISSION

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 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 A. Brown, Q.C.
Chair and Chief Executive Officer

May 13, 2005

Office of the
Auditor General
of Ontario

Bureau du
vérificateur général
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2005 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 13, 2005

J. R. McCarter, CA
Auditor General

ONTARIO SECURITIES COMMISSION
Balance Sheet
As at March 31, 2005

	2005	2004
ASSETS		
CURRENT		
Cash	$ 36,588,846	$ 30,652,492
Accounts receivable	1,486,721	1,427,708
Prepaid expenses	361,776	465,923
	38,437,343	32,546,123
DESIGNATED SETTLEMENTS (Note 3)	2,501,008	2,000,711
FUNDS IN TRUST (Note 4)	5,998,785	-
RESERVE FUND ASSETS (Note 5)	32,000,000	32,000,000
CAPITAL ASSETS (Note 6)	4,022,511	5,237,023
	$ 82,959,647	$ 71,783,857
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 8,441,504	$ 8,077,550
	8,441,504	8,077,550
NON-CURRENT		
Other long term liabilities (Note 7(b))	1,114,747	928,060
	9,556,251	9,005,610
DESIGNATED SETTLEMENTS (Note 3)	2,501,008	2,000,711
FUNDS IN TRUST (Note 4)	5,998,785	-
SURPLUS		
OPERATING		
General (Note 8)	32,805,359	28,679,292
Reserve (Note 5)	32,000,000	32,000,000
	64,805,359	60,679,292
CONTRIBUTED	98,244	98,244
	64,903,603	60,777,536
	$ 82,959,647	$ 71,783,857

Investor Education Fund (Note 9)
Commitments and Contingencies (Notes 10,12)
See accompanying notes to Financial Statements.

ON BEHALF OF THE BOARD OF THE COMMISSION

David A. Brown, Q.C.
Chair

David L. Knight, FCA
Commissioner

ONTARIO SECURITIES COMMISSION
Statement of Operations and Operating Surplus
For the year ended March 31, 2005

	2005	2004
REVENUE		
Fees (Note 8)	$ 78,444,824	$ 74,854,942
Rebate of fees (Note 8)	(14,935,360)	-
Investment income	1,534,933	1,672,727
Miscellaneous	710,907	84,973
	65,755,304	76,612,642
EXPENSES		
Salaries and benefits (Note 11)	44,286,613	40,147,154
Administrative	5,461,581	4,561,661
Occupancy (Note 12)	4,036,881	3,972,891
Professional services (Note 11)	3,419,175	1,957,490
Amortization	3,266,928	3,233,401
Other	1,158,059	1,098,577
	61,629,237	54,971,174
EXCESS OF REVENUE OVER EXPENSES	4,126,067	21,641,468
OPERATING SURPLUS, BEGINNING OF PERIOD	60,679,292	39,037,824
OPERATING SURPLUS, END OF PERIOD	$ 64,805,359	$ 60,679,292
Represented by:		
General	$ 32,805,359	$ 28,679,292
Reserve	32,000,000	32,000,000
	$ 64,805,359	$ 60,679,292

See accompanying notes to Financial Statements.

ONTARIO SECURITIES COMMISSION
Statement of Cash Flows
For the year ended March 31, 2005

	2005	2004
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess of revenue over expenses	$ 4,126,067	$ 21,641,468
Adjustments for amortization	3,266,928	3,233,401
	7,392,995	24,874,869
Changes in non-cash working capital:		
Accounts receivable	(59,013)	711,897
Prepaid expenses	104,147	(64,502)
Due to Province of Ontario	-	(14,480,975)
Accounts payable and accrued liabilities	363,954	(1,777,214)
Other long term liabilities	186,687	114,929
	595,775	(15,495,865)
	7,988,770	9,379,004
Cash flows from investing activities		
Purchase of capital assets	(2,052,416)	(1,430,854)
	(2,052,416)	(1,430,854)
NET INCREASE IN CASH POSITION	5,936,354	7,948,150
CASH POSITION, BEGINNING OF PERIOD	30,652,492	22,704,342
CASH POSITION, END OF PERIOD	$ 36,588,846	$ 30,652,492

See accompanying notes to Financial Statements.

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2005

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) 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

b) Revenue

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.

c) 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.

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

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2005

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 13(c).

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, subject to the approval of the responsible Minister, where required. The accumulated funds are held in a segregated bank account. As at March 31, 2005, the accumulated balance is determined as follows:

	2005	**2004**
Opening balance	$2,000,711	$ 474
Settlements	787,105	1,999,400
Interest	46,751	1,311
Payments		
Investor Education Fund – prior period	-	(474)
Investor Education Fund – current period	(333,559)	-
Closing balance	$2,501,008	$2,000,711
Represented by:		
Cash	$2,406,850	$1,628,195
Receivables	94,158	372,516
	$2,501,008	$2,000,711

4. FUNDS HELD IN TRUST

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. As at March 31, 2005, 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:

i) The development or enhancement of SEDAR;

ii) The development or enhancement of the System of Electronic Disclosure by Insiders;

iii) To permit a reduction in the SEDAR Fee Schedule;

iv) The application towards a previous year's Shortfall, as described in note 10.

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2005

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, 2005, have been invested in six month and one year 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, 2005, legislation has not yet been introduced.

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.

Investments are carried at cost, which approximates market value. 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	2005 Net Book Value	2004 Net Book Value
Office furniture	$ 3,022,971	$ 2,401,460	$ 621,511	$ 974,063
Office equipment	282,727	236,638	46,089	102,371
Computer hardware and related applications	11,960,201	9,627,749	2,332,452	2,273,178
Leasehold improvements	6,302,503	5,280,044	1,022,459	1,887,411
	$ 21,568,402	$ 17,545,891	$ 4,022,511	$ 5,237,023

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2005

7. PENSION PLANS

a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2005 was $2,294,755 (2004 - $2,104,631) and is included in salaries and benefits.

b) The unfunded supplemental pension plans for the Commission's Chair and current and former Vice-Chairs had an accrued benefit obligation of $966,712 at March 31, 2005 (2004 - $735,476) and an accrued benefit liability of $1,114,747 (2004 - $928,060). The Commission's related expense for the year was $186,687 (2004 - $114,929) and is included in salaries and benefits. No benefits were paid during the year (2004 - $0). The average remaining service period of the active members covered by these plans ranges from 1.85 to 4.88 years at March 31, 2004 (2003 - .25 to 5.04 years); the 2004 figures were used for amortization purposes in fiscal 2005. The average life expectancy of the non-active member was 23.32 years at March 31, 2004 (2003 – not applicable). The significant actuarial assumptions adopted at March 31, 2005 include a discount rate of 5.5% (2004 – 5.5%) and a rate of compensation increase of 2.1%, if applicable (2004 – 2.5%).

8. STREAMLINING OF FEES UNDER THE SECURITIES ACT

Commencing on March 31, 2003, the Commission introduced a new fee model under the provisions of the *Securities Act*. The new fee regime is designed to accomplish three primary objectives; to reduce the overall fees charged to market participants from what existed previously in Ontario, to create a clear and streamlined fee structure, and adopt fees that accurately reflect the Commission's costs of operations.

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. While it was initially planned that any surplus or deficit incurred over a three year period would be reflected when the fees were reset, fees received have exceeded expectations. The Commission has therefore 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 General Operating Surplus at March 31, 2005 of $32,805,359, adjusted for the surplus or deficit in fiscal 2006, will be reflected in the fees set for the following three-year cycle beginning in fiscal 2007.

Details of fees received for the year ended March 31, 2005 are as follows:

	2005	2004
Participation and Transitional Fees	$ 64,008,748	$ 60,706,698
Activity Fees	12,436,046	11,765,826
Late Filing Fees	2,000,030	2,382,418
Total	$ 78,444,824	$ 74,854,942

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2005

9. 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, 2005 and for the year ended March 31, 2005 are as follows:

INVESTOR EDUCATION FUND

	2005	2004
Financial Position		
Total assets	$5,790,235	$7,037,458
Total liabilities	$258,235	$235,808
Invested in capital assets	843,804	753,806
Available for Fund purposes	4,688,196	6,047,844
Total net assets	5,532,000	6,801,650
	$5,790,235	$7,037,458
Results of Operations		
Total contributions and interest income	$454,897	$700,852
Total expenses	1,724,547	1,331,577
Deficiency of revenue over expenses	($1,269,650)	($630,725)
Cash flows		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	$333,559	$474
Cash receipts from third parties	59,625	500,000
Investment income received	123,827	207,033
Cash paid for initiatives and expenses	(1,411,793)	(1,180,041)
Cash paid for capital purchases	(441,100)	(671,792)
Net decrease in cash position	(1,335,882)	(1,144,326)
Cash position, beginning of period	6,271,144	7,415,470
Cash position, end of period	$4,935,262	$6,271,144

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2005

b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:

i) The Board of the Commission authorized transfers totalling $333,559 of the Commission's Designated Settlements to the Fund (2004 - $0) in accordance with the Minister's approval and its own authority under the *Securities Act*.

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, 2005, the Commission incurred costs totalling $480,417 (2004 - $386,735) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, $120,333 is owing to the Commission as of March 31, 2005 (2004 - $105,980).

10. COMMITMENTS AND CONTINGENCIES

a) The Commission has committed to paying 45.1% of annual shortfalls resulting from the operations of the System of Electronic Data Analysis and Retrieval (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.

11. RECOVERY OF COSTS OF INVESTIGATIONS

In 2005, the Commission applied $482,790 (2004 - $541,585) in recoveries of the costs of investigations against salaries and benefits and $260,710 (2004 - $1,013,344) against professional services.

12. LEASE OBLIGATIONS

The Commission is committed to operating lease payments as follows:

2006	$4,301,412
2007	$4,565,792
2008	$4,534,493
2009	$4,552,472

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2005

2010	$4,581,978
Thereafter	$11,285,790

13. 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 new fee model as described in note 8 and the Commission's plans to set fees in three-year cycles, the Commission is no longer 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 have been paid by the Management Board Secretariat and are not included in the Statement of Operations and Operating Surplus.

14. COMPARATIVE FIGURES

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

Ontario Trillium Foundation

Management's Responsibility For Financial Information

The accompanying financial statements of the Ontario Trillium Foundation are the responsibility of management and have been prepared in accordance with generally accepted accounting principles.

Management maintains a system of internal controls designed to provide reasonable assurance that financial information is accurate and that assets are protected.

The Board of Directors ensures that management fulfils its responsibilities for financial reporting and internal control. The Finance Committee and the Board of Directors meet regularly to oversee the financial activities of the foundation, and at least annually to review the audited financial statements and the external auditors' report thereon.

The financial statements have been examined by KPMG LLP, independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report outlines the scope of the auditors' examination and opinion.

L. Robin Cardozo, FCA
Chief Executive Officer

A Pashley

Anne Pashley
Vice-President,
Finance and Administration

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

AUDITORS' REPORT

To the Board of Directors of Ontario Trillium Foundation

We have audited the statement of financial position of Ontario Trillium Foundation as at March 31, 2005 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario) we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Toronto, Canada

April 22, 2005

ONTARIO TRILLIUM FOUNDATION

Statement of Financial Position

March 31, 2005, with comparative figures for 2004

	2005	2004
Assets		
Cash	$ 793,175	$ 653,556
Accrued interest and other	1,231,667	1,916,758
Investments (note 2)	104,711,621	112,309,047
Capital assets, net (note 3)	673,092	834,958
	$ 107,409,555	$ 115,714,319
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 785,713	$ 951,993
Deferred contributions (note 4(a))	3,768,133	3,392,068
Grants payable (note 4(b))	100,283,667	103,080,117
	104,837,513	107,424,178
Net assets:		
Invested in capital assets	673,092	834,958
Unrestricted	1,898,950	7,455,183
	2,572,042	8,290,141
	$ 107,409,555	$ 115,714,319

See accompanying notes to financial statements.

On behalf of the Board:

Helen Burstyn, Chair

Jean-François Gratton, Treasurer

ONTARIO TRILLIUM FOUNDATION

Statement of Operations

Year ended March 31, 2005, with comparative figures for 2004

	2005	2004
Revenue:		
Ontario government funding (note 4(a))	$ 94,123,935	$ 99,990,932
Grants rescinded or recovered	1,960,946	1,552,919
Investment income	3,518,049	5,199,994
	99,602,930	106,743,845
Expenses:		
Program activities:		
Grants pledged (note 4)	94,346,800	96,685,700
Grantmaking expenses	9,351,148	9,168,821
Non-grant contributions to the community (note 5)	218,099	210,003
	103,916,047	106,064,524
Support services	1,043,846	1,042,723
Amortization	361,136	352,343
	105,321,029	107,459,590
Deficiency of revenue over expenses	$ (5,718,099)	$ (715,745)

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2005, with comparative figures for 2004

	Invested in capital assets	Unrestricted	2005 Total	2004 Total
Net assets, beginning of year	$ 834,958	$ 7,455,183	$ 8,290,141	$ 9,005,886
Deficiency of revenue over expenses	(361,136)	(5,356,963)	(5,718,099)	(715,745)
Purchase of capital assets	199,270	(199,270)	–	–
Net assets, end of year	$ 673,092	$ 1,898,950	$ 2,572,042	$ 8,290,141

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Statement of Cash Flows

Year ended March 31, 2005, with comparative figures for 2004

	2005	2004
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	$ (5,718,099)	$ (715,745)
Amortization of capital assets which does not involve cash	361,136	352,343
Change in non-cash operating items	(1,901,574)	(9,060,055)
	(7,258,537)	(9,423,457)
Investing activities:		
Net decrease in investments	7,597,426	9,162,109
Purchase of capital assets	(199,270)	(227,471)
	7,398,156	8,934,638
Increase (decrease) in cash	139,619	(488,819)
Cash, beginning of year	653,556	1,142,375
Cash, end of year	$ 793,175	$ 653,556

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements

Year ended March 31, 2005

The Ontario Trillium Foundation (the "Foundation" or "OTF"), an agency of the Ministry of Culture (the "Ministry"), is financially supported by the government of Ontario. OTF began operations as an arm's-length agency of the Ontario government on August 23, 1982 and was incorporated without share capital under the laws of Ontario under letters patent dated November 17, 1982. OTF's purpose is to build healthy and vibrant communities throughout Ontario, by strengthening the capacity of the voluntary sector, through investments in community-based initiatives.

The government funding is subject to Memoranda of Understanding with the Ministry that define how the funds must be invested and distributed.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

(a) Revenue recognition:

OTF follows the deferral method of accounting for contributions, which include government funding. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred.

(b) Investments:

Short-term investments, treasury bills, and bankers' acceptances are recorded at cost. Bonds are recorded at amortized cost.

(c) Grants:

Grants are recorded as expenses in the year that the Board of Directors approves the grant.

(d) Expenses:

Departmental expenses are allocated between grantmaking and support services based on the percentage of each department's activities devoted to these activities.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

1. Significant accounting policies (continued):

(e) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the following periods:

Furniture and fixtures	5 years
Computer hardware	3 years
Computer software	1 year
Leasehold improvements	Over term of lease

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Investments:

Investments, at cost are as follows:

	2005	2004
Treasury bills	$ 103,266,560	$ 99,736,707
Bankers' acceptances	1,445,061	12,572,340
	$ 104,711,621	$ 112,309,047

The market value of investments approximates cost.

The treasury bills and bankers' acceptances are due within the next eleven months and bear interest from 2.03% to 3.03% (2004 - 2.0% to 4.4%).

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

3. Capital assets:

	Cost	Accumulated amortization	2005 Net book value	2004 Net book value
Furniture and fixtures	$ 752,915	$ 647,579	$ 105,336	$ 126,014
Computer hardware	856,147	648,022	208,125	211,262
Computer software	575,691	563,686	12,005	18,800
Leasehold improvements	1,204,554	856,928	347,626	478,882
	$ 3,389,307	$ 2,716,215	$ 673,092	$ 834,958

4. Deferred contributions and grants payable:

(a) Deferred contributions represent funding received from the Ministry that has not yet been pledged as grants. The continuity of deferred contributions is as follows:

	2005	2004
Deferred contributions, beginning of year	$ 3,392,068	$ 3,383,000
Activities during the year:		
Funding received	94,500,000	100,000,000
Investment income recorded as revenue	3,518,049	5,199,994
Grants pledged	(94,346,800)	(96,685,700)
Grantmaking expenses	(9,351,148)	(9,168,821)
Support services and amortization	(1,404,982)	(1,395,066)
Internally funded	5,500,000	513,214
Grants rescinded or recovered related to grants approved after March 31, 1999	1,960,946	1,545,447
Amounts recognized as Ontario government funding	(94,123,935)	(99,990,932)
Deferred contributions, end of year	$ 3,768,133	$ 3,392,068

The internally funded amount reflects a planned reduction in unrestricted net assets in order to maintain granting levels.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

4. Deferred contributions and grants payable (continued):

(b) Once OTF pledges grants for distribution, the grants are recorded as grants payable. Grants pledged and not yet distributed are payable, subject to the receipt of funds by OTF and to certain performance conditions placed on the recipients. The continuity of grants payable is as follows:

	2005	2004
Grants pledged - Community and Province-Wide grants programs	$ 94,346,800	$ 96,685,700
Grants rescinded	(1,449,515)	(1,242,420)
Grants paid	(95,693,735)	(104,104,280)
	(2,796,450)	(8,661,000)
Grants payable, beginning of year	103,080,117	111,741,117
Grants payable, end of year	$ 100,283,667	$ 103,080,117

Grants are payable to various organizations in the fiscal years ending March 31 as follows:

2006	$ 67,440,867
2007	23,791,800
2008	7,349,700
2009	1,337,700
2010	363,600
	$ 100,283,667

5. Non-grant contributions to the community:

Non-grant contributions to the community are charitable activities other than grants, such as partnerships with other organizations, projects initiated by OTF and technical assistance to community organizations. These contributions include expenses allocated from current operations.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

6. Commitments:

Future minimum annual rental payments for premises under operating leases are as follows:

2006	$ 382,000
2007	316,000
2008	247,000
	$ 945,000

In relation to these leases, OTF has agreed to indemnify the Landlord against losses occurring on the lease premises which may arise out of a breach of the lease agreement.

7. Indemnification of officers and directors:

OTF has indemnified its past, present and future directors, officers, employees and volunteers against expenses (including legal expenses), judgements, and any amount actually or reasonably incurred by them in connection with any action, suit or proceeding in which the directors are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of OTF. The nature of the indemnity prevents OTF from reasonably estimating the maximum exposure. OTF has purchased directors' and officers' liability insurance with respect to this indemnification.

8. Financial assets and liabilities:

The carrying values of cash, accrued interest and other, accounts payable and accrued liabilities and grants payable approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

The market value of investments is disclosed in note 2.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2005

Ontario Trillium Foundation employees paid $100,000 or more in calendar year 2004 (unaudited)

Name	Position	Salary Paid $	Taxable Benefits $
Robin Cardozo	Chief Executive Officer	204,847	11,725
Anne Pashley	Vice-President, Finance & Administration	130,303	9,605
Diane Labelle-Davey	Director, Human Resources & Volunteer Relations	124,684	9,280
Patricia Else	Director, Grant Operations	120,851	7,077
John Ecker	Director, Communications and Public Affairs	112,942	6,571

Prepared under the Public Sector Disclosure Act, 1996

ROYAL ONTARIO MUSEUM

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Royal Ontario Museum are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Royal Ontario Museum are described in the Summary of Significant Accounting Policies contained in Note 3 in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been prepared within reasonable limits of materiality and in light of information available up to August 16, 2004.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by Ernst & Young LLP, a firm of independent external auditors appointed by the Board of Trustees. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditor's Report, which follows, outlines the scope of their examination and their opinion.

On behalf of Royal Ontario Museum management,

W.T. Graesser,
Executive Director, Finance

Meg Beckel,
Chief Operating Officer

ROM FINANCIAL STATEMENTS AND AUDITOR'S REPORT

To the Trustees of The Royal Ontario Museum

We have audited the balance sheet of The Royal Ontario Museum as at June 30, 2004 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Museum as at June 30, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Toronto, Canada, August 16, 2004.

ROYAL ONTARIO MUSEUM

(Incorporated by Special Act of the Ontario Legislature as a corporation without share capital)

BALANCE SHEET AS AT JUNE 30

	2004	2003
	$ [000's]	$
Assets		
Current		
Cash and cash equivalents *[note 4]*	4,745	797
Due from The Royal Ontario Museum Foundation *[note 13]*	—	1,049
Other accounts receivable	1,988	1,688
Inventories	108	112
Deferred exhibition costs and other assets	1,064	1,838
Total current assets	7,905	5,484
Investments *[note 4]*	222	44
Deferred pension costs *[note 14]*	944	3,035
Capital assets, net *[note 5]*	90,328	57,527
Other assets	829	286
	100,228	66,376
Liabilities and Net Assets		
Current		
Bank indebtedness *[note 15]*	842	2,213
Accounts payable and accrued liabilities	10,054	7,861
Due to The Royal Ontario Museum Foundation *[note 15]*	1,358	—
Deferred contributions *[note 7]*	6,195	5,261
Total current liabilities	18,449	15,335
Long-term debt *[note 15]*	13,278	—
Deferred capital contributions *[note 8]*	66,611	48,233
Accrued non-pension liability *[note 14]*	1,674	1,229
Total liabilities	100,012	64,797
Net assets *[note 9]*	216	1,579
	100,228	66,376

See accompanying notes.

ROYAL ONTARIO MUSEUM
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30

	2004	2003
	$ [000's]	$
Revenues		
Grants *[note 10]*	26,256	24,632
Admission fees	5,144	4,610
Museum programs	2,156	2,003
Ancillary services	5,228	8,076
Investment income	75	58
Donations - Gifts in kind	1,687	60,614
Amortization of deferred capital contributions *[note 2]*	2,666	11,774
Other	1,166	1,403
	44,378	113,170
Expenses *[note 11]*		
Curatorial and collections management	10,686	10,624
Building, security and visitor services	6,596	7,192
Ancillary services	3,803	6,250
General and administration	2,867	3,293
Education and public programs	2,555	2,224
Library and information services	1,963	2,030
Exhibition and gallery development	1,476	1,631
Marketing and public relations	1,662	1,580
Temporary exhibitions	6,324	4,409
Artifacts and specimens		
Gifts in kind	1,687	60,614
Purchased	3,112	868
Amortization of capital assets *[note 2]*	2,930	12,189
Other	80	24
	45,741	112,928
Excess (deficiency) of revenues over expenses for the year	(1,363)	242
Net assets, beginning of year	1,579	1,337
Net assets, end of year *[note 9]*	216	1,579

See accompanying notes.

ROYAL ONTARIO MUSEUM
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30

	2004	2003
	$ [000's]	$
Operating Activities		
Excess (deficiency) of revenues over expenses for the year	(1,363)	242
Add (deduct) non-cash items		
Amortization of capital assets	2,930	12,189
Amortization of deferred capital contributions	(2,666)	(11,774)
	(1,099)	657
Changes in non-cash working capital balances related to operations		
Due from/to The Royal Ontario Museum Foundation	2,407	2,366
Other accounts receivable	(300)	(464)
Inventories	4	343
Deferred exhibition costs and other assets	774	(391)
Accounts payable and accrued liabilities	629	(1,186)
Deferred contributions	934	(508)
Net change in deferred pension costs	2,091	120
Net change in accrued non-pension liability	445	371
Cash provided by operating activities	**5,885**	1,308
Investing and Financing Activities		
Purchase of capital assets	(35,731)	(24,569)
Advances on long-term debt	13,278	—
Increase (decrease) in bank indebtedness	(1,371)	2,213
Net change in sale of investments	(178)	437
Increase (decrease) in other assets	(543)	17
Contributions received for capital asset purchases	21,044	15,242
Increase in accounts payable and accrued liabilities related to construction in progress	1,564	4,936
Cash used in investing and financing activities	**(1,937)**	(1,724)
Net increase (decrease) in cash and cash equivalents during the year	**3,948**	(416)
Cash and cash equivalents, beginning of year	797	1,213
Cash and cash equivalents, end of year	**4,745**	797

See accompanying notes.

ROYAL ONTARIO MUSEUM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

1. General

The Royal Ontario Museum [the "Museum"] is an operating enterprise agency of the Province of Ontario incorporated without share capital by Special Act of the Ontario Legislature. The Museum is Canada's largest museum and one of the few of its kind to explore and exhibit both the art and archaeology of human cultures and the history of the natural world. The Museum's mission is to inspire wonder and build understanding of human cultures and the natural world.

The Museum is registered as a charitable organization under the Income Tax Act (Canada) [the "Act"] and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes. In order to maintain its status as a registered charity under the Act, the Museum must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

2. Renaissance ROM Project

The Board of Trustees has approved phase I of a major redevelopment project for the Museum [“Renaissance ROM Project”]. The project will be completed in two phases with a total estimated cost of $200 million before financing and fundraising costs. Phase I, with a total cost of $150 million, is planned to be substantially completed in December 2005 or early 2006. Phase II will cost an additional $50 million and is scheduled to be completed one year later. The total project involves the construction and restoration of the original buildings as well as 40,000 square feet of new gallery spaces. Renaissance ROM will permanently alter the Museum’s economic base, providing additional annual market income to sustain excellence across the board.

Funding for this project will come from the public and private sectors. To date the Museum has received commitments from the federal and provincial governments of $60 million. The balance will be funded through a fundraising campaign that is currently underway. As at June 30, 2004, the Museum has invested $58.5 million [2003 - $22.9 million] in the project which is recorded on the balance sheet as capital assets. In fiscal 2004, interest of $174,000 [2003 - $52,000] was capitalized and included in project expenditures.

As at June 30, 2004, the Museum had entered into contracts with a total outstanding value of approximately $47.6 for capital asset additions.

In anticipation of the project, the remaining life of certain capital assets was reduced and, as a result, effective in fiscal 2002, the amortization period of these assets was revised accordingly. In addition, amortization of the related deferred capital contribution was revised.

3. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

Revenue recognition

The Museum follows the deferral method of accounting for contributions, which include donations and government grants. Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection reasonably assured. Donations are recorded on a cash basis since pledges are not legally enforceable claims.

Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for the purchase of land are credited directly to "invested in capital assets". Externally restricted contributions for the purchase of other capital assets are deferred and amortized over the life of the related capital asset. Endowment contributions are recognized as direct increases in net assets in the year in which they are received.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit, bankers’ acceptances and guaranteed investment certificates with an original term to maturity of less than 90 days.

Investments

Investments are recorded at market value. Investment income consists of interest, dividends, realized gains (losses) and the net change in unrealized gains and losses.

Inventories

Inventories, which consist primarily of gift shop items held for sale, publications and supplies, are stated at the lower of average cost and net realizable value.

Deferred exhibition costs and other assets

Costs of exhibitions are deferred until the exhibitions are opened to the public and then are expensed over the period of the exhibitions to which they relate.

Employee benefit plans

The Museum accrues its obligations under employee benefit plans and related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at a market-related value whereby investment gains and losses are recognized over a three-year period. Employee future benefit liabilities are discounted using current interest rates on long-term bonds.

The transitional asset (obligation), the impact of any change to plan provisions and the excess of the cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligations and the market-related value of the plan assets are amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 12 years. The average remaining service period of the active employees covered by other retirement benefit plans is 17 years.

Capital assets

Land is carried at cost. Purchased capital assets are stated at acquisition cost. Contributed capital assets are recorded at fair market value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Building	40 years
Galleries	20 years
Building improvements	5 to 10 years
Furniture and equipment	3 to 10 years

Artifacts and specimens

The value of artifacts and specimens has been excluded from the balance sheet. Gifted artifacts and specimens are recorded as revenue at values based on appraisals by independent appraisers. The acquisition of both gifted and purchased artifacts and specimens is expensed.

Use of estimates

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

Contributed materials and services

Because of the difficulty in determining their fair market value, contributed materials and services are not recognized in the financial statements.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	2004 $ [000's]	2003 $
Cash	2,813	295
Money market fund	55	448
Guaranteed investment certificate due July 6, 2004	2,099	98
	4,967	841
Less amounts recognized as non-current investments	222	44
	4,745	797

The amount of investments classified as non-current represents the cash and cash equivalents held for unspent deferred capital contributions *[note 8]*.

5. Capital Assets

[a] Capital assets consist of the following:

	2004 Cost	2004 Accumulated amortization	2003 Cost	2003 Accumulated amortization
	$	$ [000's]	$	$
Land and building	55,843	37,231	55,843	36,191
Galleries	37,746	29,443	37,744	28,176
Building improvements	14,158	10,276	14,104	9,917
Renaissance ROM Project *[note 2]*	58,476	—	22,867	—
Furniture and equipment	2,332	1,277	2,266	1,013
	168,555	78,227	132,824	75,297
Less accumulated amortization	78,227		75,297	
Net book value	90,328		57,527	

[b] The change in net book value of capital assets is due to the following:

	2004	2003
	$ [000's]	$
Balance, beginning of year	57,527	45,147
Purchase of capital assets funded by restricted capital contributions	20,865	17,299
Purchase of capital assets funded by bank indebtedness, long-term debt, or accounts payable and accrued liabilities	13,471	7,154
Purchase of capital assets funded internally	1,395	116
Amortization of capital assets	(2,930)	(12,189)
Balance, end of year	90,328	57,527

6. Artifacts and Specimens

As at June 30, 2004, the collection consisted of approximately 6,000,000 artifacts and specimens. During the year, the Museum accessioned approximately 5,000 objects to its collections through the donation and purchase of artifacts.

7. Deferred Contributions

Deferred contributions represent grants from federal and provincial governments, corporations and The Royal Ontario Museum Foundation [the "Foundation"] related primarily to next year's operations.

8. Deferred Capital Contributions

Deferred capital contributions represent the unamortized amount of grants and donations received for the purchase of capital assets and gallery development. The amortization of capital contributions is recorded as revenue in the statement of operations and changes in net assets. The changes in the deferred capital contributions balance are as follows:

	2004	2003
	$ [000's]	$
Balance, beginning of year	48,233	44,765
Amortization of deferred capital contributions	(2,666)	(11,774)
Restricted contributions received or receivable for capital asset purchases *[note 13]*	21,044	15,242
Balance, end of year	66,611	48,233

At June 30, 2004, deferred capital contributions of $222,000 [2003 - $44,000] were received but not spent.

9. Net Assets

Changes in the components of net assets at June 30 are as follows:

	2004 Operating deficit	2004 Board restricted	2004 Invested in capital assets	2004 Total	2003 Total
	$	$	$	[000's]	$
Balance, beginning of year	(1,984)	1,379	2,184	1,579	1,337
Excess (deficiency) of revenues over expenses for the year	(883)	(480)	—	(1,363)	242
Net change in invested in capital assets	(1,140)	6	1,134	—	—
Balance, end of year	(4,007)	905	3,318	216	1,579

10. Grants

Grants consist of the following:

	2004	2003
	$ [000's]	$
Province of Ontario		
Operating	18,518	18,518
Other	1,499	1,465
Government of Canada	255	92
The Royal Ontario Museum		
Foundation *[note 13]*	5,984	4,557
	26,256	24,632

11. Expenses

Expenses are reported in the statement of operations and changes in net assets on a functional basis. Expenses by category are as follows:

	2004	2003
	$ [000's]	$
Salaries and benefits *[note 14]*	22,273	22,783
Purchased goods and services	18,851	17,342
Amortization of capital assets	2,930	12,189
Gifts in kind	1,687	60,614
	45,741	112,928

12. Museum Volunteers

During the year, Museum volunteers contributed approximately 86,000 hours in support of the Museum. Their activities include guided gallery tours and a variety of programs that enrich the visitor's experience at the Museum; offering local travel packages that promote the Museum's image in Ontario and throughout the world; and many other support activities. The Museum estimates that the value of these services is in excess of $2.0 million annually.

In addition, the net income generated by the Museum volunteers and the ROM Reproductions Association, an independent volunteer organization affiliated with the Museum, goes directly to support the Museum's activities. During the year ended June 30, 2004, Museum volunteers contributed $60,000 [2003 - $60,000] to the Foundation for acquisition and research projects at the Museum. The ROM Reproductions Association contributed $200,000 [2003 - $75,000] to the Foundation for the purchase of artifacts and specimens.

13. The Royal Ontario Museum Foundation

The Foundation was incorporated on July 1, 1992, to co-ordinate all private-sector fundraising activities undertaken on behalf of the Museum and its affiliates. The objective of the Foundation is to raise funds available for enhancing exhibitions and public programs, research, acquisitions and capital projects.

The accounts of the Foundation are presented separately and are not consolidated in these financial statements. As at June 30, 2004, the fund balances of the Foundation are as follows:

	2004	2003
	$ [000's]	$
Unrestricted funds	462	335
Restricted funds		
Available currently	7,432	7,447
Available at a future date	5,578	5,264
	13,010	12,711
Endowment funds		
Externally restricted	7,128	6,339
Internally restricted	6,157	5,528
	13,285	11,867
	26,757	24,913

During the year, the Foundation granted $16,431,000 [2003 - $10,780,000] to the Museum. Of this amount, $5,984,000 [2003 - $4,557,000] was recorded as grant revenue [note 10], $10,374,000 [2003 - $5,876,000] was recorded as an increase in deferred capital contributions in connection with the Renaissance ROM Project and the balance was recorded as deferred contributions.

14. Employee Benefits

The Museum has a defined benefit pension plan and other benefit plans that provide pension and other post-employment benefits to most of its employees. Pension benefits are based upon members' length of service and final three-year average salaries. Benefits are indexed to the extent that the annual inflation rate exceeds 4% in any individual year. Post-employment benefits include post-retirement healthcare and dental benefits. Details of these plans are summarized below.

The expense for the Museum's benefit plans is as follows:

	2004	2003
	$ [000's]	$
Defined benefit plan	2,072	479
Other post-employment benefits	548	480
	2,620	959

The assets and liabilities of the plans are measured each year at June 30. The balance sheet identifies separately the amounts recognized in respect of the pension and non-pension plans. Information about the Museum's pension and non-pension plans at June 30 is as follows:

	Pension		Non-pension	
	2004	2003	2004	2003
	$	$ [000's]	$	$
Accrued liabilities	48,682	51,906	3,939	3,828
Market value of plan assets	42,248	39,801	—	—
Deficit	(6,434)	(12,105)	(3,939)	(3,828)
Unamortized transitional (asset) obligation	(5,527)	(6,104)	2,216	2,401
Unrecognized past service costs	(4,050)	(4,483)	—	—
Unrecognized net actuarial loss	16,955	25,727	49	198
Balance sheet asset (liability)	944	3,035	(1,674)	(1,229)

The significant actuarial assumptions adopted to determine the expense for the Museum's benefit plans are as follows:

	Pension		Non-pension	
	2004	2003	2004	2003
	%	%	%	%
Discount rate	6.25	7.25	6.25	7.25
Expected long-term rate of return on plan assets	7.00	7.25	—	—
Rate of compensation increase	4.25	4.25	—	—
Rate of increase in pensions	—	—	—	—

The significant actuarial assumptions adopted in measuring the liabilities of the plans at June 30 are as follows:

	Pension		Non-pension	
	2004	2003	2004	2003
	%	%	%	%
Discount rate	6.50	6.25	6.50	6.25
Rate of compensation increase	3.00	4.25	—	—
Rate of increase in pensions	—	—	—	—

For measurement purposes, an initial weighted average increase in the cost of medical and dental benefits of 7.2% in 2004 was assumed with an ultimate 4.5% annual rate of increase after 2010.

Investment of the Museum's pension plan assets are invested in pooled funds that provide the following asset mix as at June 30:

	2004	2003
	$ [000's]	$
Cash and cash equivalents	6	7
Bonds	37	39
Canadian equities	32	30
U.S. equities	14	14
Other foreign equities	11	10
	100	100

Other information about the Museum's pension and non-pension plans is as follows:

	Pension		Non-pension	
	2004	2003	2004	2003
	$	$ [000's]	$	$
Employee contributions	608	645	—	—
Employer contributions	—	359	103	109
Benefits paid	3,628*	2,231	103	109

*Includes $988,258 transfer of assets to the Ontario Teachers' Pension Plan

The Museum's 2003 and 2004 contributions were made in accordance with a January 1, 2001 actuarial valuation report for funding purposes. The Museum's 2005 contributions will be made in accordance with a January

1, 2004 actuarial valuation report for funding purposes that must be filed with the regulators by September 30, 2004. The effective date of the next required actuarial valuation report for funding purposes will be January 1, 2005.

15. Credit Facilities

[a] The Museum has a demand revolving operating credit facility of $3,000,000 with interest payable at prime less 10 basis points. As at June 30, 2004, there was $842,000 outstanding in connection with this facility.

[b] The Museum has a revolving reducing instalment term loan facility of $55,000,000 to assist with the financing of phase I of the Renaissance ROM Project. Interest is payable at prime less 10 basis points. Principal repayments begin on June 30, 2006 or 90 days after substantial completion of phase I, if earlier. Minimum monthly repayments are equal to the amount required to repay the outstanding balance in full by February 27, 2011. Further repayments are required in certain circumstances.

As at June 30, 2004, $13,278,000 was outstanding in connection with this credit facility.

[c] The Museum has a letter of credit facility of $5,000,000 as at June 30, 2004. As at June 30, 2004, there was an outstanding letter of credit in the amount of $402,000.

[d] The Museum has pledged substantially all its assets as security for the credit facilities. In addition, it has assigned all payments from the Foundation and the Ontario government restricted for the financing of the Renaissance ROM Project.

The Foundation has provided an undertaking to transfer all of its unrestricted donations to the lender under certain circumstances.

16. Financial Investments

The carrying values of financial instruments approximate their fair values unless otherwise noted.

17. Comparative Financial Statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2004 financial statements.

Record of Employees' 2004 Salaries and Benefits

Surname	Given Name	Position	Salary Paid	Taxable Benefits
Baker	Dr. Allan	Head, CBCB	$111,323.88	$312.20
Barnett	Robert	VP, Gallery Dev't.	$129,000.49	$67.46
Beckel	Margaret	COO/Secretary to the Board	$195,816.89	$8,021.58
Calder	Dale	Senior Curator	$100,277.36	$281.24
Collins	Dr. Desmond	Head, Palaeobiology	$106,064.43	$297.74
Darling	Dr. Chris	Senior Curator	$105,690.42	$283.32
Engstrom	Mark	VP, Collections & Research	$123,766.14	$347.48
Golombek	Lisa	Senior Curator	$100,064.43	$280.72
Graesser	William	Exec. Dir., Finance	$107,144.97	$305.50
Grzymski	Krysztof	Senior Curator	$101,012.38	$283.32
Hushion	Anthony	VP, Exhibits, Programs & NMR	$144,841.65	$398.08
Keall	Edward	Head, NEAC	$104,627.56	$293.98
Koester	Christopher	Exec. Dir., HR & OD	$110,744.91	$305.50
Murphy	Robert	Senior Curator	$100,425.45	$282.38
Peters	Joel	VP, Marketing & Commercial Dev't.	$129,828.47	$369.56
Rahimi	Dan	Dir., Collections Management	$107,144.97	$305.50
Shaikoli	Al	Exec. Dir., Facilities	$107,144.97	$305.50
Shoreman	Michael	Senior VP, Business & Capital Dev't.	$163,648.82	$466.29
Thorsell	William	Director & CEO	$207,882.40	$1,693.57
Von Bitter	Dr. Peter	Senior Curator	$100,309.44	$281.38

Smart Systems for Health Agency
415 Yonge Street, 19th Floor
Toronto, ON M5B 2E7

Telephone: 416-586-6500
Facsimile: 416-327-9705

Agence des systèmes intelligents pour la santé
415 rue Yonge, 19e étage
Toronto (ON) M5B 2E7

Téléphone: 416-586-6500
Télécopier: 416-327-9705

Ontario
Smart Systems for Health Agency
Agence des systèmes intelligents pour la santé

June 6, 2005

Management's Responsibility for Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in the Annual Report. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgment. Management is responsible for the integrity and objectivity of these financial statements. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements in all material respects.

Smart Systems for Health Agency (SSHA) is dedicated to the highest standards of integrity in its business. To safeguard the Agency's assets and assure the reliability of financial information, the Agency follows sound management practices and procedures, and maintains appropriate information systems and internal financial controls.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal controls. The financial statements have been reviewed by the SSHA Board Audit Committee and approved by the Board of Directors.

The financial statements have been examined by PricewaterhouseCoopers LLP, independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to examine the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of the Auditors' examination and opinion.

M.K. Connolly

Michael Connolly
Chief Executive Officer
Smart Systems for Health Agency

Geoffrey Knapper
Chief Administrative Officer
Smart Systems for Health Agency

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
North American Centre
5700 Yonge Street, Suite 1900
North York, Ontario
Canada M2M 4K7
Telephone +1 416 218 1500
Facsimile +1 416 218 1499

April 29, 2005

Auditors' Report

To the Board of Directors of
Smart Systems for Health Agency

We have audited the statement of financial position of **Smart Systems for Health Agency** (the Agency) as at March 31, 2005 and the statements of operations and fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Smart Systems for Health Agency
Statement of Financial Position
As at March 31, 2005

	2005 $	2004 $
Assets		
Current assets		
Cash	5,070,474	6,205,076
Prepaid expenses	646,476	370,557
Due from the Province of Ontario (note 3)	6,743,000	8,702,688
	12,459,950	15,278,321
Capital assets (note 4)	17,582,802	21,430,495
	30,042,752	36,708,816
Liabilities		
Current liabilities		
Accounts payable - including held cheques of $nil (2004 - $5,187,395)	2,217,761	11,009,242
Accrued liabilities		
Operating	7,433,221	2,883,492
Capital	2,803,947	958,466
	12,454,929	14,851,200
Deferred capital contributions (note 5)	17,582,802	21,430,495
	30,037,731	36,281,695
Fund Balance	5,021	427,121
	30,042,752	36,708,816

Approved by the Board of Directors

Director

Director

Smart Systems for Health Agency
Statement of Operations and Fund Balance
For the year ended March 31, 2005

	2005 $	2004 $
Revenues		
Government funding (note 3)	78,104,325	72,443,411
Amortization of deferred capital contributions (note 5)	11,840,747	10,796,976
Recoveries of expenses (note 3)	-	2,551,470
	89,945,072	85,791,857
Expenses		
Information technology operations		
Production	42,741,566	33,396,321
Development	16,130,010	19,030,787
Client support	6,251,405	9,551,054
	65,122,981	61,978,162
Privacy, security and standards	5,965,700	5,650,748
General and administrative	7,437,744	6,563,422
Total operating expenses	78,526,425	74,192,332
Amortization	11,840,747	8,914,877
Gain on disposal of capital assets	-	(403,053)
	90,367,172	82,704,156
Excess (deficiency) of revenues over expenses for the year	(422,100)	3,087,701
Fund balance - Beginning of year	427,121	(2,660,580)
Fund balance - End of year	5,021	427,121

Smart Systems for Health Agency

Statement of Cash Flows

For the year ended March 31, 2005

	2005 $	2004 $
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenues over expenses for the year	(422,100)	3,087,701
Items not affecting cash		
Amortization of deferred capital contributions	(11,840,747)	(10,796,976)
Amortization	11,840,747	8,914,877
Gain on disposal of capital assets	-	(403,053)
	(422,100)	802,549
Change in non-cash working capital items		
Due from the Province of Ontario	1,959,688	(8,702,688)
Prepaid expenses	(275,919)	(341,220)
Accounts payable	(8,791,481)	10,442,129
Accrued liabilities - operating	4,549,729	697,220
	(2,557,983)	2,095,441
	(2,980,083)	2,897,990
Investing activities		
Purchase of capital assets	(6,147,573)	(10,530,100)
Financing activities		
Deferred capital contributions received	7,993,054	13,753,489
(Decrease) increase in cash during the year	(1,134,602)	6,121,379
Cash - Beginning of year	6,205,076	83,697
Cash - End of year	5,070,474	6,205,076

Smart Systems for Health Agency

Notes to Financial Statements
March 31, 2005

1 Nature of operations

On February 11, 2002, the Smart Systems for Health Agency (SSHA or the Agency) was established as a corporation without share capital by Ontario Regulation 43/02 (O. Reg. 43/02) in accordance with Section 5 of the Development Corporations Act. SSHA is an operational service agency as defined by the Management Board of Cabinet Directives. Subsection 2(3) of O. Reg. 43/02 provides that SSHA is, for all its purposes, an agency of Her Majesty within the meaning of the Crown Agency Act and its powers may be exercised only as an agency of Her Majesty. Subsection 6(1) of O. Reg. 43/02 provides that the Board of Directors is composed of the members appointed by the Lieutenant Governor in Council. Pursuant to subsection 7(1) of O. Reg. 43/02 and subject to any directions given by the Minister of Health and Long-Term Care under Section 8, the affairs of the Agency are under the management and control of the Board of Directors. The Lieutenant Governor in Council appointed 11 members to the SSHA Board of Directors.

The Board of Directors passed its first by-law on January 16, 2003. As such, SSHA ceased operating as part of the Ministry of Health and Long-Term Care (MOHLTC) and began operating as an arm's length agency of MOHLTC on January 17, 2003.

The Agency prepares its financial statements in accordance with Canadian generally accepted accounting principles as opposed to the cash basis, which was its accounting policy when it was operating as part of the MOHLTC.

SSHA is fully funded by the Province of Ontario through the MOHLTC. As an agency of the MOHLTC, SSHA is exempt from income taxes. The Agency is currently awaiting its exemption from the federal goods and services tax (GST). However, in the interim, the Agency has received permission from the MOHLTC to quote its GST exemption number.

SSHA provides the secure, integrated, province-wide infrastructure to allow electronic communication among Ontario's health-care providers, in support of Ontario's eHealth initiatives. The protection of personal health information of Ontarians is of utmost importance at SSHA. Privacy and security services provided by SSHA complement the network infrastructure services to safeguard personal information maintained by SSHA. In addition, SSHA strives to build consensus on data and technology standards within the health-care community in Ontario.

2 Summary of significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Outlined below are those accounting policies considered particularly significant.

Smart Systems for Health Agency
Notes to Financial Statements
March 31, 2005

Revenue recognition

SSHA follows the deferral method of accounting for contributions. Contributions with respect to the purchase of assets are deferred and recognized as revenue in the year in which the amortization expense is recognized. Transfer payments from the Ontario government used to purchase capital assets are deferred in the year received and recognized as revenue in the year in which the amortization expense of the related asset is recognized. The balance is recognized as revenue when received, or when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Expense recognition

Expenses are recognized as incurred, on an accrual basis, in the period to which they relate.

Expense categories

Information technology operations include the following:

- Production primarily includes network operations, data centre operations, contact centre operations and the chief technology office.
- Development primarily includes Public Health Information and Information Technology and ePhysician Portal, the registration management system and ongoing work done for establishing a voluntary electronic health record.
- Client support includes client services, the executive project office and planning and product management.

Privacy, security and standards include costs related to establishing and maintaining a high standard for information security and privacy and building consensus on data technology standards in Ontario's health-care community.

General and administrative expenses include Board of Directors, chief executive office, corporate services, human and corporate resources, with the exception of legal, rent, recruitment and internal IT costs, which have been allocated to other expense categories based on the work consumed or the floor space occupied.

Capital assets are recorded at cost net of accumulated amortization. Amortization is provided on a straight-line basis with only one-half of the amortization recorded in the year of purchase, over the estimated useful lives of the assets as follows:

Computer hardware	3 years
Computer software	3 years
Furniture and office equipment	5 years
Licences	1 year
Leasehold improvements	over the term of the respective leases

Smart Systems for Health Agency
Notes to Financial Statements
March 31, 2005

Use of estimates

The preparation of financial statements in conformity 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 amount of revenues and expenses for the period. Actual results may differ from those estimates.

3 Government funding

As required by the Management Board of Cabinet Directive, the Agency and the MOHLTC have entered into a memorandum of understanding (MOU). The MOU outlines the operational, administrative, financial and other relationships that exist between the MOHLTC and the Agency. The Agency operates on the same fiscal year as the Ontario government.

The Agency obtained a funding commitment of $86,524,500 (2004 - $86,196,900) from the MOHLTC for the year, of which $6,743,000 (2004 - $8,702,688) was collected subsequent to year-end. This funding was accounted for in accordance with the Agency's accounting policies as follows:

	2005 $	2004 $
Committed funding	86,524,500	86,196,900
Clawback of prior year committed funding (i)	(427,121)	-
Amounts received and designated as deferred capital contributions (note 5)	(7,993,054)	(13,753,489)
Funding recognized in the statement of operations	78,104,325	72,443,411
Recoveries of expenses from other MOHLTC programs (ii)	-	2,551,470

i) During the year, the MOHLTC requested repayment of the prior fiscal year's surplus. The amount was recorded as a reduction of the funding recognized in the statement of operations.

ii) Represents billings to the MOHLTC for agreed upon expenses incurred by SSHA to provide services to various MOHLTC program areas including Integrated Services for Children Division, Public Health pilot project, Emergency Department Access to Drug History project, Health Network System, Community Care Connects project and ePhysician project.

Smart Systems for Health Agency
Notes to Financial Statements
March 31, 2005

4 Capital assets

			2005
	Cost $	Accumulated amortization $	Net $
Computer hardware	24,848,419	12,751,411	12,097,008
Computer software	8,920,502	5,659,409	3,261,093
Licences	1,819,308	1,295,227	524,081
Furniture and office equipment	1,651,172	528,556	1,122,616
Leasehold improvement	769,511	191,507	578,004
	38,008,912	20,426,110	17,582,802

			2004
	Cost $	Accumulated amortization $	Net $
Computer hardware	19,951,082	5,415,951	14,535,131
Computer software	8,289,119	2,791,426	5,497,693
Licences	771,147	385,573	385,574
Furniture and office equipment	1,250,488	238,391	1,012,097
	30,261,836	8,831,341	21,430,495

During the year, certain computer equipment, which was no longer in use with an original cost of $245,978 and a net book value of $109,412, was written off and expensed as amortization.

During 2004, SSHA traded in certain computer equipment. The details are as follows:

	$
Fair value of equipment purchased	3,601,964
Cash paid	(1,337,041)
Trade-in value ascribed	2,264,923
Net book value of trade-in equipment	(1,861,870)
Net gain	403,053

In addition, as a result of this trade-in, the Agency recognized as revenue $1,861,870 of unamortized deferred revenue, which corresponded to the trade-in. This amount is included in amortization of deferred capital contributions for the prior year.

Smart Systems for Health Agency
Notes to Financial Statements
March 31, 2005

5 Deferred capital contributions

Deferred capital contributions represent the capital assets transferred from the MOHLTC on January 17, 2003 as well as subsequent contributions received for the purpose of purchasing capital assets. These contributions are being recognized as income on the same basis as the amortization expense of the related capital assets.

	2005 $	2004 $
Balance - Beginning of year	21,430,495	18,473,982
Contributions received	7,993,054	13,753,489
Amortization	(11,840,747)	(10,796,976)
Balance - End of year	17,582,802	21,430,495

The contributions received during the year are made up of the following:

	2005 $	2004 $
Contributions used to fund current year capital asset purchases	7,993,054	13,037,270
Contributions used to fund prior year accrued capital asset purchases	-	716,219
	7,993,054	13,753,489

Amortization of deferred capital contributions is made up of the following:

	2005 $	2004 $
Amortization of capital assets	11,731,335	8,914,877
Amortization relating to assets written off (see note 4)	109,412	1,861,870
Amortization relating to accrued capital assets from prior year	-	20,229
	11,840,747	10,796,976

6 Contractual commitments

SSHA has contractual commitments to fiscal 2007, to build and deploy infrastructure services to support Ontario's eHealth vision and strategy. The commitments are for providing highly secure data centres in hosting client application and establishing and operating the public key infrastructure. Payments required on these commitments are as follows:

	$
2006	8,677,199
2007	8,457,432
2008	4,462,482

Smart Systems for Health Agency
Notes to Financial Statements
March 31, 2005

7 Operating lease commitments

a) Office space

Ontario Realty Corporation now holds four leases on the office space occupied by SSHA. SSHA is responsible for all the operating lease payments. The payments required to the date of expiry are as follows:

	$
2006	1,184,529
2007	254,406

b) Desktop information technology

SSHA leases its desktop technology through the Government of Ontario Vendor of Record. The existing lease commitments are as follows:

	$
2006	37,269

SSHA has made the decision to purchase desktop technology from January 2004 onwards. The existing commitments are for the leases that were transferred from MOHLTC, which expire in fiscal 2006.

8 Employee benefits

During 2004, the Agency established a defined contribution pension plan for its employees. Contributions to this plan during the year amounted to $616,934 (2004 - $67,750).

Toronto Area Transit Operating Authority (TATOA)

Management's Responsibility for Annual Reporting

The accompanying financial statements of the Toronto Area Transit Operating Authority and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by Deloitte & Touche LLP in accordance with Canadian generally accepted accounting principles. Where required, management has made informed judgements and estimates in accordance with Canadian generally accepted accounting principles.

The Board of Directors oversees management responsibilities for financial reporting, reviews financial statements, and recommends them to the Board for approval.

The Office of the Auditor General, the independent auditors appointed by the Board of Directors, have examined the financial statements. Their report outlines the scope of their examination and their opinion on the financial statements. The independent auditors have full and unrestricted access to the Board of Directors.

Sept. 13/05		Sept 13 2005	
Bruce McCuaig Chair, TATOA	Date	Steve Naylor Treasurer, TATOA	Date

Office of the
Auditor General
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

AUDI ALTERAM ...

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416)327-2381 Fax: (416) 327-9862

Auditor's Report

To the Toronto Area Transit Operating Authority
and to the Minister of Transportation

I have audited the balance sheet of the Toronto Area Transit Operating Authority as at March 31, 2005 and the statement of operations and deficiency for the year then ended. These financial statements are the responsibility of the Authority'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 Authority as at March 31, 2005 and the results of its operations for the year then ended in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants.

Toronto, Ontario
June 8, 2005

Gary R. Peall, CA
Deputy Auditor General

TORONTO AREA TRANSIT OPERATING AUTHORITY

Balance Sheet
March 31, 2005

	2005 ($000's)	2004 ($000's)
ASSETS		
Current		
Due from Province of Ontario	8,248	8,540
Capital Assets Pledged as Collateral (Note 3)	153,926	174,002
	162,174	182,542
LIABILITIES AND DEFICIENCY		
Current Liabilities		
Current portion of long-term debt *(Note 4)*	10,780	10,581
Interest on long-term debt	8,248	8,540
	19,028	19,121
Long Term Debt (Note 4)	411,005	448,341
Deficiency	(267,859)	(284,920)
	162,174	182,542

See accompanying notes to financial statements.

Approved by:

Chair

Board Member

TORONTO AREA TRANSIT OPERATING AUTHORITY

Statement of Operations and Deficiency

For the year ended March 31, 2005

	2005 ($000's)	2004 ($000's)
Revenue		
Operating subsidies from the Province	45,144	38,416
Amortization of deferred foreign exchange gain on long-term debt	25,972	1,572
	71,116	39,988
Expenses		
Amortization of capital assets	20,076	20,229
Interest on long-term debt	33,979	34,607
	54,055	54,836
Excess of Expenses over Revenue	17,061	(14,848)
Deficiency, beginning of year	(284,920)	(270,072)
Deficiency, end of year	(267,859)	(284,920)

TORONTO AREA TRANSIT OPERATING AUTHORITY

Notes to Financial Statements
March 31, 2005 (dollars in thousands)

1. NATURE OF THE CORPORATION

The Toronto Area Transit Operating Authority (Authority) was established as a corporation without share capital under the *Toronto Area Transit Operating Authority Act (the Act).* On August 7, 1999, pursuant to the since repealed *Greater Toronto Services Board Act, 1998*, the transit business of the Authority was transferred to the Greater Toronto Transit Authority (GTTA) without compensation. The transfer included all assets and liabilities and employees, except for the railway rolling stock and related debt represented by conditional sales agreements described in Note 4, which the Authority continues to administer.

In accordance with the Act, the Authority's objects are:

(a) to exercise its rights and fulfil its obligations in respect of the railway rolling stock that is subject to the six conditional sale agreements dated March 30, 1994 between the Authority and Asset Finance (Bermuda) Limited including its rights and obligations under those conditional sale agreements; and

(b) to perform such duties in respect of the rights and obligations as are assigned to it by the Minister of Transportation.

As an agency of the Crown, the Authority is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act of Canada.

2. ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants because these financial statements are consolidated into the Province of Ontario's financial statements. The accounting policies are as follows:

(a) 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 as follows:

Other railway rolling stock	25 years
Locomotives	20 years

(b) Foreign currency translation

Long-term debt payable in U.S. dollars is translated to Canadian dollars at rates of exchange in effect at the end of the period. Unrealized exchange gains or losses arising on translation are deferred and amortized over the remaining term of the debt.

TORONTO AREA TRANSIT OPERATING AUTHORITY

Notes to Financial Statements
March 31, 2005 (dollars in thousands)

(c) Administrative expenses

Administrative services are provided by the Ministry of Transportation without charge.

3. CAPITAL ASSETS

The capital assets are comprised of locomotives and other railway rolling stock pledged as collateral for the long-term debt described in note 4. On August 7, 1999, the Authority signed an equipment lease agreement leasing these locomotives and bi-level cars to the Greater Toronto Transit Authority (GTTA) at a nominal amount of one dollar annually. Under this equipment lease agreement, which expires on July 1, 2006, GTTA is liable for the maintenance and all other associated obligations.

	2005 ($)			2004 ($)
	Cost	Accumulated Amortization	Net	Net
Other Railway Rolling Stock	363,308	236,082	127,226	141,758
Locomotives	110,905	84,205	26,700	32,244
	474,213	320,287	153,926	174,002

4. LONG-TERM DEBT

At the request of the Ontario Minister of Finance, the Authority entered into a financing transaction on March 31, 1994. Under the terms of the transaction, 42 of the locomotives and 243 bi-level cars were sold for US$311,867 (CDN$431,530) and immediately repurchased from the same counterparty at the same price under conditional sales agreements (CSAs) maturing on July 1, 2006. The proceeds from the original sale were returned to the Province net of transaction costs of $4,271. While under the CSAs, the Authority agreed to repay the obligation and interest thereon over the 12-year period. .

The transaction has been accounted for as a collateralized financing. The debt is collateralized by the locomotives and bi-level cars, which the Authority retains the right to use.

To minimize the risk of fluctuations in foreign currency exchange rates to the Ontario government, the Province has entered into a currency swap agreement. At year end, approximately 76% of the debt was hedged by the currency swap. As the Authority is not a party to the currency swap agreement, the effects of this agreement are not reflected in these financial statements. As such, the Authority recognizes and defers the full impact of currency fluctuations net of accumulated amortization while the Province recognizes the offsetting gain or loss on the swap. Due to the unique nature of the long-term debt, it is not practical to determine a fair value of this transaction.

TORONTO AREA TRANSIT OPERATING AUTHORITY

Notes to Financial Statements
March 31, 2005 (dollars in thousands)

4. LONG-TERM DEBT (CONTINUED)

CSA Number	Maximum Loan US$	Average Interest Rate %	Balance at March 31, 2005 US$	Collateral
1	14,487	7.27536	13,723	Bi-level cabs and coaches
2	108,926	7.26143	105,020	Bi-level cabs and coaches
3	23,794	7.38419	20,594	Locomotives
4	70,319	7.28488	65,570	Bi-level cabs and coaches
5	60,702	7.36798	57,353	Bi-level coaches
6	41,926	7.39563	40,020	Locomotives
	320,154		302,280	

Translated to Canadian Dollars at	1.2096
CAN$	365,638
Deferred foreign exchange gain net of accumulated amortization of $3,520	56,147
	421,785
Less: Current portion	(10,780)
	411,005

The annual repayments on a fiscal year basis in US dollars that the Authority is required to make are as follows:

Fiscal Year	Principal Repayment US$	Interest US$	Total US$
2005–2006	8,911	22,073	30,984
2006–2007	293,369	10,727	304,096
	302,280	32,800	335,080

5. ECONOMIC DEPENDENCE

Pursuant to a memorandum of understanding dated December, 1993 with the Minister of Finance, and affirmed by the Deputy Minister of Transportation in a letter dated July 9, 1997, the Province will provide operating subsidies to the Authority in a timely manner and in the amounts necessary to enable the Authority to satisfy the debt and interest obligations

TORONTO AREA TRANSIT OPERATING AUTHORITY

Notes to Financial Statements
March 31, 2005 (dollars in thousands)

6. STATEMENT OF CASH FLOWS

A statement of cash flows was not required as the information which it would contain is readily available from these financial statements.

TRUSTS AND MISCELLANEOUS

FINANCIAL STATEMENTS

Management's Responsibility

The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the financial statements included in the annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been examined by KPMG LLP, the auditors, whose report follows.

Andrew Poprawa, CA
President & CEO

James Maxwell
Chief Administrative and Financial Officer

Toronto, Canada
February 4, 2005

Auditors' Report

KPMG LLP

To the Board of Directors of Deposit Insurance Corporation of Ontario

We have audited the Statement of Financial Position of Deposit Insurance Corporation of Ontario as at December 31, 2004 and the Statement of Operations and Changes in the Deposit Insurance Reserve Fund and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 4, 2005

DEPOSIT INSURANCE CORPORATION OF ONTARIO

Statement of Financial Position

DECEMBER 31, 2004, WITH COMPARATIVE FIGURES FOR 2003 *(IN THOUSANDS OF DOLLARS)*

	2004	2003
ASSETS		
Cash and short-term investments (note 2)	**$ 27,439**	$ 31,447
Investments (note 3)	**49,855**	32,360
Premiums receivable	**2,382**	2,729
Accounts and interest receivable	**496**	273
Deposit insurance advances recoverable	**907**	902
Capital assets (net of accumulated amortization of $3,244 (2003 - $3,160))	**259**	217
	$ 81,338	$ 67,928
LIABILITIES		
Payables and accruals	**$ 2,145**	$ 1,872
Deferred premium income	**2,625**	2,788
Accrual for deposit insurance losses (note 5)	**2,217**	2,505
Total Liabilities	**6,987**	7,165
Deposit Insurance Reserve Fund	**74,351**	60,763
	$ 81,338	$ 67,928

Contingencies (note 11)

See accompanying notes to financial statements.

On behalf of the Board:

Director

David Yule

Director

DEPOSIT INSURANCE CORPORATION OF ONTARIO

Statement of Operations and Changes in the Deposit Insurance Reserve Fund

YEAR ENDED DECEMBER 31, 2004, WITH COMPARATIVE FIGURES FOR 2003 *(IN THOUSANDS OF DOLLARS)*

	2004	2003
INCOME		
Premium income	**$ 16,207**	$15,122
Other Income	**1,819**	1,833
	18,026	16,955
EXPENSES		
Recovery of losses	**(1,271)**	(6,608)
Salaries and benefits	**3,688**	3,823
Operating expenses	**2,172**	2,467
Recovery of operating expenses	**(151)**	(351)
	4,438	(669)
Excess of income over expenses	**13,588**	17,624
Deposit Insurance Reserve Fund, beginning of year	**60,763**	43,139
Deposit Insurance Reserve Fund, end of year	**$ 74,351**	$ 60,763

See accompanying notes to financial statements.

DEPOSIT INSURANCE CORPORATION OF ONTARIO

Statement of Cash Flows

YEAR ENDED DECEMBER 31, 2004, WITH COMPARATIVE FIGURES FOR 2003 *(IN THOUSANDS OF DOLLARS)*

	2004	2003
Cash received from (applied to):		
Operations:		
Excess of income over expenses	**$13,588**	$ 17,624
Items charged to operations not affecting cash:		
Recovery of losses	**(1,271)**	(6,608)
Loss (Gain) on disposal of capital assets	**1**	(2)
Amortization	**117**	133
	12,435	11,147
Changes in:		
Premiums receivable	**347**	(510)
Accounts and interest receivable	**(223)**	83
Payables and accruals	**273**	(76)
Deferred premium income	**(163)**	508
	234	5
Net deposit insurance recoveries (note 5)	**978**	7,091
	13,647	18,243
Investing activities:		
Purchase of investments	**(49,855)**	(32,360)
Proceeds on sale of investments	**32,360**	21,576
Purchase of capital assets	**(175)**	(94)
Proceeds on sale of capital assets	**15**	2
	(17,655)	(10,876)
(Decrease) Increase during the year	**(4,008)**	7,367
Cash position, beginning of year	**31,447**	24,080
Cash position, end of year	**$27,439**	$ 31,447
Supplementary cash flow information:		
Loan guarantee fee paid during the year	**$ 15**	$ 6
Interest received during the year	**$ 1,482**	$ 1,680

Cash position is defined as cash and short-term investments less any borrowings.
See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2004

General

Deposit Insurance Corporation of Ontario is an "Operational Enterprise" Agency of the Province of Ontario established without share capital under the provisions of the Credit Unions and Caisses Populaires Act, 1994.

The statutory objects of the Corporation under the Act are to:
- provide deposit insurance to depositors of member institutions;
- act as stabilization authority for the credit union and caisse populaire system;
- promote standards of sound business practices;
- collect and publish statistics;
- provide financial assistance to member institutions;
- act as administrator of member institutions;
- minimize deposit insurance risk and size of claims.

The Act empowers the Corporation to assess its member institutions deposit insurance premiums to meet the Corporation's requirements for insurance funding and administrative costs. The Corporation establishes its premiums rates annually. They are approved by the Government of Ontario and incorporated into the regulations through appropriate amendments as necessary.

Any borrowings of the Corporation are guaranteed by a Minister's guarantee on behalf of the Province of Ontario. The guarantee is for a maximum of $150 million and continues until December 31, 2008. In addition to the guarantee fee of one-half of one per cent of the average end of day balance outstanding of any debt obligation subject to the Minister's guarantee, the Province of Ontario charges a fee of 5 basis points on the unused portion of any credit facility guaranteed for the period ending December 31 of each year during which the guarantee is in effect.

1. Summary of Significant Accounting Policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements do not reflect the assets, liabilities or operations of credit unions or caisses populaires where the Corporation has been appointed liquidator.

(a) Premium income:

Premiums are based on a Differential Premium Risk Classification System as defined by regulation applied to insured deposits held by member institutions. Premium income is calculated based on the Annual Member Institution Return submitted by the member institutions, which is due 75 days after its fiscal year end. Premium income is recognized when earned.

(b) Provision for losses:

The provision for losses includes allowances against deposit insurance advances to member institutions in liquidation and an accrual for losses for which advances have not been made at the date of the Statement of Financial Position.

Funds advanced in respect of deposit insurance and loans to member institutions are initially recorded at cost. Deposit insurance advances recoverable are presented on the Statement of Financial Position net of allowances thereon.

The accrual for deposit insurance losses includes both provisions for specific losses and a general provision for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions, in the opinion of management, exist that will likely result in losses to the Corporation.

The general provision for losses reflects management's best estimate of losses on insured deposits arising from the inherent risk in member institutions. The provision is established by assessing the aggregate risk in member institutions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates.

(c) Pension benefits:

The Corporation has a defined contribution pension plan covering all of its regular, non-contractual employees. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

(d) Future non-pension post-retirement benefits:

Future non-pension post-retirement benefits relate to the Corporation's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits. The cost of these future non-pension post-retirement benefits earned by employees is actuarially determined. Accruals for these costs represent discounted future expenditures for existing retirees and discounted future expenditures during the period of active employment for current employees to an expected retirement date.

(e) Investments:

Investments comprise short-term fixed income instruments and are recorded at amortized cost. The discounts are amortized on a straight line basis over the terms of the instruments.

(f) Capital assets:

Capital assets are recorded at cost. Amortization of furniture and equipment is provided by the diminishing-balance method at the rate of 20 per cent per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease. Automobiles are amortized by the declining-balance method at the rate of 24 per cent per annum.

2. Cash and short-term investments:

The short-term investments have a term to maturity of less than 90 days. All investments are highly liquid fixed rate contracts.

	December 31, 2004			December 31, 2003		
	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Short-term investments	$ 25,816	2.26%	64	$ 30,763	2.60%	45
Cash	1,623			684		
Total	**$ 27,439**			**$ 31,447**		

3. Investments:

Investments have a term to maturity of 90 days or greater. They have a weighted-average yield of 2.61% (2003: 2.63%). In compliance with the Corporation's investment policy and relevant statutes, all investments are highly liquid fixed rate contracts and are RI MID or better on the DBRS scale.

	December 31, 2004			December 31, 2003		
	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Treasury Bills - Canada	$ 40,549	2.61%	224	$ 21,057	2.58%	270
Bankers' acceptances	5,409	2.35%	110	7,354	2.75%	227
Treasury Bills - Ontario	3,897	2.85%	279	-	-	-
Promissory Notes-Other provinces	-	-	-	3,949	2.65%	124
Total	**$ 49,855**	**2.61%**	**216**	**$ 32,360**	**2.63%**	**242**

4. Borrowings:

The Corporation has in place a revolving credit facility with a Canadian chartered bank in the amount of $20 million, approved by the Ontario Financing Authority which administers the Minister's guarantee. The interest rate on the line of credit is Bankers' Acceptance rates plus 14 basis points. At the end of 2004 there was no balance outstanding. The standby fee charged by the Chartered Bank is 3 basis points on average unused portion of the credit facility, payable in arrears quarterly.

5. Accrual for deposit insurance losses:

The provision for losses includes specific provisions for known or likely losses from specific member institutions and a general provision for losses not identified with specific institutions. That portion of the provision for losses recorded in the year and in previous years which has not yet required payment by the Corporation is shown in liabilities on the Statement of Financial Position as "Accrual for deposit insurance losses".

	2004	2003
	(thousands)	
Accrual for deposit insurance losses, beginning of year	**$ 2,505**	$ 5,066
Increase in accrual for current year's deposit insurance losses	**0**	0
Decrease in accrual for prior year's deposit insurance losses	**(1,271)**	(6,608)
Increase (Decrease) in deposit insurance advances recoverable	**5**	(3,044)
Accrual for deposit insurance losses, at end of year	**(2,217)**	(2,505)
Net deposit insurance (recoveries)/advances	**$ (978)**	$ (7,091)

The general provision for losses included in "Accrual for deposit insurance losses" amounted to $2,000,000 (2003 - $2,000,000) and is calculated in accordance with the methodology as described in note 1(b).

6. Lease Commitments:

The operating lease for the Corporation's premises is for the term commencing January 1, 1998 and ending August 5, 2007. The future annual minimum rent is $140,000. In addition, the Corporation is required to pay property taxes and common area maintenance costs approximately to be $288,000 per annum.

7. Income Taxes:

The Corporation is subject to income taxes under the Income Tax Act. It has accumulated losses for income tax purposes of $35,117,000. They expire as follows:

Originating Taxation Year	Expiring Taxation Year	Amount *(thousands)*
1998	2005	6,885
1999	2006	5,975
2000	2007	4,992
2001	2008	4,191
2002	2009	5,161
2003	2010	4,124
2004	2014	3,789
		$ 35,117

8. Pension Plan:

The Corporation implemented a defined contribution pension plan from January 01, 1999. The pension expense charged to income for 2004 was $300,000 (2003-$310,000)

9. Future non-pension post-retirement benefits:

The Corporation accounts for the current value of future non-pension post-retirement benefits. The accrued obligation as at December 31, 2004, as actuarially determined, is $875,000 (2003 - $784,000). Current service costs, including interest, were $120,000 (2003 - $105,000). These costs are subject to actuarial re-evaluation resulting from emerging experience gains and losses.

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: interest rate of 6.5%, rate of compensation increase of 4.0% and annual rate of increase in health and dental costs of 10.0%, grading down to 5% per annum by 2010.

10. Directors' Expense:

During the year the directors received an aggregate remuneration of $75,000 (2003 - $55,000). Total directors' expense was $60,000 (2003 - $37,000). The fixed per diem rate for the Chair is $500 and for all other board members is $300.

11. Contingencies:

The Corporation is subject to various legal actions brought against it in the normal course of business, when acting in the capacity of administrator or liquidator. It is the view of the Corporation's management that these actions will be successfully defended. Accordingly, no provisions have been made in these financial statements.

12. Fair Value Disclosure:

The fair value of financial assets and liabilities which include cash, investments, premiums receivable, accounts and interest receivable, payables and accruals approximate their carrying amounts.

The fair value of deposit insurance advances recoverable and the accrual for deposit insurance losses have not been determined because it is not practicable to determine fair value with sufficient reliability.

13. Compensation:

The following information is furnished in compliance with the *Public Sector Salary Disclosure Act, 1996*.

Employee	Position held	Compensation	Taxable* Benefits
Brydges, Barry	Vice President Insurance & Risk Management	$ 142,823	$ 8,352
Burgman, John	Chief Information Officer	$ 109,154	$13,087
Dale, Richard	Regional Manager Insurance & Risk Management	$ 103,700	$ 1,626
Foster, C.William D.	Vice President Asset Management & Recoveries	$ 149,646	$ 9,225
Maxwell, James	Chief Administrative & Financial Officer	$ 130,292	$13,970
Poprawa, Andrew	President and CEO	$ 196,310	$ 6,698

* Includes taxable group life insurance, parking and use of company vehicle.

14. Comparative figures:

Certain comparative figures for 2003 have been reclassified to conform with the financial statement presentation adopted for 2004.

MOTOR VEHICLE ACCIDENT CLAIMS FUND

Management's Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. Management in accordance with Canadian generally accepted accounting principles has prepared the financial statements, and, where appropriate, included amounts based on management's best estimates and judgements.

Management agrees with the work of the specialists in evaluating the Unpaid Claims amount and has adequately considered the qualifications of the specialists in determining amounts and disclosures used in the notes to the financial statements. Management did not give any, nor cause any, instructions to be given to the specialists with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the specialists.

The Motor Vehicle Accident Claims Fund is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and that the assets were safeguarded. Internal audits are conducted to assess management systems and practices and reports are issued to the CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario (the "FSCO") and the FSCO Audit Committee.

Deloitte and Touche, Chartered Accountants who are engaged under the direction of the Provincial Auditor, have examined the financial statements. The auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The auditor's report outlines the scope of the auditor's examination and report.

John Avgeris
Senior Manager
Motor Vehicle Accident Claims Fund

Peter McGuinness
Manager of Accounting & Administration
Motor Vehicle Accident Claims Fund

Deloitte & Touche LLP
BCE Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Deloitte

Auditors' Report

To the Audit Committee of the Financial Services Commission of Ontario and the Provincial Auditor of Ontario

Pursuant to our appointment as auditor of the Motor Vehicle Accident Claims Fund (the "Fund"), which audit is under the direction of the Provincial Auditor of Ontario, we have audited the statement of financial position of the Fund as at March 31, 2005 and the statements of operations and fund deficit and of cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
June 22, 2005

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF FINANCIAL POSITION

	As at March 31, 2005 $	As at March 31, 2004 $
ASSETS		
Funds on Deposit	8,167,521	2,662,452
Accounts Receivable - License Fees	2,270,712	927,420
Accounts Receivable - Life Annuity (Note 7)	2,209,799	-
Accounts Receivable - Debtors	46,948,478	47,804,474
Less: Allowance for Doubtful Accounts	31,466,424	32,047,717
	15,482,054	15,756,757
Computer Equipment	106,389	66,096
Less: Accumulated Amortization	70,054	34,591
	36,335	31,505
Unpaid Claims Recoverable (Note 4)	8,871,189	9,126,391
Total Assets	37,037,610	28,504,525
LIABILITIES & FUND DEFICIT		
Accounts Payable and Accrued Expenses	1,400,992	1,328,839
Deferred Revenue	31,018,599	20,597,057
Unpaid Claims and Adjustment Expenses (Note 4)	128,489,636	125,979,309
	160,909,227	147,905,205
Fund Deficit	(123,871,617)	(119,400,680)
	(123,871,617)	(119,400,680)
Total Liabilities & Fund Deficit	37,037,610	28,504,525

APPROVED:

BPDavies

Bryan P. Davies
Chief Executive Officer and
Superintendent of Financial Services
Financial Services Commission of Ontario

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF OPERATIONS AND FUND DEFICIT

	Year ended March 31, 2005 $	Year ended March 31, 2004 $
REVENUE		
Fee on Issue or Renewal of Driver's Licences	19,611,557	8,433,423
Change in Deferred Revenue	(10,421,542)	(300,230)
Fees Earned	9,190,015	8,133,193
Transfer Payment (Note 2)	862,200	-
Prior Year Recoveries	2,662,046	284,620
Other Revenue	6,565	-
Total Revenue	12,720,826	8,417,813
EXPENSES		
Change in Net Unpaid Claims and Adjustment Expenses	2,765,529	(1,861,812)
Accident Benefits Claims Payments	6,862,178	7,613,386
Administrative Expenses		
Salaries and Wages	1,108,641	1,094,066
Employees' Benefits	153,688	131,761
Transportation and Communication	25,985	41,451
Services:		
Claims (Solicitors Fees etc.)	1,858,236	1,677,067
Accident Benefit Claims Expense	1,064,781	712,907
Other Services	837,325	745,255
Bad Debts Expense	2,465,532	3,720,485
Supplies and Equipment	14,405	35,839
Amortization of Computer Equipment	35,463	22,032
Total Expenses	17,191,763	13,932,437
Excess of Expenses over Revenue	(4,470,937)	(5,514,624)
Fund Deficit, Beginning of Year	(119,400,680)	(113,886,056)
Fund Deficit, End of Year	(123,871,617)	(119,400,680)

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF CASH FLOWS

	Year ended March 31, 2005 $	Year ended March 31, 2004 $
OPERATING ACTIVITIES		
Cash Inflows		
Fee on Issue or Renewal of Driver's Licences	18,268,265	8,223,297
Repayment by Debtors	1,893,151	1,850,295
Prior Year Recoveries	452,247	279,285
Transfer Payment	862,200	-
Other Revenue	6,565	-
Cash Outflows		
Statutory Payments	(10,689,848)	(10,485,236)
Payments to Employees	(1,245,127)	(1,216,032)
Administrative Expenses	(4,002,091)	(3,274,711)
Net Cash Outflow from Operating Activities	5,545,362	(4,623,102)
INVESTING ACTIVITIES		
Cash Outflows		
Acquisition of Equipment	(40,293)	(28,419)
Net Cash Outflow from Investing Activities	(40,293)	(28,419)
Net Increase (Decrease) in Funds on Deposit with Minister of Finance	5,505,069	(4,651,521)
Funds on Deposit with Minister of Finance, Beginning of Year	2,662,452	7,313,973
Funds on Deposit with Minister of Finance, End of Year	8,167,521	2,662,452

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2005

1. STATUTORY AUTHORITY

The Motor Vehicle Accident Claims Fund (the "Fund") operates under the authority of the *Motor Vehicle Accident Claims Act (the "Act")*, R.S.O. 1990, Chapter M.41 as amended.

2. FUND OPERATIONS

The Fund was originally established to provide compensation to victims of motor vehicle accidents caused by uninsured or hit-and-run motorists in Ontario. Uninsured motorists were required to pay an annual fee into the Fund. However, effective March 1, 1980, with the enactment of the *Compulsory Automobile Insurance Act*, all motorists are required to carry compulsory third party liability insurance including uninsured motorist coverage. Since that time, the Fund only responds to claims where the eligible claimants have no access to automobile or liability insurance coverage. In 1990, legislation was enacted to expand the coverage to include a new provision to pay statutory accident benefits by the Fund, in accordance with the *Statutory Accident Benefits Schedule* (the "*SABS*"). In 2002, legislation was enacted to expand the Fund's role to administer and pay statutory accident benefits claims of Ontario insolvent insurers.

The Fund now pays claims under four different automobile insurance compensation systems:

1) Tort - prior to June 22, 1990

2) OMPP - between June 22, 1990 and December 31, 1993

3) Bill 164 - between January 1, 1994 and October 31, 1996

4) Bill 59 - from November 1, 1996 and forward

The coverage provided by the Fund is analogous to the minimum required coverage under the standard automobile policy (OAP1) approved by the provincial regulator. Unlike insurance companies, the Fund does not cover claims where the accidents occur outside of Ontario, except in the case of accident benefits where the Ontario insurer is insolvent. In the cases of insurance company insolvencies where the Fund pays claims for accident benefits, it has powers to assess the industry to recover for claims and adjustment expenses and also has claimant rights against the estate of the insolvent insurer.

The current maximum third party liability claims limits payable by the Fund are $200,000, inclusive of pre-judgment interest, plus legal costs as awarded. Under the *Highway Traffic Act* in Ontario, a driver is responsible for an accident while the owner of the vehicle has vicarious liability. Both the owner and driver will have their driving privileges suspended and, where judgments exist, writs of seizure and sale of real property will be filed with the Sheriff in the jurisdictions where the defendants reside.

If the driver of the vehicle cannot be determined, only claims for bodily injury can be paid out of the Fund. In these civil proceedings the Superintendent of the FSCO becomes the named defendant. In certain circumstances, the law provides that where the identity of a driver is determined at a later date, upon bringing of a motion before the court, the driver can be substituted in the judgment.

Upon the conclusion of litigation under sections 7, 12 or 15 of the *Act*, or through settlements under section 4 of the *Act*, the plaintiff(s) or claimant(s) present a request for payment to the Minister of Finance out of the Fund. At that time an account receivable is created for the full amount of those payments, which may be recovered from the uninsured driver and/or owner.

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2005

2. FUND OPERATIONS (continued)

The Fund operates administratively under the direction of the Financial Services Commission of Ontario ("FSCO") and reimburses FSCO for the costs of the services it provides to the Fund.

The Lieutenant Governor in Council, having regard to the condition of the Fund and the amount paid out of the Fund during any period, may direct payment out of the Province's Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize the Fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future. Fair values are not determinable for Accounts Receivable – Debtors (net) and Unpaid Claims and Adjustment Expenses (net). For all other financial instruments fair value is equal to book value.

The significant accounting policies used in the preparation of these financial statements are summarized as follows:

a) Computer Equipment

Computer equipment is carried at cost, less accumulated amortization. The Fund provides for amortization on a straight-line basis over the estimated useful life of the assets as follows:

Computer equipment	3 years

b) Drivers' Licence Fees and Deferred Revenue

The amount the Fund earns changed as of September 2004 from a fee of $5.00 to $15.00 on the issuance or renewal of each driver's five-year licence. The income is earned on a pro-rata basis over the five-year term of the licence and the unearned portion is reflected as deferred revenue.

c) Accounts Receivable – Fees

Under the <u>*Act*</u> the Fund receives from the Ministry of Transportation and Serco DES a monthly internal transfer and payment representing the drivers' licence fee prescribed by *Ontario Regulation 800.* Accordingly, unremitted licence fees are reported as accounts receivable.

d) Unpaid Claims

Unpaid claims represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claim expenses, and is gross of estimated recoveries and subrogation. Claim liabilities are established according to accepted actuarial practice in Canada as applied to public personal injury compensation plans. They do not reflect the time value of money nor include a provision for adverse deviations, because the Fund reports no investment income.

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The provision for unpaid claims and claim expenses consists of estimates that are necessarily subject to uncertainty and the variability could be material in the near term. The estimates are selected from a range of possible outcomes and are adjusted up or down, as additional information becomes known during the course of loss settlement. The estimates are principally based on historical experience but variability can be caused by changes in judicial interpretations of contracts or significant changes in severity and frequency of claims from historical trends. All changes in estimates are recorded in the current period.

The Fund has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments.

Settlements occur when there is an irrevocable direction from the Fund to the annuity underwriter to make all payments directly to the claimant. There are no rights under the non-commutable, non-assignable, non-transferable contract that would provide any current or future benefit to the Fund. The Fund remains liable to make payments only in the event that the life insurance company fails and only to the extent that CompCorp, the industry's insolvency compensation fund, will not cover payments due. The net risk to the Fund is any credit risk related to the life insurance companies. This credit risk is deemed nil at March 31, 2005. There exists the possibility of contingent gains based on the fact that the Fund has purchased insurance on some of the measured lives. Such amounts are described in Note 7 – Contingent Gains.

e) Accounts Receivable – Debtors

The Fund maintains an accounts receivable portfolio, accumulated over the years as the result of judgments and claims assigned to the Minister of Finance. The Fund will pay damages to injured, not at fault, victims who have no recourse to liability insurance, on behalf of defendant uninsured motorists. In accordance with the *Act*, these amounts are recoverable from the uninsured motorists.

Total repayments received from debtors are reflected in the cash flow statement.

The allowance for doubtful accounts is determined through a process that considers: the age of defendant/debtor, the defendant/debtor's current monthly installment required under the regulations, the amount paid out of the Fund and the activity on the account since the date of the judgment.

The write-off process depends on established criteria that parallel the criteria established by the Ministry of Finance. These criteria are used to select a block of accounts at the beginning of April that is reviewed by collections staff. The Ministry of Finance, Internal Audit Section audits the work of the collections staff and provides a certificate of assurance to verify that the established criteria for the write-off have been met. The write-off transaction is authorized by an order-in-council under the authority set out in the *Financial Administration Act*.

In the current year, write-offs of $ 3.9 million (2004 - $ 2.4 million) were processed. Additionally, in the current year $0.8M of the Accounts Receivable were reinstated through the bad debt expense account.

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Prior Year Recoveries

Prior year recoveries are generated from three main sources – insurance recoveries, reversionary interest (Note 7) and recoveries of court costs. The Fund is required under the *SABS* to satisfy the payment of accident benefits claims within specified periods. The timeframe does not allow for a complete investigation into available insurance coverage and in some instances information is withheld by police because of criminal investigations. Accordingly, when new information is available, the Fund may be required to pursue private insurers for recoveries.

From time to time the Fund may also be involved in the defence of uninsured motorists or the Superintendent of FSCO, where the legal proceedings are deemed frivolous and the Fund is awarded costs by the courts.

4. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

a) The Fund's unpaid claims and adjustment expenses consist of the following:

	March 31, 2005		March 31, 2004	
	Gross (000's)	**Recoverable (000's)**	Gross (000's)	Recoverable (000's)
ACCIDENT BENEFITS				
Statutory accident benefits	$ **48,958**	$ **-**	$ 44,142	$ -
THIRD PARTY LIABLITY (TPL)				
Property damage	**797**	**62**	939	105
Bodily injury	**78,735**	**8,809**	80,898	9,021
Total TPL	**79,532**	**8,871**	81,837	9,126
Totals	$ **128,490**	$ **8,871**	$ 125,979	$ 9,126

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2005

4. UNPAID CLAIMS AND ADJUSTMENT EXPENSES (continued)

b) The change in gross provision for claims and adjustment expenses is as follows:

	March 31, 2005 (000's)	March 31, 2004 (000's)
Unpaid claims and adjustment expenses, beginning of year	$ **125,979**	$ 129,050
Increase (decrease) in provision for losses that occurred in prior years	**(8,350)**	(16,766)
Amounts paid during the year on claims of prior years		
Statutory Payments	**(9,780)**	(10,022)
Claims Expenses	**(5,277)**	(4,293)
Amount paid during the year on claims of the current year		
Statutory Payments	**(475)**	(463)
Claims Expenses	**(256)**	(198)
Provision for losses on claims that occurred in the current year	**26,649**	28,671
Unpaid claims and adjustment expenses, end of year	$ **128,490**	$ 125,979

5. DUE TO THE FINANCIAL SERVICES COMMISSION OF ONTARIO

Amounts due to the FSCO and included in Accounts Payable and Accrued Expenses are for services provided in connection with the administration of the Fund and include charges for: rent, computer services, legal services and other administrative services.

	March 31, 2005 (000's)	**March 31, 2004** (000's)
Due to FSCO	-	$ 300

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2005

6. ROLE OF THE ACTUARY AND AUDITOR

The Financial Services Commission of Ontario retains the Fund's actuary. The actuary's responsibility is to carry out an annual valuation of the Fund's liabilities, which include provision for unpaid claims and adjustment expenses in accordance with accepted actuarial practice. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, recoveries, and expenses taking into consideration the circumstances of the Fund. The actuary in his verification of the underlying data used in the valuation also makes use of the work of the external auditor. The actuary's report outlines the scope of his work and opinion.

The external auditors act under the direction of the Ontario Provincial Auditor pursuant to agreed terms of engagement. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the Audit Committee of the FSCO. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the provision for claims and claim expenses. The auditors' report outlines the scope of their audit and their opinion.

7. CONTINGENT GAINS

Some payments out of the Fund are in the form of structured settlements for accident benefit claims. These claims have guarantee periods ranging from 10 to 30 years and during this period the reversionary interest will be payable to Her Majesty the Queen in right of Ontario, as represented by the Minister of Finance, should the claimant die.

Even though the range of probability that the claimant may die during the guarantee period is slight, the Fund nevertheless has calculated the approximate reversionary interest represented by insurance on the claimant lives as at March 31, 2005 for information purposes.

As at March 31, 2005, the amount paid out of the Fund for accident benefit claims in the form of structured settlements was approximately $ 11.4 million (2004 - $ 9.9 million) with applicable reversionary interest of approximately $ 7.5 million (2004 - $ 6.8 million). The amounts from the prior year have been restated to correct an omission, due to a date related problem.

On May 12, 2005 the Fund received notification from the Public Guardian and Trustee that a claimant for whom an annuity had been purchased, passed away on January 24, 2005. The Fund had purchased a guarantee relating to this claim, which resulted in the reversionary interest of $2,209,799 to be refunded to the Fund.

ONTARIO PENSION BOARD

Management's Responsibility for Financial Reporting

The consolidated financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these consolidated financial statements are in accordance with Canadian generally accepted accounting principles. Of necessity, many amounts in the financial statements must be based on the best estimates and judgement of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout the OPB.

The Board of Directors ("Board") is ultimately responsible for the consolidated financial statements of the OPB. The OPB's Audit Committee assists in this responsibility by reviewing the consolidated financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Donald D. Weiss
President & CEO
February 21, 2005

Darla S. Sycamore
Darla S. Sycamore, CA
Director, Finance

Auditors' Report to the Directors of the Ontario Pension Board

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and surplus (deficit) of the Ontario Pension Board ("OPB") as at December 31, 2004, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus (deficit) for the year then ended. These consolidated financial statements are the responsibility of the OPB's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the OPB as at December 31, 2004 and the results of its operations and the changes in its financial position, accrued pension benefits and surplus (deficit) for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Toronto, Canada
February 21, 2005

ONTARIO PENSION BOARD

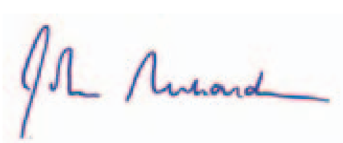
Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Surplus (Deficit)

As at December 31
(in thousands of dollars)

	2004	2003
Assets		
Investments (Note 4)	$ 13,052,756	$ 12,275,080
Contributions receivable (Note 7)	37,560	32,317
Capital assets (Note 5)	1,369	1,256
Total assets	13,091,685	12,308,653
Liabilities		
Income taxes withheld on pension payments	9,568	8,952
Accounts payable and accrued charges	12,260	14,704
Contributions payable	1,500	951
Total liabilities	23,328	24,607
Net assets available for benefits	13,068,357	12,284,046
Actuarial asset value adjustment (Note 8(b))	612,028	1,135,261
Actuarial value of net assets available for benefits	13,680,385	13,419,307
Accrued pension benefits and surplus (deficit)		
Accrued pension benefits	13,893,721	12,713,633
Surplus (deficit)	(213,336)	705,674
Total benefits and surplus (deficit)	$ 13,680,385	$ 13,419,307

See accompanying notes

On behalf of the Board:



John E. Richardson
Director

Mary Tate
Director

ONTARIO PENSION BOARD

Consolidated Statement of Changes In Net Assets Available for Benefits

For the year ended December 31 *(in thousands of dollars)*	2004	2003
Increase in net assets		
Net investment income (Note 6)	$ 1,210,687	$ 1,201,278
Contributions (Note 7)	308,545	270,927
Transfers from other plans	81,691	108,351
Increase in net assets	1,600,923	1,580,556
Decrease in net assets		
Pensions paid	743,485	728,456
Termination payments and transfers	55,599	41,208
Operating expenses (Note 9)	17,528	16,420
Decrease in net assets	816,612	786,084
Net increase in net assets for the year	784,311	794,472
Net assets, at beginning of year	12,284,046	11,489,574
Net assets, at end of year	$ 13,068,357	$ 12,284,046

See accompanying notes

ONTARIO PENSION BOARD

Consolidated Statement of Changes in Accrued Pension Benefits

For the year ended December 31 *(in thousands of dollars)*	2004	2003
Accrued pension benefits, at beginning of year	$ 12,713,633	$ 12,186,535
Increase in accrued pension benefits		
Interest on accrued pension benefits	835,808	839,293
Benefits accrued		
Service accrual	283,647	266,689
Transfer of assets from other plans	81,691	108,351
Past service buybacks	13,967	11,826
Changes in valuation methodology	56,112	–
Experience losses	285,224	70,606
Change in actuarial assumptions	422,724	–
Total increase	1,979,173	1,296,765
Decrease in accrued pension benefits		
Benefits paid	799,085	769,667
Total decrease	799,085	769,667
Net increase in accrued pension benefits	1,180,088	527,098
Accrued pension benefits, at end of year	$ 13,893,721	$ 12,713,633

See accompanying notes

Consolidated Statement of Changes in Surplus (Deficit)

For the year ended December 31 *(in thousands of dollars)*	2004	2003
Surplus, at beginning of year	$ 705,674	$ 1,032,401
Increase in net assets available for benefits	784,311	794,472
Change in actuarial asset value adjustment	(523,233)	(594,101)
Increase in actuarial value of net assets available for benefits	261,078	200,371
Net increase in accrued pension benefits	(1,180,088)	(527,098)
Net decrease in surplus	(919,010)	(326,727)
Surplus (deficit), at end of year	$ (213,336)	$ 705,674

See accompanying notes

ONTARIO PENSION BOARD

Notes to Consolidated Financial Statements

NOTE 1 Public Service Pension Act

Effective January 1, 1990, the Province of Ontario ("Province") enacted the *Public Service Pension Act,* 1990 ("*PSPAct*") to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan ("PSPPlan") are stated in Schedule 1 to the *PSPAct*. The Ontario Pension Board ("OPB") is the administrator of the PSPPlan.

NOTE 2 Description of PSPPlan

The following is a brief description of the PSPPlan. For more complete information, reference should be made to the *PSPAct*.

a) General
The PSPPlan is a contributory defined benefit pension plan. Membership is mandatory for most employees who satisfy the eligibility requirements provided in the *PSPAct.* Under the PSPPlan, contributions are made by the members and the employers. The PSPPlan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency (Registration Number 0208777) as a Registered Pension Plan not subject to income taxes.

b) Contributions
The PSPPlan is integrated with the Canada Pension Plan ("CPP"). Member contributions are 6.2% of the salary on which contributions to CPP are made and 8% on the balance of salary. The employers contribute matching amounts. The Province, as Plan sponsor, amended the PSPPlan to provide for a contribution reduction of 3% of salary for members, other than those belonging to the Ontario Provincial Police Association and Justices of the Peace. Employer contributions continued at the full 8% rate. The one-year reduction for employees ended in February 2004.

Ontario Provincial Police ("OPP") officers are required to contribute to the PSPPlan an additional 2% of salary which is matched by the employer. These additional contributions are used to fund the 50/30 unreduced early retirement provision available to OPP officers.

Contributions from members and employers are remitted to the OPB. The portion of these contributions which exceed *Income Tax Act* limits are transferred to the Province's Public Service Supplementary Benefits Account ("PSSBA").

c) Pensions
A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPPlan multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for amounts received under the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 ("Factor 90") or when the member reaches age 60 and has 20 or more years of credit. The Province amended the PSPPlan to provide for an enhanced early retirement opportunity for members of the Plan whose age and service in the Plan equals at least 80 years ("Factor 80"). The Factor 80 program ended on March 31, 2002. The PSPPlan was again amended to permit those members who are deemed to be surplus by their employer to retire upon attaining the Factor 80. To qualify, certain conditions must be satisfied by both the employer and the member. The program is scheduled to expire March 31, 2006. OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death Benefits
Benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or pensioner's estate on the death of a member or a pensioner.

e) Disability Pensions
Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPPlan. The amount of the disability pension is dependent on years of credit and average salary.

ONTARIO PENSION BOARD

Notes to Consolidated Financial Statements *(continued)*

f) Termination Payments
Members terminating employment before age 55, who are eligible for a deferred pension, may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to another pension plan, or to purchase a life annuity.

g) Escalation of Benefits
Current pensions and deferred pension benefits are increased for inflation, based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

NOTE 3 Summary of Significant Accounting Policies

a) Basis of Presentation
The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and present the position of the PSPPlan as a separate entity independent of the employers and Plan members.

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

b) Principles of Consolidation
The accounts of the wholly owned subsidiary, OPB Realty Inc., are included on a consolidated basis.

c) Investments
Investments are stated at fair value based on year-end market prices. Short-term investments are carried at cost, which approximates their aggregate fair value. Special Province of Ontario Debentures, which are non-marketable, are recorded at face value. Gains and losses realized on the disposal of investments are credited or charged to investment income. Interest and dividends on fixed income securities and equities, respectively, are recognized on an accrual basis. Investment transactions are recorded on a trade date basis.

Real estate investments are stated at appraised values as established by independent annual appraisals. Changes in valuation due to appraisal adjustments are included in unrealized gains. Income from real estate operations is recognized on an accrual basis.

Participating mortgages are recorded at face value, subject to an assessment of recoverable value based on an annual independent appraisal of the securitized properties. Income is accrued at the rate stated in the instrument and any participation income is recorded when realized.

d) Contributions
Contributions from members and employers which are due to the PSPPlan at year-end are recorded as receivable. Transfers and purchases of prior service are recorded after cash is received and the case is processed.

e) Pensions
Payments of pensions, refunds and transfers are recorded in the year in which they are made.

f) Capital Assets
Capital assets are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment	3 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

g) Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

NOTE 4 Investments

As of December 31 *(in thousands of dollars)*	2004 Fair Value	2004 Cost	2003 Fair Value	2003 Cost
Cash and short-term investments				
Canada	$ 858,883	$ 860,312	$ 630,604	$ 633,089
United States and other international	62,707	63,959	60,718	61,654
Forward exchange contracts	(35,245)	–	(14,895)	–
	886,345	924,271	676,427	694,743
Fixed income				
Special Province of Ontario Debentures	3,108,555	3,108,555	3,279,966	3,279,966
Bonds				
Canada	2,097,250	2,013,640	1,957,732	1,884,370
Other international	304,206	264,607	281,960	246,493
	5,510,011	5,386,802	5,519,658	5,410,829
Equities				
Canada	2,229,175	1,549,519	1,904,166	1,443,345
United States	1,630,338	1,573,603	1,640,750	1,536,097
Other international	1,343,800	1,153,005	1,170,536	1,060,912
	5,203,313	4,276,127	4,715,452	4,040,354
Real estate	1,413,131	1,238,872	1,325,408	1,213,690
Participating mortgages	39,956	39,956	38,135	38,135
Total	$ 13,052,756	$ 11,866,028	$ 12,275,080	$ 11,397,751

a) Investment Objectives

As administrator of the Public Service Pension Fund (the "Fund"), the OPB has adopted a Statement of Investment Policies and Procedures. This Statement provides investment objectives, performance expectations and guidelines for the management of the Fund. To reduce risk and enhance returns, the OPB diversifies its investments into various asset classes. The allocation at any point in time is determined based on an assessment of economic and financial market conditions.

To provide the ability to respond to fundamental changes, the Fund's asset mix is maintained within the following ranges:

Canadian equity	10% to 20%
Non-Canadian equity	20% to 30%
Real estate	5% to 15%
Total equity and real estate	35% to 65%
Bonds	35% to 65%
Short term	0% to 10%
Total fixed income	35% to 65%

ONTARIO PENSION BOARD

Notes to Consolidated Financial Statements *(continued)*

The Fund's long-term asset mix policy is as follows:

Equity	50%
Fixed income	50%

This policy was adopted after evaluating the risk characteristics of alternative policies, considering the liquidity requirements of the Fund and the economic assumptions employed for actuarial valuation purposes.

b) Cash and Short-term Investments

(in thousands of dollars)	2004 Fair Value	2004 Cost	2003 Fair Value	2003 Cost
Canada				
Cash	$ 2,241	$ 2,241	$ 9,875	$ 9,875
Short-term notes and treasury funds	806,525	807,954	599,022	601,507
Term deposits	48,166	48,166	20,069	20,069
Accrued interest	1,951	1,951	1,638	1,638
	$ 858,883	$ 860,312	$ 630,604	$ 633,089
United States and other international				
Cash	$ 4,636	$ 4,636	$ 3,623	$ 3,623
Short-term notes and treasury funds	10,605	10,821	12,721	13,036
Term deposits	34,201	34,719	35,860	36,053
Pooled funds	13,255	13,773	8,499	8,927
Accrued interest	10	10	15	15
	$ 62,707	$ 63,959	$ 60,718	$ 61,654

The OPB has entered into various forward exchange contracts to limit exposure to foreign currency fluctuations. The total fair value of contracts payable is $1.207 billion (2003 – $746 million) and the total fair value of contracts receivable is $1.172 billion (2003 – $731 million).

c) Fixed Income and Equities

The Special Province of Ontario Debentures are recorded at their aggregate face value of $2.929 billion (2003 – $3.092 billion) plus accrued interest of $179.765 million (2003 – $187.799 million). By discounting cash flows based on year-end market yields of comparable bonds, a value of $4.180 billion (2003 – $4.417 billion) could be determined. There are currently 12 Special Province of Ontario Debentures maturing over the next 10 years with a weighted average interest rate of 12.07 % (2003 – 11.97%).

Canadian bonds include pooled funds with $138.246 million fair value and $135.554 million cost (2003 – $132.699 million fair value and $129.973 million cost). Canadian equities include pooled funds with $125.659 million fair value and $99.022 million cost (2003 – $98.872 million fair value and $78.919 million cost).

The OPB invests in high-grade bonds and common shares. The fair value of investments denominated in foreign currencies will fluctuate with moves in exchange rates.

See the schedules of Fixed Income Maturities and Investments over $35 Million Market Value for further information.

d) Real Estate

The fair value of real estate was increased by $62.541 million (2003 – $28.245 million) to reflect the results of independent appraisals conducted as at December 31, 2004.

ONTARIO PENSION BOARD

e) Securities Lending

At year-end, approximately $891 million (2003 – $563 million) of the Fund's securities were on loan to third parties. Pursuant to a securities lending agreement, the Fund's custodian arranges the loans and the Fund earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with comparable securities.

NOTE 5 Capital Assets

As at December 31 *(in thousands of dollars)*	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Computer equipment	$ 2,105	$ 1,603	$ 502	$ 771
Leasehold improvements	1,935	1,321	614	253
Furniture and fixtures	848	595	253	232
Total capital assets	$ 4,888	$ 3,519	$ 1,369	$ 1,256

NOTE 6 Net Investment Income

For the year ended December 31 *(in thousands of dollars)*	2004	2003
Interest income		
Cash and short-term investments		
Canada	$ 15,840	$ 15,201
United States and other international	1,334	912
Fixed income		
Special Province of Ontario Debentures	362,084	377,137
Bonds		
Canada	111,561	109,626
Other international	13,038	11,600
Total interest income	503,857	514,476
Dividend income		
Canada	37,171	35,492
United States	41,976	33,487
Other international	40,429	26,089
Total dividend income	119,576	95,068
Real estate income	105,793	99,278
Participating mortgage income	1,822	1,723
Realized gain (loss)	185,675	(29,197)
Unrealized gain	309,399	533,488
Total investment income	1,226,122	1,214,836
Investment management and custodial fees	(15,435)	(13,558)
Net investment income	$ 1,210,687	$ 1,201,278

ONTARIO PENSION BOARD

Notes to Consolidated Financial Statements *(continued)*

a) Interest Income

(in thousands of dollars)	2004	2003
Cash and short-term investments		
Canada		
Cash	$ 882	$ 782
Short-term notes and treasury funds	14,319	13,876
Term deposits	639	543
	$ 15,840	$ 15,201
United States and other international		
Cash	$ 56	$ 94
Short-term notes and treasury funds	738	85
Term deposits	540	733
	$ 1,334	$ 912

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds.

Canadian bond interest includes $3.414 million (2003 – $9.488 million) from pooled bond funds.

b) Dividend Income

Canadian dividend income includes $0.741 million (2003 – $0.111 million) from pooled equity funds.

c) Real Estate

The following is selected information from the operations of the subsidiary OPB Realty Inc.:

(in thousands of dollars)	2004	2003
Rental	$ 192,339	$ 182,072
Other income	4,524	4,309
Total revenue	196,863	186,381
Operating expenses	77,879	73,032
General, administrative and other	14,121	14,852
Total expense	92,000	87,884
	104,863	98,497
Unrealized gains	62,127	27,927
Net income of OPB Realty Inc.	$ 166,990	$ 126,424

d) Investment Management and Custodial Fees

(in thousands of dollars)	2004	2003
Portfolio fund management	$ 12,671	$ 11,029
Custody	1,476	1,259
Real estate	999	996
Consulting	289	274
	$ 15,435	$ 13,558

ONTARIO PENSION BOARD

NOTE 7 Contributions

For the year ended December 31 *(in thousands of dollars)*		2004		2003
Members				
Current service	$	148,260	$	112,142
Prior service		9,312		7,958
		157,572		120,100
Employers				
Current service				
Regular contributions		153,488		153,486
PSSBA transfer		(9,998)		(9,078)
Long Term Income Protection		2,830		2,551
		146,320		146,959
Prior service		4,653		3,868
		150,973		150,827
Total contributions	$	308,545	$	270,927

The contribution requirements are set out in the *PSPAct* and summarized in Note 2.

Members who are receiving benefits on Long Term Income Protection ("LTIP") have their employers contribute on their behalf their contribution to the PSPPlan.

Contributions receivable represent members' and employers' contributions due as well as estimated receivables for members receiving benefits on LTIP and for the matching portion of buybacks billed to the employer. The portions receivable from members and employers are set out in the following table:

For the year ended December 31 *(in thousands of dollars)*		2004		2003
Members	$	13,348	$	8,043
Employers		24,212		24,274
Total contributions receivable	$	37,560	$	32,317

NOTE 8 Accrued Pension Benefits

a) Funding Basis

The funding of the PSPPlan is based on methods required under the *PSPAct*. The *Pension Benefits Act (Ontario)* and the *Income Tax Act* require that an actuarial funding valuation of the PSPPlan be completed and filed with the regulatory authorities, at least every three years.

Mercer Human Resource Consulting Limited performed a funding valuation as at December 31, 2002 that was filed with the Financial Services Commission of Ontario ("FSCO"). That valuation disclosed an actuarial surplus of $25 million. The next mandatory filing is for December 31, 2005 and must be submitted to FSCO no later than September 30, 2006.

In 2004 OPB appointed Hewitt Associates ("Hewitt") as its actuarial advisor. Hewitt performed a funding valuation as at December 31, 2003. That valuation disclosed a funding shortfall of $749 million. This shortfall is attributable to investment and demographic experience losses, and changes in actuarial methodologies.

ONTARIO PENSION BOARD

Notes to Consolidated Financial Statements *(continued)*

b) Accounting Basis

The consolidated financial statements include the actuarial value of net assets and accrued pension benefits as at December 31, 2004 and 2003, which are based on actuarial calculations as of these dates in accordance with the recommendations of The Canadian Institute of Chartered Accountants ("CICA") as set out in Section 4100 of the CICA Handbook.

These standards require that the obligation for accrued pension benefits be calculated using the projected benefit method pro-rated on services and management's best estimate assumptions.

The accounting basis valuation at December 31, 2004 is computed by reference to the data used for the December 31, 2003 funding basis valuation. Amounts are extrapolated to compute the liability for accrued pension benefits as at December 31, 2004. In computing this amount no account is taken for new entrants to the Plan in 2004.

Hewitt recomputed the liability for accrued pension benefits as at December 31, 2003. Differences in valuation system, methodology, and refinements of estimation increased the liability by $56.1 million. These adjustments have been accounted for as changes in estimates, charged to the current period.

(i) Actuarial Assumptions

The assumptions used for accounting purposes, following the CICA recommendations, reflect management's best estimates of future events. They include such non-economic assumptions as mortality and retirement rates as well as economic assumptions such as investment returns.

The key economic assumptions used for accounting purposes in 2004 and 2003 are as follows:

(in thousands of dollars)	**2004**	2003
Investment return	**6.25%**	6.50%
Inflation	**2.50%**	2.50%
Real rate of return	**3.75%**	4.00%
Salary	**3.50%**	3.50%
	+promotional scale	+promotional scale

The impact of the change in the real rate of return assumption was $422.7 million, charged to the Consolidated Statement of Changes in Accrued Pension Benefits.

(ii) Actuarial Asset Value Adjustment

The actuarial asset value adjustment increases or decreases the financial statement carrying values of certain assets to an actuarial basis. For the OPB two adjustments are made – an adjustment to bring the Special Province of Ontario Debentures to a discounted cash flow basis and a smoothing adjustment to reflect realized and unrealized gains and losses on investments (other than Special Province of Ontario Debentures) over four years, including the current year. These adjustments are set out in the following table:

For the year ended December 31 *(in thousands of dollars)*	**2004**	2003
Adjustment for Special Province of Ontario Debentures, based upon discounted cash flows	**$ 1,071,665**	$ 1,136,865
Less: Net gain on investments, deferred to future periods (actuarial smoothing adjustment)	**459,637**	1,604
	$ 612,028	$ 1,135,261

The actuarial smoothing adjustment amortizes realized and unrealized gains and losses on investments over a four-year period. The net effect of this adjustment is a deferral of $459.6 million of net gains (2003 – $1.6 million). Set out below is a table analyzing this adjustment:

ONTARIO PENSION BOARD

Deferred as at December 31
(in thousands of dollars)

Annual net gain (loss) on investments		Portion of net gain (loss) on investments deferred to future periods 2004	2003
2001	$ (195,949)	$ –	$ (48,987)
2002	(655,256)	(163,814)	(327,628)
2003	504,291	252,146	378,219
2004	495,074	371,305	–
Total net gain on investments, deferred to future periods		$ 459,637	$ 1,604

NOTE 9 Operating Expenses

For the year ended December 31
(in thousands of dollars)

	2004	2003
Salaries and benefits	$ 9,938	$ 9,753[1]
Agency services	554	482
Office premises and operations	2,747	2,362
Computer and professional services	2,974	2,718
Depreciation and amortization	581	453
Communications	437	374
Board remuneration	83	40
Audit	65	115
Travel	73	73
Publications, registration and filing fees	76	50
Total operating expenses	$ 17,528	$ 16,420

[1] For the year 2003, an amount of $1,287 thousand relates to accumulated staff vacation and termination benefits owing, which were previously expensed upon payment. For 2004 and subsequent years, the annual accrued costs of these items are included in salaries and benefits.

NOTE 10 Executive Compensation

The compensation table represents disclosure of the taxable compensation and benefits earned in the year by the Chief Executive Officer and the four other most highly compensated executives.

	Compensation	Taxable Benefits
Donald D. Weiss, President and CEO	$ 337,436	$ 313
Mark J. Fuller, Executive Vice-President, Pensions	318,746	382
Leonard Lu, former President[1]	302,467	409
Robert F. Kay, Senior Vice-President, Investments	264,036	337
Peter Shena, Vice-President, Pension Policy and Research	194,257	261

[1] Retired December 31, 2004.

NOTE 11 Comparative Figures

Certain comparative figures have been restated to conform with the financial statement presentation adopted in the current year.

ONTARIO PENSION BOARD

Schedule of Fixed Income Maturities

As at December 31 *(in thousands of dollars)*		2004 Fair Value	2004 Effective Yield %		2003 Fair Value	2003 Effective Yield %
Special Province of Ontario Debentures						
0 – 1 year	$	129,159	11.05 – 13.33	$	120,323	9.82 – 12.78
1 – 5 years		945,312	11.16 – 15.38		843,855	11.05 – 15.38
5 – 10 years		1,854,319	10.38 – 13.33		1,677,050	10.38 – 13.33
> 10 years		–			450,939	11.19
Accrued interest		179,765			187,799	
		3,108,555			3,279,966	
Bonds						
Canada:						
0 – 1 year		157,064	2.99 – 8.49		86,545	3.44 – 9.18
1 – 5 years		493,545	2.99 – 9.13		486,438	3.34 – 8.70
5 – 10 years		791,652	3.90 – 8.10		809,999	4.62 – 8.18
> 10 years		499,961	2.87 – 7.14		425,455	2.87 – 7.27
PH&N Bond Fund: 3 – 31 years		138,246	4.19		132,699	4.35
Accrued interest		16,782			16,596	
		2,097,250			1,957,732	
Other international:						
0 – 1 year		41,305	4.93		2,954	7.76
1 – 5 years		145,651	3.63 – 7.11		161,630	4.33 – 6.94
5 – 10 years		56,587	2.65 – 5.73		62,099	2.76 – 5.43
> 10 years		53,877	4.41 – 4.79		48,945	4.90 – 5.22
Accrued interest		6,786			6,332	
		304,206			281,960	
	$	5,510,011		$	5,519,658	

ONTARIO PENSION BOARD

Income over $35 Million Market Value

As at December 31 *(in thousands of dollars)*	Maturities	Coupon %	Market Value[1]
Cash and short-term investments			
Canada:			
Government of Canada			$ 521,691
Province of Ontario			79,830
Bank of Montreal			48,166
Canadian Imperial Bank of Commerce			37,884
Fixed income			
Special Province of Ontario Debentures[2]	2005 – 2014	10.38 – 15.38	2,928,790
Canada:			
Government of Canada	2005 – 2033	3.00 – 10.25	678,140
Province of Ontario	2005 – 2035	3.21 – 9.50	288,742
Phillips Hager & North High Grade Corporate Bond Fund	2007 – 2035	3.78 – 7.78	138,246
Province of Quebec	2010 – 2032	5.25 – 7.50	78,327
NHA Mortgage-Backed Securities	2005 – 2011	5.25 – 5.50	56,235
Woodbine Entertainment Group	2011	8.58	48,376
Manulife Financial Corporation	2011 – 2016	5.70 – 6.70	45,304
Royal Bank of Canada	2011 – 2053	5.45 – 7.10	42,871
Toronto-Dominion Bank	2009 – 2018	4.80 – 7.60	42,033
Power Financial Corporation	2011 – 2033	6.75 – 8.00	38,748
Province of British Columbia	2008 – 2014	5.30 – 6.38	36,735
Other international:			
Government of France	2005 – 2025	3.00 – 6.00	111,500
Germany Federal Republic Bonds	2006 – 2034	3.75 – 5.63	101,772
UK Treasury	2006 – 2010	5.00 – 7.50	54,925
Real estate			
OPB Realty Inc. (holding company, 100% owned)			1,364,960
Participating mortgages	2009 – 2019	5.00	36,331

[1] Excludes accrued income, includes guaranteed instruments issued by subsidiaries/agencies.

[2] At cost.

ONTARIO PENSION BOARD

Income over $35 Million Market Value *(continued)*

As at December 31 *(in thousands of dollars)*	Shares	Market Value[1]
Equities		
Canada:		
Manulife Financial Corporation	2,197	$ 121,697
Encana Corp.	1,750	119,705
Sceptre Small Cap Section Pooled Fund	162	114,665
Royal Bank of Canada	1,739	111,711
Toronto-Dominion Bank	2,145	107,058
The Bank of Nova Scotia	2,586	105,238
Canadian Imperial Bank of Commerce	1,135	82,010
Bank of Montreal	1,204	69,555
Alcan Inc.	1,140	67,003
Canadian National Railway	873	63,756
Suncor Energy	1,451	61,535
Power Financial Corporation	1,794	57,390
Rogers Communications Inc.	1,825	57,369
The Thomson Corporation	1,224	51,755
Potash Corporation of Saskatchewan	504	50,314
Petro-Canada	761	46,526
Loblaw Companies Ltd.	635	45,697
Teck Cominco Ltd.	1,053	38,879
Telus Corporation	1,067	37,071
BCE Inc.	1,236	35,751
The Great-West Life Assurance Company	1,338	35,722
United States:		
General Electric Company	1,597	69,845
Pfizer Inc.	1,611	51,918
Microsoft Corporation	1,586	50,785
Wal-Mart Stores Inc.	695	43,978
American International Group Inc.	531	41,754
Citigroup Inc.	708	40,899
Exxon Mobil Corp.	654	40,172
Other international:		
France:		
Total S.A.	148	38,812

[1] Excludes accrued income, includes guaranteed instruments issued by subsidiaries/agencies.

FINANCIAL SERVICES COMMISSION OF ONTARIO
The Pension Benefit Guarantee Fund

Management's Responsibility for Financial Information

Management is responsible for the integrity and fair presentation of all information in the financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements involves the use of management's judgement and best estimates particularly when transactions affecting the current period cannot be determined with certainty until future periods.

The Pension Benefit Guarantee Fund is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and safeguarding of its assets.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. They have been approved by the Commission's Audit Committee. The Auditor's report follows.

K. David Gordon
Deputy Superintendent of Pensions

Harold M. Sookdeo
Chief Accountant

Office of the
Auditor General
of Ontario

Bureau du
vérificateur général
de l'Ontario

AUDI ALTERAM PARTEM

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Financial Services Commission of Ontario
and to the Minister of Finance

I have audited the balance sheet of the Pension Benefits Guarantee Fund of the Financial Services Commission of Ontario as at March 31, 2005 and the statements of operations and fund deficit 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's guarantee fund as at March 31, 2005 and its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 18, 2005

Gary R. Peall, CA
Deputy Auditor General

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Balance Sheet
As at March 31, 2005

	2005 ($ 000)	2004 ($ 000)
ASSETS		
Current		
Cash	357	620
Accounts receivable	68,419	61,113
	68,776	61,733
Investments (Note 3)	223,161	554,866
	291,937	616,599
LIABILITIES AND FUND DEFICIT		
Current		
Accounts Payable and accrued liabilities	5,751	7,378
Current portion of loan payable	11,000	11,000
	16,751	18,378
Claims payable	204,624	386,401
Loan payable (Note 5)	308,000	319,000
	512,624	723,779
Fund deficit	(237,438)	(107,180)
	291,937	616,599

Contingencies (Note 6)

See accompanying notes to financial statements

Approved by:

CEO and Superintendent
Financial Services Commission of Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Operations and Fund Deficit
For the year ended March 31, 2005

	2005 ($ 000)	2004 ($ 000)
Revenue		
Premium revenue	67,431	53,374
Investment income (Note 3)	7,894	9,873
Recoveries	19	235
	75,344	63,482
Expenses		
Claims	201,301	33,281
Pension management fees (Note 4)	2,358	326
Investment management fees	287	272
Administration fee (Note 4)	379	301
	204,325	34,180
Excess (deficiency) of revenue over expenses	(128,981)	29,302
Unrealized gains (losses) in the market value of investments	(1,277)	987
Excess (deficiency) of revenue over expenses	(130,258)	30,289
Fund deficit , beginning of year	(107,180)	(137,469)
Fund deficit, end of year	(237,438)	(107,180)

Contingencies (Note 6)

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Cash Flows
For the year ended March 31, 2005

	2005 ($ 000)	2004 ($ 000)
Net Inflow (Outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses	(130,258)	30,289
Less items not affecting cash		
Unrealized (gain) loss on investments	1,277	(987)
	(128,981)	29,302
Changes in non cash working capital		
Accounts receivable	(7,306)	(5,007)
Accounts payable	(1,627)	3,246
Claims payable	(181,777)	(103,086)
	(190,710)	(75,545)
Cash flows from investing activities		
Purchases of investments	(1,500,855)	(952,411)
Proceeds from sale of investments	1,831,283	698,523
	330,428	(253,888)
Cash flows from financing activities		
Loan payable	-	330,000
Loan repayment	(11,000)	-
	(11,000)	330,000
Change in cash position	(263)	567
Cash position, beginning of year	620	53
Cash position, end of year	357	620

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2005

1. PURPOSE OF FUND

The purpose of the Pension Benefits Guarantee Fund (the Fund) is to guarantee payment of certain pension benefits of certain defined benefit pension plans that are wound up under conditions specified in the *Pension Benefits Act*, and regulations thereto. The regulations also prescribe the amount of the premiums required to be paid into the Fund by plan sponsors. The Superintendent of the Financial Services Commission of Ontario pursuant to the *Financial Services Commission of Ontario Act, 1997* is responsible for the administration of the Fund.

The *Pension Benefits Act* provides that if the assets of the Fund are insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans on such terms and conditions as the Lieutenant Governor in Council directs. The total liability of the Fund to guarantee pension benefits is limited to the assets of the Fund plus any loans received from the Province.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by the management of the Financial Services Commission of Ontario in accordance with Canadian generally accepted accounting principles. The significant accounting policies used to prepare these statements are summarized below.

(a) Investments

Investments include short-term deposits and fixed income securities issued or guaranteed by the federal and provincial governments and Canadian corporations. Short-term deposits have maturities of less than twelve months. They are recorded at cost which approximates market. Investments in government and corporate bonds are stated at their quoted market value. In aggregate, they are considered short term in nature and can be liquidated at any time to cover claims against the Fund. Premiums or discounts are not amortized.

Unrealized changes in market value reflect the change in unrealized gains or losses that have occurred by holding investments over the year.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Claims payable

Claims payable are liabilities to those defined benefit pension plans prescribed by legislation that are wound up or in the process of being ordered wound up under conditions specified in the *Pension Benefits Act*, and the amounts can be reasonably estimated. They are determined annually through an actuarial valuation using the best estimates of management of the Financial Services Commission of Ontario and represent the present value of future payments to settle the claims for benefits and expenses by eligible pension plans which are at various stages of the wind up process. Adjustments to the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to the Fund in the year when the actual amounts are determined.

(c) Premium revenue

The annual premium revenue due from the defined pension plans prescribed by legislation is recognized based on an estimate because the actual revenue cannot be determined until the pension plan files its annual assessment certificate nine months after the plan's fiscal year end.

Adjustments to premium revenue, if any, between the estimated amounts recognized and the actual revenues due are charged or credited to income in the year when the actual amounts are determined.

(d) 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 amount of assets and liabilities as at the date of the financial statements and the reported amount of revenues and expenses for the period. Actual amounts could differ from these estimates.

(e) Financial Instruments

Unless otherwise noted, it is the opinion of the management of the Financial Services Commission of Ontario that the Fund is not exposed to significant interest rate, currency or credit risks arising from its financial instruments, and the carrying amount of the Fund's financial instruments approximates fair value unless otherwise noted.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2005

3. INVESTMENTS

The Financial Services Commission of Ontario has adopted a Statement of Investment Policies and Guidelines. This statement outlines the purpose of the Fund and provides guidelines for the management of the Fund.

Investments consist of:

	2005 ($ 000)	2004 ($ 000)
Short term deposits	77,433	402,985
Government and corporate bonds at market value (cost $145,240; 2004 - $150,111)	145,728	151,881
	223,161	554,866

Short term deposits have an average yield of 2.50 % (2004 –2.17%) and government and corporate bonds have an average yield of 3.84 % (2004– 3.82%).

Investment income includes interest earned from interest bearing securities and realized gains/losses from the sale of securities. The realized net loss on the sale of securities amounted to $ 662,488 (2004 - $578,662 gain). Unrealized changes in the market value of investment are reflected separately on the statement of operations and fund deficit.

4. ADMINISTRATION AND PENSION MANAGEMENT FEES

The *Pension Benefits Act* allows the Financial Services Commission of Ontario to charge the Fund for expenses it incurs in administering the Fund. During fiscal 2005 administration fees of $379,228 (2004- $301,016) were paid to the Financial Services Commission of Ontario. The Fund and the Commission are related parties.

In fiscal 2005, $2,358,477 (2004 - $325,751) was paid from the Fund to a team of experts retained to represent the Fund during the insolvency proceedings of two companies. In the case of one company whose failure could result in a very significant claim on the Fund by the pension plans of this company, the team of experts is seeking to minimize any potential claim on the Fund. In the case of the other company, the team is seeking to

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2005

4. ADMINISTRATION AND PENSION MANAGEMENT FEES (Cont'd)

maximize potential recoveries from the bankrupt estate to offset the potential claims on the Fund.

Administrative services related to the processing of premium revenue are provided by the Ministry of Finance without charge.

5. LOAN PAYABLE

On March 31, 2004, the Fund obtained a $330 M loan from the Province. The loan is non interest bearing and repayable in thirty equal annual installments. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund. Repayments over the next five years are as follows:

	($000)
2005	11,000
2006	11,000
2007	11,000
2008	11,000
2009	11,000

6. CONTINGENCIES

There is currently one company operating under a stay under the *Companies' Creditors Arrangement Act* (CCAA) whose pension plans could represent very significant claims on the Fund. However, the outcome and the amount of any potential claims on the Fund are not determinable at this time.

Provincial Judges Pension Fund

AUDI ALTERAM PARTEM

Office of the Auditor General of Ontario

Auditor's Report

To the Provincial Judges Pension Board
and to the Minister of Finance

I have audited the statement of changes in fund balance of the Provincial Judges Pension Fund for the year ended March 31, 2005. As described in note 2, this financial statement has been prepared to comply with section 34 of Ontario Regulation 67/92 under the *Courts of Justice Act*. This financial statement is the responsibility of the Fund's management. My responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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, this financial statement presents fairly, in all material respects, the financial position of the Fund as at March 31, 2005 and the changes in fund balance for the year then ended in accordance with the accounting policy described in note 2 to the financial statement.

This financial statement, which has not been, and was not intended to be, prepared in accordance with Canadian generally accepted accounting principles, is solely for the information and use of the Provincial Judges Pension Board and the Minister of Finance for the purpose of fulfilling their fiduciary and custodial responsibilities under Regulation 67/92 of the *Court of Justice Act*. This financial statement is not intended to be and should not be used by anyone other than the specified users or for any other purpose.

Toronto, Ontario
June 3, 2005

Gary R. Peall, CA
Deputy Auditor General

PROVINCIAL JUDGES PENSION FUND

Statement of Changes in Fund Balance
For the Year Ended March 31, 2005

	2005 ($ 000)	2004 ($ 000)
Deposits (Note 4)		
Contributions		
Participants	4,625	2,944
Province of Ontario	30,347	11,235
Interest earned	30,132	27,551
	65,104	41,730
Payments (Note 4)		
Pension payments and survivor allowances	23,124	15,882
	23,124	15,882
Net increase in the Fund	41,980	25,848
Fund Balance on deposit with the Minister of Finance		
Beginning of year	351,084	325,236
End of year	393,064	351,084

See accompanying notes to financial statement

Approved on behalf of the Board:

Chair

PROVINCIAL JUDGES PENSION FUND

Notes to Financial Statement
March 31, 2005

1. DESCRIPTION OF THE FUND

The Provincial Judges Pension Fund (the Fund) is administered by the Provincial Judges Pension Board as designated by Ontario Regulation 67/92, as amended, of the *Courts of Justice Act*. The following brief description of the Fund is provided for general purposes only. For more complete information, reference should be made to the Regulation.

(a) General

The purpose of the Fund is to provide pension payments to retired Provincial Judges and Masters who are members of the Plan or survivor allowances to the dependents of these Judges and Masters.

(b) Funding Policy

Participants are required to contribute 7% of their salary to the earlier occurrence of meeting their basic service requirement or attaining age 70 years.

The contribution required from the Province is determined by an actuarial valuation as described in note 4.

(c) Pension Payments

A pension payment is available based on the age and the number of years of full-time service for which the participant has credit upon ceasing to hold office and is based on the salary of a full-time judge of the highest judicial rank held by the participant while in office. The participant is entitled to these payments during his/her lifetime.

(d) Disability Pension Payments

A full pension is available at age 65 for participants with a minimum of five years of full-time service who are unable to serve in office due to injury or chronic illness.

(e) Survivor Allowances

A survivor allowance equal to 60% of the pension payment is paid to the spouse during the spouse's lifetime or to children who meet the age, custody, education or disability criteria defined in section 22 of the Regulation.

(f) Death Refunds

A death refund is payable to the personal representative of a participant where there is no further entitlement to a survivor allowance. The amount of the refund is equal to the participant's contributions in the Fund plus interest, less entitlements already paid out.

(g) Withdrawal Refunds

Upon ceasing to hold office for a reason other than death, participants not eligible to receive pension payments are entitled to receive a refund of their contributions to the Fund plus interest.

PROVINCIAL JUDGES PENSION FUND

Notes to Financial Statement
March 31, 2005

1. DESCRIPTION OF THE FUND (CONTINUED)

(h) Interest Revenue

Interest is credited to the Fund based on a calculation specified by Order-in-Council as follows:

- to the beginning balance based on the weighted averaged interest rates applicable to 25 year securities issued or guaranteed by the Province since the inception of the fund (8.24% on the April 1, 2004 balance);
- on the monthly excess of contributions over payments during the year at the estimated 25 year rate for the year, with adjustments to actual made the following year.

(i) Fund Status

The Fund is not subject to the reporting requirements under the *Pension Benefits Act* and Regulations. However, the Fund has the status of a registered pension plan for income tax purposes.

(j) Escalation of Entitlements

Entitlements are adjusted annually based on changes in the Canadian Aggregate Industrial Wage as published by Statistics Canada, subject to a maximum of 7% in any one year.

(k) Pending Changes to the Fund

The *Income Tax Act (Canada) (ITA)* limits the pension benefit payable from the Fund for post 1991 service. Cabinet has approved that benefits above the ITA limit will be provided through a separate supplementary account in the Consolidated Revenue Fund.

The terms of the Fund are being revised to comply with the requirements under the ITA, and an Order-in-Council will be required to establish the supplementary account. The Canada Revenue Agency is aware of the status of the supplementary account. To date, the Fund has paid out approximately $29,937,423 which should have been paid from the supplementary account. Once the account is established, there will be a reconciliation between the account and the Fund, both of which are to be held within the Consolidated Revenue Fund of the Province of Ontario.

2. SIGNIFICANT ACCOUNTING POLICY

The financial statement has been prepared on a basis of accounting consistent with section 34 of Ontario Regulation 67/92 under the *Courts of Justice Act* which states that the Fund shall consist of contributions and money paid, transferred or credited to the Fund, less money paid out.

3. ADMINISTRATIVE EXPENSES

Administrative expenses are paid by the Province of Ontario.

PROVINCIAL JUDGES PENSION FUND

Notes to Financial Statement
March 31, 2005

4. LIABILITY FOR FUTURE BENEFITS

The Province is responsible for the unfunded liabilities of the Provincial Judges Pension Plan and funds these liabilities in amounts recommended by periodic actuarial valuations of the Plan.

The Provincial Judges Remuneration Commission (the Commission) was established under the *Courts of Justice Act* to conduct an independent, binding process to determine compensation for all provincial judges. The Fifth Triennial Report of the Commission, released in December 2003, recommended increases of approximately 21% (including changes in the Canadian Aggregate Industrial Wage), over a three-year period retroactive to April 1, 2001 and ending on March 31, 2004. The Province had appealed the recommendations to the courts, however in June 2004 the courts ruled in favour of the recommendations of the Commission.

The most recent actuarial valuation of the Plan as at March 31, 2003 was released in August 2004 and took into account the impact of the recommendations of the Commission. The actuarial valuation determined that the present value of required future government contributions to the unfunded liability was $211,524,000 and recommended the Province contribute 37.6% of the payroll for sitting judges until the next valuation.

The resulting impact of the retroactive settlement applicable to periods prior to April 1, 2004 on the fiscal 2005 deposits and payments is as follows:

	Current $	Retroactive $	Total $
Deposits			
Participants	3,662	963	4,625
Province of Ontario	20,791	9,556	30,347
Interest Earned	29,260	872	30,132
Payments			
Pension payments and survivor allowances	17,921	5,203	23,124

OFFICE OF THE PUBLIC GUARDIAN AND TRUSTEE

Management's Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and, where appropriate, include amounts based on Management's best estimates and judgments.

The Office of the Public Guardian and Trustee is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and that the assets were safeguarded. Internal audits are conducted to assess management systems and practices and reports are issued to the Public Guardian and Trustee and her audit committee.

The financial statements have been examined by the Office of the Auditor General. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the auditor's examination and opinion.

Louise Stratford
Public Guardian and Trustee

Sharon Yetter
Chief Financial Officer

June 10, 2005

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

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Public Guardian and Trustee for the Province of Ontario
and to the Attorney General

I have audited the balance sheet of The Public Guardian and Trustee for the Province of Ontario as at March 31, 2005 and the statements of revenue and expenses, changes in fund balances and cash flows for the estates and trusts and the administration fund for the year then ended. These financial statements are the responsibility of The Public Guardian and Trustee'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 Public Guardian and Trustee for the Province of Ontario as at March 31, 2005, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

In our report dated June 11, 2004, we expressed a reservation of opinion on the financial statements for the year ended March 31, 2004, as the Organization records their diversified fund investments at market value. Canadian generally accepted accounting principles required that these investments be carried at cost and decreased to market value when a decline in value is considered to be other than temporary. Canadian generally accepted accounting principles now allow for these investments to be carried at market value, however, not on a retroactive basis. As a result, adjustments to reflect cost would have been necessary to the comparative figures for investment revenue, excess of revenue over expenses, and the diversified fund balance.

Toronto, Ontario
June 10, 2005

Gary R. Peall, CA
Deputy Auditor General

The Public Guardian and Trustee for the Province of Ontario

Balance Sheet
(in thousands of dollars)

March 31, 2005

	Estates and Trusts		Administration Fund	
	2005	2004 (re-stated - Note 6)	**2005**	2004
Assets				
Cash and cash equivalents	**$ 3,766**	$ 786	**$ 95**	$ 48
Accounts receivable	**5,505**	2,943	**1,608**	1,847
Bonds and other debt issues	**23,768**	22,732	**-**	-
Fixed income funds (Schedule A)	**881,969**	832,840	**3,337**	2,952
Diversified fund (Schedule B)	**57,788**	62,790	**60,233**	55,547
Stocks and other securities	**50,660**	44,726	**-**	-
Other assets	**11,851**	12,498	**-**	-
Real estate	**68,886**	62,842	**-**	-
	1,104,193	1,042,157	**65,273**	60,394
Deferred charges	**-**	-	**5,216**	4,395
	$ 1,104,193	$ 1,042,157	**$ 70,489**	$ 64,789
Liabilities and Fund Balances				
Accounts payable and accrued liabilities	**$ 13,099**	$ 10,512	**$ 2,785**	$ 2,377
Fund balances	**1,091,094**	1,031,645	**67,704**	62,412
	$ 1,104,193	$ 1,042,157	**$ 70,489**	$ 64,789

Contingencies (Note 5)

On behalf of The Public Guardian and Trustee for the Province of Ontario

Public Guardian and Trustee

Chief Financial Officer

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Public Guardian and Trustee for the Province of Ontario

Statement of Revenue and Expenses - Estates and Trusts
(in thousands of dollars)

For the year ended March 31	2005	2004
Revenue		
Pension	$ **58,724**	$ 56,215
Social benefits	**48,740**	45,057
Investment	**31,363**	33,352
Other	**23,022**	17,072
Net unrealized investment appreciation	**5,235**	9,361
	167,084	161,057
Expenses		
Accomodation	**70,210**	70,146
Allowances	**22,238**	21,142
Public Guardian and Trustee fees (Schedule C)	**18,310**	17,733
Other	**7,376**	6,452
Living	**7,229**	7,167
Taxes	**5,496**	6,234
Real estate	**4,591**	4,328
Funeral	**4,009**	4,312
Medical	**3,594**	3,502
Utilities	**1,979**	1,846
Insurance	**742**	760
	145,774	143,622
Excess of revenue over expenses	$ **21,310**	$ 17,435

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Public Guardian and Trustee for the Province of Ontario

Statement of Revenue and Expenses - Administration Fund

(in thousands of dollars)

For the year ended March 31	2005	2004
Revenue		
Investments - fixed income funds (Schedule A)	$ **544**	$ 1,372
Investments - diversified fund (Schedule B)	**4,318**	8,894
	4,862	10,266
Fees collected (net) (Schedule C)	**17,141**	16,564
	22,003	26,830
Expenses		
Salaries and wages	**20,659**	19,396
Employee benefits (Note 3)	**2,685**	2,495
Services (Note 3)	**3,452**	3,525
Transportation and communication	**1,365**	1,210
Supplies and equipment	**1,542**	533
	29,703	27,159
Amount recovered from the Ministry of the Attorney General (Note 3)	**(13,212)**	(11,265)
	16,491	15,894
Claims	**220**	359
	16,711	16,253
Excess of revenue over expenses	$ **5,292**	$ 10,577

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Public Guardian and Trustee for the Province of Ontario

Statement of Changes in Fund Balances - Estates and Trusts
(in thousands of dollars)

For the year ended March 31, 2005

	Client Trusts	Minors	Litigants	Deceased Estates (note 1)	Cemetery Trusts	Forfeited Corporate Assets	Corporate Trusts	Land Titles	Total 2005	Total 2004 (re-stated - Note 6)
Balance, beginning of year	$ 370,559	$ 374,176	$ 158,247	$ 95,360	$ 20,423	$ 6,975	$ 3,115	$ 2,790	$ 1,031,645	$ 996,996
re-statement (Note 6)										5,591
Re-stated Balance, beginning of year	$ 370,559	$ 374,176	$ 158,247	$ 95,360	$ 20,423	$ 6,975	$ 3,115	$ 2,790	$ 1,031,645	$ 1,002,587
Excess (deficiency) of revenue over expenses	2,199	11,876	4,071	2,997	136	(53)	0	84	21,310	17,435
Net client capital contribution (distribution)	20,415	(9,305)	19,239	7,194	797	117	(54)	(264)	38,139	11,623
Balance, end of year	$ 393,173	$ 376,747	$ 181,557	$ 105,551	$ 21,356	$ 7,039	$ 3,061	$ 2,610	$ 1,091,094	$ 1,031,645

Statement of Changes in Fund Balances - Administration Fund
(in thousands of dollars)

For the year ended March 31, 2005

	Special Projects Fund	Assurance Fund	Litigation Reserve Fund	Allowance for Doubtful Accounts Fund	Capacity Assessment Fund	Unappro-priated Fund	Total 2005	Total 2004
Balance, beginning of year	$ 9,489	$ 1,700	$ 2,000	$ 100	$ 100	$ 49,023	$ 62,412	$ 51,835
Excess (deficiency) of revenue over expenses	4,862	(232)	51	-	(39)	650	5,292	10,577
Interfund transfers	-	732	(51)	-	39	(720)	-	-
Balance, end of year	$ 14,351	$ 2,200	$ 2,000	$ 100	$ 100	$ 48,953	$ 67,704	$ 62,412

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Public Guardian and Trustee for the Province of Ontario

Statement of Cash Flows
(in thousands of dollars)

For the year ended March 31	Estates and Trusts 2005	Estates and Trusts 2004	Administration Fund 2005	Administration Fund 2004
Cash was provided by (used in)				
Operating activities				
Excess of revenue over expenses	**$ 21,310**	$ 17,435	**$ 5,292**	$ 10,577
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities				
Unrealized appreciation of investments	**(5,235)**	(9,361)	**(2,829)**	(7,552)
Accounts receivable	**(2,562)**	1,434	**239**	(210)
Other assets	**647**	455	**-**	-
Accounts payable	**2,587**	2,347	**408**	(1,216)
	16,747	12,310	**3,110**	1,599
Investing activities				
Net acquisition of bond and other debt issues	**(1,036)**	(4,337)	**-**	-
Net (purchase) redemption of fixed income funds investments	**(49,129)**	(13,652)	**(385)**	2,200
Net acquisition of stocks and other securities	**(3,678)**	(7,698)		
Diversified fund investments net redemptions (purchases)	**7,981**	7,049	**(1,857)**	(1,811)
Net acquisition of real estate	**(6,044)**	(4,631)	**-**	-
Deferred charges	**-**	-	**(821)**	(2,105)
Net client capital contribution	**38,139**	11,623	**-**	-
	(13,767)	(11,646)	**(3,063)**	(1,716)
Increase (decrease) in cash and cash equivalents during the year	**2,980**	664	**47**	(117)
Cash and cash equivalents, beginning of the year	**786**	122	**48**	165
Cash and cash equivalents, end of the year	**$ 3,766**	$ 786	**$ 95**	$ 48

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Public Guardian and Trustee for the Province of Ontario
Summary of Significant Accounting Policies

March 31, 2005

Nature of Operations

The Public Guardian and Trustee for the Province of Ontario (“The Public Guardian and Trustee”) performs duties under a number of statutes with the following main responsibilities:

- ♦ the management of estates of incapable adults
- ♦ the administration of estates of persons who have died in Ontario intestate and without next-of-kin
- ♦ the gathering of assets reverting to the Crown under the Escheats Act
- ♦ the management of funds, mortgages and securities paid into or lodged with the Accountant of the Superior Court of Justice on behalf of minors and litigants
- ♦ a general supervisory role over charitable property

The Public Guardian and Trustee is exempted from federal and provincial income taxes under the Income Tax Act (Canada).

Basis of Accounting

The Public Guardian and Trustee prepares its financial statements on an accrual basis and follows Canadian generally accepted accounting principles.

Estates and Trusts

Estates and Trusts represent accounts over which The Public Guardian and Trustee acts as guardian or trustee under the *Substitute Decisions Act*, the *Public Guardian and Trustee Act*, the *Crown Administration of Estates Act*, the *Estates Act* and various other statutes.

Administration Fund

The Administration Fund is the operating account of The Public Guardian and Trustee. It is used to accumulate fees charged to each estate and trust for services, as prescribed by the Fee Schedule created pursuant to *The Public Guardian and Trustee Act* and to pay operating expenses.

Cash balances in the Administration Fund which are not required for operating purposes are invested along with the cash funds of Estates and Trusts. The Fund receives the net interest income of these investment activities, after interest is distributed on the funds of Estates and Trusts in accordance with the interest rates prescribed by *The Public Guardian and Trustee Act*.

Funds appropriated for specific purposes are identified below.

Special Projects Fund

The Special Projects Fund was established to provide funding for significant special projects of the Public Guardian and Trustee. Income earned from the Unappropriated Fund, invested in the Diversified Fund and Fixed Income Funds, is included in revenue for the Special Projects Fund. The current funding is for the development and implementation of a new trust management technology system.

Assurance Fund

The *Public Guardian and Trustee Act* and the regulations under the Act provide that an Assurance Fund shall be established to meet losses for which The Public Guardian and Trustee might become liable.

During the year the Fund was reimbursed $231,959 (2004 - $124,485) and increased by transfer of an additional $500,000 (2004 - $300,000) from the Unappropriated Fund.

The Public Guardian and Trustee for the Province of Ontario
Summary of Significant Accounting Policies

March 31, 2005

Litigation Reserve Fund
The Litigation Reserve Fund is used to cover expenses and costs of legal proceedings paid by the Public Guardian and Trustee on behalf of its litigation clients.

During the year, recoveries exceeding legal costs incurred on behalf of clients of $50,874 (2004 – legal costs exceeded recoveries by $200,500) were reimbursed to the Unappropriated Fund.

Allowance for Doubtful Accounts Fund
The intent of the Allowance for Doubtful Accounts Fund is to provide for all clients' accounts whereby The Public Guardian and Trustee has advanced funds on a client's behalf and has a statutory lien pursuant to section 8.1 of the *Public Guardian and Trustee Act* but may not be able to recover the amount from the client.

Capacity Assessment Fund
The Capacity Assessment Fund was set up to cover fees of capacity assessors when a client is unable to pay for the costs of an assessment or re-assessment.

During the year the Fund was reimbursed $38,505 (2004 - $33,586) from the Unappropriated Fund.

Cash and Cash Equivalents

Cash and Cash Equivalents includes cash on hand, current bank accounts and short term deposits, if any, with terms to maturity of less than 90 days.

Bonds and Other Debt Issues of Estates and Trusts

Bonds and Other Debt Issues of Estates and Trusts, which are owned by individual clients rather than part of the Public Guardian and Trustee's common funds, are recorded at market value.

Investments

Fixed Income Funds
Funds are invested in high quality fixed income instruments subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by the Public Guardian and Trustee with emphasis on preservation of capital and maximizing return. This includes US dollar trust funds where the Accountant of the Superior Court of Justice is ordered by the courts to hold these funds in US dollars.

Fund investments in money market and in bonds under a laddered buy-and-hold strategy are reflected at cost adjusted for the amortization of premiums or discounts on purchase over the period to maturity, where these securities are intentionally held to maturity.

Interest income is distributed to participants by a prescribed interest rate approved by The Public Guardian and Trustee's Investment Advisory Committee.

Diversified Fund
The Public Guardian and Trustee has a Diversified Fund that includes high quality equity and fixed income securities. This fund was established in order to provide an alternative for those clients whose unique investment objectives require a broader, longer range investment strategy. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee with emphasis on the need

The Public Guardian and Trustee for the Province of Ontario
Summary of Significant Accounting Policies

March 31, 2005

to preserve and enhance the purchasing power of capital over the longer term. The Administration Fund also participates in the Diversified Fund.

The investment returns on this fund accrue directly to the participants and the investments are carried at market value.

Stocks and Other Securities of Estates and Trusts

Stocks and Other Securities of Estates and Trusts, which are owned by individual clients rather than part of the Public Guardian and Trustee's common funds, are recorded at market value.

Valuation of Financial Instruments

The Public Guardian and Trustee considers Bonds and Other Debt Issues, Fixed Income Funds, Diversified Funds, and Stocks and Other Securities as financial instruments held for trade. The fair values of these instruments have been determined according to published prices in the active market, where applicable.
Purchases and sales of these financial instruments are recognized at the settlement date.

Other Assets

Other Assets of Estates and Trusts are recorded at appraised value at the time of taking over the Estates and Trusts.

Real Estate

Real Estate of Estates and Trusts is recorded at appraised value at the time of taking over the Estates and Trusts.

Deferred Charges

Costs of a special project for the development and implementation of a new trust management technology system incurred from 2002 to 2005 have been deferred. These charges will be amortized over management's best estimate of the useful life of the system. Amortization will commence in the period in which the system becomes operational.

Foreign Currency Translation

Foreign currency amounts are translated to Canadian dollars as follows:

Each asset, liability, revenue or expense is translated into Canadian dollars at the transaction date, by the use of the exchange rate in effect at that date.

At the year end date, US dollar monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current period. As of March 31, 2005 The Public Guardian and Trustee held only US dollars in foreign currency.

Revenue Recognition

Revenues from Pension, Social Benefits, Investment and Other Revenue of Estates and Trusts is recognized when received or receivable. Net Unrealized Investment Appreciation represents unrealized gains from changes in market value of Bonds and Other Debt Issues, Diversified Fund, and Stocks and Other Securities.

Use of Estimates

The preparation of financial statements in accordance with the accounting policies noted above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from management's best estimates, as additional information becomes available in the future.

The Public Guardian and Trustee for the Province of Ontario
Notes to Financial Statements

March 31, 2005

1. Deceased Estates and Funds Escheated to the Crown

Deceased Estates include estates administered under the *Crown Administration of Estates Act* and the *Estates Act.*

The Public Guardian and Trustee is authorized by the *Escheats Act* to take possession of property reverting to the Crown under the *Succession Law Reform Act, Business Corporations Act*, or common law. After a period of ten years, any property so received by The Public Guardian and Trustee which remains unclaimed is transferred to the Consolidated Revenue Fund of the Province. Such property transfers to the Consolidated Revenue Fund are included in client capital distributions in arriving at the amount shown as the net client capital contribution (distribution) for Deceased Estates in the Statement of Changes in Fund Balances – Estates and Trusts.

During the year $256,657 (2004 - $236,942) was transferred to the Consolidated Revenue Fund.

2. Transfers to Consolidated Revenue Fund

Pursuant to Section 9(5) of *The Public Guardian and Trustee Act*, the Lieutenant Governor in Council may from time to time direct the payment into the Consolidated Revenue Fund of the Province of any balance at the credit of the Administration Fund.

No such transfers were made during the year to the Consolidated Revenue Fund of the Province.

3. Related Party Transactions

The Public Guardian and Trustee considers the Government of the Province of Ontario, its Agencies and its Crown Corporations to be related parties. In the normal course of business, the following transactions were entered into with these related parties at no charge to the Public Guardian and Trustee and therefore are not reflected in the financial statements:

- The Public Guardian and Trustee provides pension benefits for its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. Management Board Secretariat ("MBS") funds the employer's contribution to the Pension Funds.
- The cost of post-retirement, non-pension employee benefits are paid by MBS.
- The Public Guardian and Trustee occupies leased premises paid for by the Ministry of the Attorney General.
- MBS provides payroll and payment processing for The Public Guardian and Trustee.

The Ministry of The Attorney General provides partial funding for the operations of the Public Guardian and Trustee, which is reflected in the financial statements.

4. Mortgages and Securities Held in Trust

The Public Guardian and Trustee in its capacity as Accountant of the Superior Court of Justice also acts as custodian of mortgages in the amount of $1,068,850 (2004 - $842,850) and miscellaneous securities and documents having a face value of $4,408,031 (2004 - $3,960,084). These amounts are not reflected in the financial statements as The Public Guardian and Trustee does not act as trustee of these funds but simply as custodian of the instruments on behalf of the client. The Public Guardian and Trustee as custodian also holds letters of credit, lien bonds, guardianship bonds and performance guarantee bonds for litigants.

5. Contingencies

The Public Guardian and Trustee is involved in various legal actions arising in the normal course of business operations, the outcome and ultimate disposition of which are not determinable at this time.

The Public Guardian and Trustee for the Province of Ontario
Notes to Financial Statements

March 31, 2005

6. Comparative Figures

(a) Certain of the comparative figures have been re-stated to conform to current presentation.

(b) The Public Guardian and Trustee has changed its reporting for Real Estate of Estates and Trusts from an annually adjusted market value to the appraised value of these assets at the time of assuming responsibility for the Estates and Trusts. The net effect of this change in accounting policy on amounts previously reported is as follows:

- increase in Fund Balances of Estates and Trusts at April 1, 2003 in the amount of $5,590,536
- increase in Client Capital Contributions during 2004 in the amount of $1,951,072
- increase in Real Estate held at March 31, 2004 in the amount of $7,541,608

The Public Guardian and Trustee for the Province of Ontario

Schedule A - Fixed Income Funds Investments and Income

(in thousands of dollars)

March 31		2005	2004
INVESTMENTS			
Cash		**$ 2,070**	$ 3,207
Accrued interest		**10,135**	9,804
Short term investments		**493,331**	472,441
		505,536	485,452
Long term investments			
Corporate Bonds	(i)	**12,851**	28,820
Federal Government	(ii)	**152,608**	114,538
Provincial Governments	(iii)	**56,183**	125,306
Financial Institutions	(iv)	**158,128**	81,676
		379,770	350,340
		$ 885,306	$ 835,792
Allocated as follows			
Estates and Trusts		**$ 881,969**	$ 832,840
Administration		**3,337**	2,952
		$ 885,306	$ 835,792
INCOME			
Allocated as follows			
Estates and Trusts		**$ 27,091**	$ 29,131
Administration		**544**	1,372
		$ 27,635	$ 30,503

Short term investments at March 31, 2005 bear interest at annual rates ranging from 2.46% to 8.53%, with maturity dates ranging from 11 days to 293 days.

Long term investments at March 31, 2005	Interest Rates	Carrying Value	Market Value
(i) Corporate Bonds			
1 - 3 years	**4.15 - 6.90%**	**$ 12,851**	**$** 12,861
		12,851	12,861
(ii) Federal Government			
1 - 3 years	**5.00 - 7.25%**	**152,608**	153,415
		152,608	153,415
(iii) Provincial Governments			
1 - 3 years	**3.25 - 7.75%**	**56,183**	56,572
		56,183	56,572
(iv) Financial Institutions			
1 - 3 years	**3.72 - 5.82%**	**81,036**	81,531
3 years +	**5.55 - 8.40%**	**77,092**	76,551
		158,128	158,082
		$ 379,770	**$** 380,930

The Public Guardian and Trustee for the Province of Ontario

Schedule B - Diversified Fund Investments and Income

(in thousands of dollars)

March 31	2005	2004
INVESTMENTS		
Cash (bank indebtedness)	**$ (1,711)**	$ 132
Accrued interest	**384**	727
Short term notes	**6,472**	2,052
	5,145	2,911
Bonds	**41,723**	45,706
Canadian equity	**37,037**	36,406
Foreign equity	**34,116**	33,314
	$ 118,021	$ 118,337
Allocated as follows		
Estates and Trusts	**$ 57,788**	$ 62,790
Administration Fund	**60,233**	55,547
	$ 118,021	$ 118,337
INCOME		
Estates and Trusts		
Investment earnings	**$ 2,028**	$ 2,247
Unrealized appreciation of diversified fund	**2,979**	9,361
	$ 5,007	$ 11,608
Administration		
Investment earnings	**$ 1,489**	$ 1,342
Unrealized appreciation of diversified fund	**2,829**	7,552
	$ 4,318	$ 8,894

The Short term notes and Bonds bear interest at annual rates ranging from 2.57% to 9.14%, with maturity dates ranging from 7 days to 45 years.

Schedule C - Public Guardian and Trustee Fees

(in thousands of dollars)

For the year ended March 31	2005	2004
Client trusts	**$ 11,565**	$ 11,168
Minors	**2,695**	2,775
Deceased estates	**2,447**	2,335
Litigants	**1,062**	939
Court-appointed litigation guardian legal services	**185**	185
Cemetery trusts	**178**	168
Charity trusts	**155**	142
Forfeited corporate assets/corporate trusts	**23**	21
Public Guardian and Trustee Fees - Estates and Trusts	**18,310**	17,733
less: Costs of fee services	**1,169**	1,169
Fees collected (net) – Administration Fund	**$ 17,141**	$ 16,564

Responsibility for Financial Reporting

The accompanying financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied, and include amounts based upon management's best estimates and judgements. Any financial information contained elsewhere in the Annual Report is consistent with these financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are properly accounted for and safeguarded from loss. The Board of Directors has established an Audit Committee, to ensure that management fulfils these responsibilities. The Audit Committee meets periodically with management, internal auditors and external auditors to ensure that their responsibilities are properly discharged with respect to financial statement presentation, disclosure and recommendations on internal control.

The Internal Audit Branch performs audits designed to test the adequacy and consistency of the WSIB's internal controls, practices and procedures.

Role of the actuary

With respect in the preparation of these financial statements, management prepares a valuation, including the selection of appropriate assumptions, of the WSIB's benefit liabilities as of the balance sheet date. With respect to the preparation of these financial statements, Eckler Partners Ltd. determines the valuation of the benefit liabilities and provides an opinion to the Board of Directors regarding the appropriateness of the benefit liabilities recorded by management of the WSIB as of the balance sheet date. The work to form that opinion includes an examination of the sufficiency and reliability of data, and review of the valuation process used by management. The independent actuary is responsible for assessing whether the assumptions and methods used for the valuation of the benefit liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In performing the review of these liabilities determined by management, which are by their very nature inherently variable, the actuary makes assumptions as to future interest and mortality rates, expenses, related trends, and other contingencies, taking into consideration the circumstances of the WSIB. It is certain that the benefit liabilities will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for new claim categories not sufficiently recognized in the claims database.

Management is responsible for the accuracy and completeness of the underlying data used in the valuation. The actuary's report outlines the scope of the review and the opinion.

Role of the external auditor

The external auditors, KPMG LLP, working under the direction of the Provincial Auditor, have performed an independent and objective audit of the financial statements of the WSIB in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors make use of the work of the independent actuary and their report on the benefit liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit Committee to discuss audit, financial reporting, and related findings. The external auditors' report outlines the scope of their audit and their opinion on the financial statements of the WSIB.

Jill Hutcheon	Malen Ng
Interim Chair	Chief Financial Officer

March 11, 2005

Auditors' Report

To the Workplace Safety and Insurance Board,
the Minister of Labour
and the Provincial Auditor

KPMG

Pursuant to the *Workplace Safety and Insurance Act* which provides that the accounts of the Workplace Safety and Insurance Board ("WSIB") shall be audited by the Provincial Auditor or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the consolidated balance sheet of the WSIB as at December 31, 2004, and the consolidated statements of operations, changes in unfunded liability, comprehensive income (loss) and cash flows for the year then ended. These financial statements are the responsibility of WSIB's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the WSIB as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
March 11, 2005

CONSOLIDATED BALANCE SHEET

As of December 31

($ millions)	2004	2003
ASSETS		
Cash and cash equivalents	$154	$452
Receivables	748	653
Investments (note 3)	11,961	10,037
Loss of Retirement Income Fund (note 4)	620	527
Property, equipment and other assets (note 5)	160	178
	$13,643	**$11,847**
LIABILITIES		
Payables and accruals	$569	$546
Mortgage payable (note 6)	71	71
Loss of Retirement Income Fund (note 4)	620	527
Employee benefit plans (note 7)	393	378
Benefit liabilities (note 8)	18,410	17,460
	20,063	**18,982**
UNFUNDED LIABILITY (note 9)		
Accumulated excess of expenses over revenues	(7,735)	(7,135)
Accumulated other comprehensive income	1,315	–
	(6,420)	**(7,135)**
	$13,643	**$11,847**

Commitments and Contingencies (note 12)

On behalf of the Board of Directors

Jill Hutcheon, Interim Chair
Director

Jim O'Neil
Director

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended December 31 ($ millions)	2004	2003
GROSS REVENUE	$3,660	$3,385
CURRENT OPERATIONS		
REVENUES		
Premiums for the year	$2,124	$2,068
Investments (note 3)	470	456
Other income (note 5)	49	–
	2,643	**2,524**
EXPENSES		
Benefit costs (note 8)	4,051	3,491
Loss of Retirement Income Fund (note 4)	60	56
Administrative and other expenses (note 10)	204	210
Legislated obligations and commitments (note 11)	188	172
	4,503	**3,929**
Excess of expenses over revenues from current operations	(1,860)	(1,405)
Premiums for unfunded liability	1,017	861
EXCESS OF EXPENSES OVER REVENUES	**$(843)**	**$(544)**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN UNFUNDED LIABILITY

For the years ended December 31

($ millions)	2004	2003
ACCUMULATED EXCESS OF EXPENSES OVER REVENUES		
Balance at beginning of year	$(7,135)	$(6,591)
Effect of change in accounting policy (note 2)	243	–
Excess of expenses over revenues	(843)	(544)
Balance at end of year	**(7,735)**	**(7,135)**
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Effect of change in accounting policy (note 2)	845	–
Unrealized gains on investments net of amounts realized	470	–
Balance at end of year	**1,315**	**–**
UNFUNDED LIABILITY AT END OF YEAR	**$(6,420)**	**$(7,135)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31

($ millions)	2004	2003
EXCESS OF EXPENSES OVER REVENUES	$(843)	$(544)
Other comprehensive income (loss):		
Unrealized net gains on available-for-sale financial assets arising during the year	606	–
Reclassification of realized gains included in income	(136)	–
Unrealized gains on investments, net of amounts realized	470	–
COMPREHENSIVE INCOME (LOSS)	**$(373)**	**$(544)**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31 ($ millions)	2004	2003
OPERATING CASH FLOWS		
Cash received from:		
Premiums for the year	$2,058	$2,099
Premiums for unfunded liability	989	855
Investment income	382	316
	3,429	3,270
Cash paid to:		
Claimants, survivors and care providers	(2,797)	(2,700)
Loss of Retirement Income Fund	(60)	(56)
Employees and suppliers for administrative goods and services	(436)	(476)
Legislated obligations and commitments	(218)	(160)
	(3,511)	(3,392)
Net cash required by operating activities	**(82)**	**(122)**
INVESTING CASH FLOWS		
Sale of investments	17,832	17,896
Purchase of investments	(18,048)	(17,435)
Net cash provided (required) by investing activities	**(216)**	**461**
Increase (decrease) in cash and cash equivalents	**(298)**	**339**
Cash and cash equivalents, beginning of year	452	113
Cash and cash equivalents, end of year	$154	$452

The accompanying notes form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2004

1. NATURE OF OPERATIONS

The Workplace Safety and Insurance Board (WSIB) is a statutory corporation created by an Act of the Ontario Legislature in 1914. The WSIB is responsible for administering the *Workplace Safety and Insurance Act*, *1997*. The WSIB promotes the prevention of injuries and illnesses in Ontario workplaces and provides insurance benefits to workers who sustain injuries in the course of employment or contract occupational diseases. The WSIB also provides insurance benefits in the case of workers who die due to workplace injuries or illnesses to their survivors and assists injured workers in their early and safe return to work.

Employers covered by the Workplace Safety and Insurance Act, 1997, are divided into two groups, referred to as "Schedule 1" and "Schedule 2." Schedule 1 employers are insured under a "collective liability" system and are required to contribute to the WSIB Insurance Fund. Schedule 2 employers are "self-insured" and are individually liable for the full costs of their workers' claims. The WSIB pays insurance benefits for Schedule 2 workers and is reimbursed by their employers for the costs of the claims, including administrative costs, and for the cost of the WSIB's prevention activities.

The WSIB also administers the federal *Government Employees Compensation Act*. Under an agreement with Human Resources Development Canada, the federal government is treated like a Schedule 2 employer.

Revenue is raised through premiums, which are collected from all Schedule 1 employers covered under the Workplace Safety and Insurance Act, 1997. Revenue is also earned from a diversified investment portfolio held to meet future obligations on existing claims. Schedule 2 reimbursements also contribute to WSIB revenue. The WSIB receives no government funding or assistance. The financial statements have been prepared on a "going concern" basis, as management has plans to eliminate the unfunded liability over the course of several years.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the Schedule 1 and Schedule 2 accounts of the WSIB and its subsidiaries. These financial statements have been prepared in accordance with generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

Change in accounting policy

Effective January 1, 2004, the WSIB adopted the new CICA accounting standards on "Financial Instruments - Recognition and Measurement" (*CICA Handbook,* Section 3855) and "Comprehensive Income" (CICA Handbook, Section 1530).

Under the new standard, "Financial Instruments – Recognition and Measurement," the WSIB has, based on management's intention, designated all of its investments as *available-for-sale* except for derivatives, which are classified as *held-for-trading*.

Available-for-sale securities include securities that may be sold in response to or in anticipation of changes in interest rates, changes in foreign currency risk, changes in funding sources, or to meet liquidity needs. Available-for-sale securities are now carried at estimated fair value. Realized gains and losses are recognized as investment income in the year in which they occur. Unrealized gains and losses on available-for-sale securities are recognized in other comprehensive income until they are realized.

Held-for-trading securities, which are purchased for sale in the near term, are reported at estimated fair value. Realized and unrealized gains and losses are recognized as investment income as they arise.

These accounting changes are applied prospectively from January 1, 2004. Comparative amounts and disclosures have not been restated.

Under the previous accounting policy, bonds were carried at amortized cost. Realized gains and losses on the sale of bonds and coupons were deferred and amortized over either 20 years or the period to maturity of the security, whichever was the lesser. Equities and real estate were carried at cost, adjusted towards fair value, using a five-year moving average method. Realized gains and losses were deferred and amortized over a four-year period.

As a result of this change, as of January 1, 2004, the carrying value of investments was increased by $845 million to recognize the amount of unrealized gains on investments, and this amount formed the opening balance of accumulated other comprehensive income. Also as a result of this change, unamortized net gains realized on sale of investments from prior years in the amount of $243 million were recognized by reducing the accumulated excess of expenses over revenues (unfunded liability) as of January 1, 2004.

The effect of the accounting change on 2004 operating results was an increase of $15 million in investment revenue and an increase of $470 million in other comprehensive income.

As of December 31, 2004, the total impact of the accounting change is a reduction in the unfunded liability of $1,573 million.

The significant accounting policies are summarized as follows:

Cash and cash equivalents

Cash and cash equivalents are funds consisting of cash and money market instruments with initial maturities up to three months.

Investments

Investments are comprised of short-term securities, bonds, equities, and real estate, and are classified as either held-for-trading or available-for-sale based on management's intention. Investments transactions are recorded on a trade date basis. The WSIB has designated all of its investments as available-for-sale except for derivatives, which are classified as held-for-trading.

Available-for-sale securities include securities that may be sold in response to or in anticipation of changes in interest rates, changes in foreign currency risk, changes in funding sources, or to meet liquidity needs. Available-for-sale securities are carried at estimated fair value. Realized gains and losses are recognized as investment income in the year in which they occur. Unrealized gains and losses on available-for-sale securities are recognized in other comprehensive income until they are realized.

Held-for-trading securities, which are purchased for sale in the near term, are reported at estimated fair value. Realized and unrealized gains and losses are recognized as investment income as they arise.

Fair value of financial instruments

The fair values of investments are the year-end quoted prices where available. Where quoted prices are not available, estimated fair values are calculated based upon the yields and values of comparable marketable securities.

Cash and cash equivalents denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the balance sheet date.

The cost of short-term securities, treasury bills, and term deposits maturing within a year, plus accrued interest income, approximates the fair value of these instruments.

The fair value of bonds and equities denominated in foreign currencies is translated into Canadian dollars at the exchange rate in effect on the balance sheet date.

The fair value of real estate is based on appraised values conducted on a cyclical basis.

Pooled-fund investments are valued at the unit values supplied by the pooled-fund administrator. These values represent the WSIB's proportionate share of underlying net assets at fair values determined using closing market prices.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance sheet date. Revenues and expenses are translated at exchange rates in effect on the transaction date. Realized exchange gains and losses are included in income. Unrealized exchange gains and losses are included in other comprehensive income.

Derivative financial instruments

The WSIB is party to forward foreign exchange contracts that are designated as held-for-trading. On inception, the contract value of the receivables and payables resulting from these contracts is included in investments. The gains and losses on forward foreign exchange contracts are recognized in income in the period in which they arise.

Fair value of other financial assets and liabilities

The carrying value of receivables and payables approximates their fair value because of the short-term nature of these instruments.

Loss of Retirement Income Fund (previously Injured Workers' Retirement Fund)

The Loss of Retirement Income Fund is invested in short-term securities, bonds, equities and pooled funds. These investments are designated as available-for-sale and carried at fair value as described above. Changes in fair value are included in investment income of the Loss of Retirement Income Fund in the year in which they occur.

Property, equipment, and other assets

Property, equipment, and other assets are recorded at cost. The cost of buildings includes development, financing, and other costs capitalized prior to the day they become fully operational. At this time, depreciation commences. Capital assets are depreciated using the straight-line method, at rates calculated to expense the cost of assets over their estimated useful lives, which are 20 years for buildings, five years for office equipment, three years for computer equipment, and lease term or ten years for leasehold improvements.

Premiums

In advance of the fiscal year, the WSIB determines the total amount of premiums to be paid by Schedule 1 employers and notifies them of their premium rates for the following year. Premium revenue is determined by applying premium rates to Schedule 1 employers' payrolls.

Premium rates include a component that is applied to reduce the unfunded liability. Schedule 2 employers are individually liable to pay all insurance benefits with respect to their workers' claims. Reimbursements for claims paid and the cost of administering the claims are included in premium revenue.

Benefit liabilities

Benefit liabilities are determined annually through an actuarial valuation, which estimates the present value of future payments for loss of earnings, labour market re-entry, short- and long-term disability, health care, survivor benefits, retirement income benefits, and claim administration costs. They represent a provision for future benefit payments and the future cost of administering claims incurred on or before December 31. The provision has been determined by estimating future benefit payments in accordance with the adjudication practices in effect on December 31 and with relevant legislation.

The benefit liabilities do not include any provision for payment of Schedule 2 claims. The costs of these claims are not considered WSIB liabilities because they are a liability of Schedule 2 employers.

Benefit liabilities do not include any provision for future claims relating to occupational diseases, or for injuries and illnesses that are not currently considered to be work-related.

Pension and other benefit plans

The WSIB offers a number of benefit plans, which provide pension and other post-retirement benefits to eligible staff. These plans include a statutory pension plan, a supplemental pension plan, and other post-retirement benefits plans including health, dental, and life insurance.

The WSIB funds its statutory pension and post-retirement benefit plans annually based on actuarially determined amounts required to satisfy employee benefit entitlements under current pension regulation and benefit plan policies. These pension plans provide benefits based on years of service and average earnings at retirement.

Actuarial valuations are performed annually to determine the present value of the accrued pension benefits, based on projections of the employees' compensation levels to the time of retirement. Investments held by pension funds primarily comprise equity securities, bonds and debentures. Pension fund assets are valued at fair value.

Pension benefit expense, which is included in salaries and employee benefits within administrative and other expenses (note 10), consists of the cost of employee pension benefits for the current year's service, interest cost on the liability, expected investment return on the market-related value of plan assets and the amortization of unrecognized past service costs, unrecognized net actuarial gains or losses and unrecognized transition asset or obligation. Amortization is charged over the expected average remaining service period of active employees covered by the plan.

The cumulative excess of pension fund contributions over the amount recorded as expenses is reported as a prepaid pension benefit expense in other assets. The cumulative excess of pension benefit expense over pension fund contributions is reported in the employee benefit plans' liabilities. Liabilities for other post-retirement benefits are also reported in the employee benefit plans' liabilities.

The full amount of the gain or loss from the change in obligation for workplace accident benefits is recognized in the year the gain or loss occurs.

Other defined-contribution plan costs are recognized in income for services rendered by employees during the period.

3. INVESTMENTS AND INVESTMENT REVENUE

Value of investments by category are as follows:

($ millions)	2004				2003	
	Amortized cost	Carrying value adjustments*	Unrealized amounts included in other comprehensive income	Fair value	Carrying value	Fair value
Held-for-trading:						
Foreign exchange contracts	$ –	$ –	$ (1)	$ (1)	$ –	$ –
Available-for-sale:						
Fixed income securities						
Bonds	3,233	–	149	3,382	2,320	2,829
Equities						
Domestic	1,913	200	597	2,710	1,946	2,404
Foreign – U.S.	2,288	9	106	2,403	2,180	2,324
– Global	2,494	38	416	2,948	3,153	3,108
	6,695	247	1,119	8,061	7,279	7,836
Real estate	388	32	48	468	391	412
Accrued investment income	51	–	–	51	47	48
	10,367	279	1,316	11,962	10,037	11,125
Total investments	**$10,367**	**$279**	**$1,315**	**$11,961**	**$10,037**	**$11,125**

* Carrying value adjustments recognized in excess of expenses over revenues in previous years.

Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates as compared to the Canadian dollar. From time to time, the WSIB uses foreign exchange contracts to hedge currency risk. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception. The fair value of these financial instruments would change in response to changes in the underlying variables affecting the contracts, such as changes in the foreign exchange rates of the currencies involved in the contracts.

The notional amounts in foreign exchange contracts are the contractual amounts on which payments are made. These notional amounts have been converted into Canadian dollars at the contractual exchange rates in effect at the inception of the contracts. Outstanding contracts from 2004 mature in the first three months of 2005.

As of December 31, 2004, the notional value of outstanding foreign currency contracts was $301 million (2003: $1,256 million). Outstanding contracts in a favourable position had a fair value of $1 million (2003: $28 million) and those in an unfavourable position had a fair value of negative $2 million (2003: negative $3 million). Unrealized losses on pending foreign exchange contracts of $1 million were included in net income.

The fair value of the investment portfolio includes $5,313 million (2003: $5,380 million) of securities denominated in foreign currency.

Bonds by term to maturity as of December 31:

($ millions)	2004					2003
	Term to maturity					
	Up to 1 year	1 – 5 years	5 – 10 years	Over 10 years	Total	Total
Government bonds						
Carrying value	–	$1,081	$641	$675	$2,397	$1,937
Fair value	–	$1,081	$641	$675	$2,397	$2,012
Yield (%)*	_	3.3	4.2	5.0	4.0	5.4
Corporate bonds						
Carrying value	$3	$393	$312	$277	$985	$778
Fair value	$3	$393	$312	$277	$985	$817
Yield (%)*	2.5	3.6	4.6	5.6	4.5	4.8
Less: Unamortized gain					–	$395
Total						
Carrying value	**$3**	**$1,474**	**$953**	**$952**	**$3,382**	**$2,320**
Fair value	**$3**	**$1,474**	**$953**	**$952**	**$3,382**	**$2,829**
Yield (%)*	**2.5**	**3.4**	**4.3**	**5.2**	**4.2**	**5.2**

* The average yield reflects the yield to maturity, which is the discount rate that makes the present value of future cash flows for each bond equal to its fair value as of December 31.

Revenue by category of investment is as follows:		
($ millions)	2004	2003
Short-term securities	$11	$9
Bonds	177	170
Equities and real estate	308	301
	496	**480**
Investment expenses	(26)	(24)
Net Investment revenue	**$470**	**$456**

Note: Revenue from bonds includes $28 million (2003: $41 million amortized net gains) of net realized gains. Revenue from equities and real estate includes $108 million (2003: $123 million amortized net gains) of net realized gains.

Securities lending

The WSIB earns additional income by participating in a securities lending program. Securities it owns are loaned to others for a fee and are secured by high-quality collateral. The fair value of the collateral always exceeds the fair value of the securities loaned and the collateral is marked to market daily. The program is managed by a financial institution in Canada.

As of December 31, 2004, the fair value of securities on loan was $1,516 million (2003: $976 million). The collateral held with respect to these securities was $1,618 million (2003: $1,048 million).

4. LOSS OF RETIREMENT INCOME FUND (previously Injured Workers' Retirement Fund)

For injuries and illnesses that occurred prior to January 1, 1998, the WSIB sets aside funds equal to ten per cent of every payment made to injured workers.

Effective January 1, 1998, for claims incurred after December 31, 1997, for workers who have received loss of earnings benefits for 12 continuous months, the WSIB sets aside five per cent of their loss of earnings benefits for their retirement fund. Injured workers may choose to contribute a further five per cent from their loss of earnings benefits. These funds are segregated from the WSIB's investment portfolio and are invested to provide retirement income benefits for injured workers.

The carrying value of the Fund as of December 31 is as follows:		
($ millions)	2004	2003
Cash and cash equivalents	$36	$33
Bonds	137	117
Equities	152	154
Investments in pooled fund	295	223
	$620	**$527**

The underlying securities in the pooled fund include fixed-income securities valued at $78 million (2003: $71 million), equities valued at $216 million (2003: $143 million) and money market instruments valued at $1 million (2003: $9 million).

The change in net assets is as follows:		
($ millions)	**2004**	**2003**
Funds set aside under the *Act*	$60	$56
Investment income (loss)	53	52
Benefit costs paid	(20)	(15)
Increase in net assets	**93**	**93**
Net assets, beginning of year	527	434
Net assets, end of year	**$620**	**$527**

5. PROPERTY, EQUIPMENT, AND OTHER ASSETS

($ millions)	2004		2003
	Cost	Net Carrying Value	Net Carrying Value
Buildings and leasehold improvements	$192	$115	$129
Office equipment	110	2	5
Computer equipment	120	14	19
	422	**131**	**153**
Other assets	29	29	25
	$451	**$160**	**$178**

Depreciation expense in 2004 was $23 million (2003: $30 million).

On May 3, 2004, the WSIB sold its Downsview Rehabilitation Centre property, which included buildings, roads, and land. The WSIB recorded a gain on sale of $43 million, which is included in other income.

6. MORTGAGE PAYABLE

The WSIB, through its wholly owned subsidiary, 799549 Ontario Inc., is a 75 per cent participant in a co-ownership agreement for its head office building at 200 Front Street West, Toronto. To fund part of the development and construction of the building, the WSIB entered into a long-term mortgage loan agreement in 1993. The mortgage loan is secured by the building, and matures in the year 2015. The interest rate is fixed at 10.25 per cent per annum, compounded semi-annually.

The fair value of the mortgage payable as of December 31, 2004, was $76 million (2003: $74 million), with a book value of $71 million (2003: $71 million). The $7 million mortgage interest expense for the year was included in occupancy costs (note 10) (2003: $7 million).

7. EMPLOYEE BENEFIT PLANS

The WSIB has several benefit plans for eligible current and retired employees. The cost of employee benefit plans is recognized in the reporting period in which employees have provided service.

Pension and other benefit plans

The WSIB has two pension plans for its employees and employees of Safe Workplace associations, the WSIB Employees' Pension Plan and the WSIB Employees' Supplementary Pension Plan.

The WSIB Employees' Pension Plan is a defined-benefit pension plan that provides for partially indexed pensions based on years of service and best five consecutive years' average earnings in the last ten years. The WSIB Employee's Supplementary Pension Plan ensures that employees of the WSIB and Safe Workplace Associations whose earnings exceed the threshold earnings for the maximum pension benefit permitted under the federal *Income Tax Act* will receive pension benefits based on their total earnings.

The investment activities and the administrative and accounting functions of the pension plans are administered by the WSIB. The accrued pension obligations of the plans reflect management's estimates of salary escalation, investment rate of return, mortality of members, terminations, and ages at which members will retire.

Other benefits include medical, dental, and life insurance, accrued vacation, short-term salary protection to cover periods of illness and other absences, as well as the costs of insurance benefits provided to employees who sustain injuries in the course of employment.

The measurement date for financial reporting purposes of the plan assets and the benefits obligation is as of December 31, 2004. The most recent and next actuarial valuations for funding purposes are as of December 31, 2004 and 2005, respectively.

Information about the WSIB's defined-benefit pension plans and other benefit plans in aggregate is as follows:

($ millions)	Employees' Pension Plan		Employees' Supplementary Pension Plan		Other benefit plans		Total plans	
	2004	2003	2004	2003	2004	2003	2004	2003
ACCRUED BENEFIT OBLIGATION								
Beginning of year	**$1,213.8**	**$1,042.6**	**$13.9**	**$10.9**	**$357.9**	**$316.5**	**$1,585.6**	**$1,370.0**
Current service cost	39.7	43.5	0.5	0.4	5.2	4.1	45.4	48.0
Interest cost	76.3	70.8	0.9	0.8	21.3	14.7	98.5	86.3
Benefits paid	(42.8)	(37.9)	(0.5)	(0.2)	(13.5)	(5.2)	(56.8)	(43.3)
Employee past service contributions	2.7	2.5	–	–	–	–	2.7	2.5
Employee current service contributions	15.5	3.6	0.4	0.3	–	–	15.9	3.9
Past service benefit cost	4.6	2.2	(4.7)	–	0.8	–	0.7	2.2
Actuarial (gain) loss	(7.6)	86.5	0.2	1.7	5.0	27.8	(2.4)	116.0
End of year	**1,302.2**	**1,213.8**	**10.7**	**13.9**	**376.7**	**357.9**	**1,689.6**	**1,585.6**
PLAN ASSETS								
Fair value at beginning of year	**1,196.5**	**1,056.2**	**2.0**	**1.6**	**–**	**–**	**1,198.5**	**1,057.8**
Actual return on plan assets	111.6	148.0	–	–	–	–	111.6	148.0
Employer contributions	25.9	24.1	0.3	0.3	13.5	5.2	39.7	29.6
Employee current service contributions	15.5	3.6	0.4	0.3	–	–	15.9	3.9
Employee past service contributions	2.7	2.5	–	–	–	–	2.7	2.5
Benefits paid	(42.8)	(37.9)	(0.4)	(0.2)	(13.5)	(5.2)	(56.7)	(43.3)
Fair value at end of year	**1,309.4**	**1,196.5**	**2.3**	**2.0**	**–**	**–**	**1,311.7**	**1,198.5**
FUNDED STATUS								
Funded status, plan surplus (deficit)	7.2	(17.3)	(8.4)	(11.9)	(376.7)	(357.9)	(377.9)	(387.1)
Unamortized net actuarial (gain) loss	43.1	82.4	0.2	(0.1)	25.9	(1.7)	69.2	80.6
Unamortized past service costs	18.5	15.0	(0.1)	–	2.9	26.4	21.3	41.4
Unamortized transitional obligation	(106.1)	(117.9)	–	5.0	–	–	(106.1)	(112.9)
Accrued benefit asset (liability)	**(37.3)**	**(37.8)**	**(8.3)**	**(7.0)**	**(347.9)**	**(333.2)**	**(393.5)**	**(378.0)**
Accrued benefit obligation, end of year	1,302.2	1,213.8	10.7	13.9	376.7	357.9	1,689.6	1,585.6
Fair value of plan assets, end of year	1,309.4	1,196.5	2.3	2.0	–	–	1,311.7	1,198.5
Funded status, plan surplus (deficit)	**7.2**	**(17.3)**	**(8.4)**	**(11.9)**	**(376.7)**	**(357.9)**	**(377.9)**	**(387.1)**
NET BENEFIT PLAN EXPENSE								
Current service cost	39.7	43.5	0.5	0.4	5.2	4.1	45.4	48.0
Interest cost	76.3	70.8	0.9	0.8	21.3	14.7	98.5	86.3
Expected return on plan assets	(80.6)	(79.0)	(0.1)	(0.1)	–	–	(80.7)	(79.1)
Amortization of past service costs	1.2	1.0	–	–	2.4	2.4	3.6	3.4
Amortization of transitional obligation	(11.8)	(11.8)	0.5	0.5	–	–	(11.3)	(11.3)
Amortization of net loss (gain)	0.6	–	–	(0.1)	(0.8)	4.7	(0.2)	4.6
Net benefit plan expense	**$25.4**	**$24.5**	**$1.8**	**$1.5**	**$28.1**	**$25.9**	**$55.3**	**$51.9**

($ millions)	Employees' Pension Plan				Employees' Supplementary Pension Plan	
	2004		2003		2004	2003
	$	%	$	%	$	$
Plan Assets by Major Category						
Equity securities	$841.1	64.3	$731.5	61.2	–	–
Debt securities	395.6	30.2	369.2	30.9	–	–
Real estate	33.2	2.5	30.2	2.5	–	–
Accrued investment income	5.6	0.4	5.2	0.4	–	–
Other	33.9	2.6	60.4	5.0	2.3	2.0
Total	**$1,309.4**	**100.0**	**$1,196.5**	**100.0**	**$2.3**	**$2.0**

The significant actuarial assumptions adopted as of December 31 to value the Employees' Pension Plan, the Employees' Supplementary Pension Plan and other benefit plans are as follows:

	Employees' Pension Plan		Employees' Supplementary Pension Plan		Other benefit plans	
	2004	2003	2004	2003	2004	2003
Discount rate plan expenses	6.25%	6.75%	6.25%	6.75%	6.25%	6.75%
Discount rate accrued benefit obligations	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
Expected long-term rate of return on plan assets	7.0%	7.0%	3.5%	3.5%	–	–
Dental cost escalation	–	–	–	–	4.0%	4.0%
Average remaining service period (years)	13	14	13	14	13	14

Healthcare cost trend rates as of December 31	2004	2003
Medical Cost		
General inflation rate		
Initial rate	10.0%*	7.0%
Ultimate rate	4.0%	4.0%
Year ultimate rate reached	2011	2013
Age inflation of 2% per year of age		
Dental costs		
General inflation rate	4.0%	4.0%

* Grading down by 1% per year

8. BENEFIT LIABILITIES AND BENEFIT COSTS

Benefit liabilities represent an actuarially determined provision for future benefit payments relating to incurred claims and the expense of administering those benefits, and are discounted to present value at the assumed net investment returns shown below. Estimates of future benefit payments apply to both reported and unreported claims resulting from injuries and illnesses that occurred on or before December 31, 2004. They are based on the level and nature of entitlement, and adjudication practices in effect as of December 31, 2004. The benefit liabilities were determined using accepted actuarial practices in accordance with the standards established by the Canadian Institute of Actuaries.

The actuarial present value of future benefit payments depends on economic and actuarial assumptions that are based on past experience, modified for current trends. These assumptions may change over time to reflect underlying conditions, and it is possible that such changes could cause a material change in the actuarial present value of future benefit payments. The following key long-term economic assumptions were used in the actuarial valuation of the benefit liabilities:

	2004	2003
Inflation rate	3.0%	3.0%
Investment rate of return	7.0%	7.0%
Rate of indexation of benefits		
Fully indexed	3.0%	3.0%
Partially indexed	0.5%	0.5%
Investment return, net of indexation		
Fully indexed	4.0%	4.0%
Partially indexed	6.5%	6.5%
Wage escalation rate	4.0%	4.0%
Health care costs escalation rate	6.5%	6.5%

Mortality estimates are based on the WSIB's injured-worker mortality experience from 1996 to 2000 adjusted for mortality improvements to 2004 and for survivors of deceased workers, the 1995-1997 Ontario Life Tables, adjusted for mortality improvements to 2004. Provisions have been made for the effect of future increases in the covered earnings ceiling and indexation of benefits.

Management believes that the valuation methods and assumptions are, in aggregate, appropriate for the valuation. Long-term economic and actuarial assumptions and methods are reviewed annually on December 31, when an independent actuarial valuation is performed.

The change in present value of future benefit payments for reported and unreported work-related injuries and illnesses is recorded as a benefit cost. Any adjustments resulting from the continual review of entitlements and experience, or from changes in legislation, assumptions, or methods, are also included as benefit costs.

The benefit liabilities include a provision of $810 million (2003: $831 million) for future costs of administering existing claims. Administrative and other expenses have been adjusted by $290 million (2003: $291 million) to reflect the amount that was charged against the provision for benefit liabilities relating to future claim administration expenses in the current year.

Sensitivity of actuarial assumptions

Benefit liabilities are calculated based on actuarial assumptions. Changes in these assumptions can cause significant changes in the benefits liabilities. This sensitivity is illustrated as follows.

The actuarial assumption most susceptible to change is the assumed investment return of seven per cent. The approximate impact of a 0.5 per cent decrease in the assumed investment return would be a $625 million increase in the benefit liabilities.

Calculation of the benefit liabilities was based on the WSIB's injured-worker mortality experience. A flat reduction of five per cent in these mortality rates would increase benefits liabilities by approximately $105 million.

A ten per cent decrease in the number of lost-time injuries in the current year would decrease benefit liabilities by approximately $140 million.

Healthcare benefit liabilities are calculated assuming a future rate of escalation of healthcare costs of 6.5 per cent per year. A 0.5 per cent change in the escalation factors used for future healthcare costs would increase benefits liabilities by approximately $85 million.

Benefit liabilities and benefit costs paid in 2004 were as follows:

($ millions)	2004								2003
		Labour market re-entry							
	Loss of earnings	Income support	External providers	Short- & long-term disability	Health-care	Survivor benefits	Claim admin. costs	Total	Total
BENEFIT LIABILITIES									
Beginning of year	$1,967	$109	$323	$10,313	$2,294	$1,623	$831	**$17,460**	**$16,965**
BENEFIT COSTS	1,592	48	155	1,115	656	216	269	**4,051**	**3,491**
BENEFIT COSTS PAID									
During the year									
Schedule 1	(609)	(68)	(119)	(1,240)	(405)	(134)	(290)	**(2,865)**	**(2,768)**
Schedule 2	(69)	(4)	(3)	(102)	(42)	(16)	–	**(236)**	**(228)**
	(678)	(72)	(122)	(1,342)	(447)	(150)	(290)	**(3,101)**	**(2,996)**
CHANGE IN BENEFIT LIABILITIES	914	(24)	33	(227)	209	66	(21)	**950**	**495**
BENEFIT LIABILITIES, **End of year**	$2,881	$85	$356	$10,086	$2,503	$1,689	$810	**$18,410**	**$17,460**

9. RECONCILIATION OF THE CHANGE IN THE UNFUNDED LIABILITY

The unfunded liability is affected by a number of factors, including an interest charge on the unfunded liability, premiums applied to reduce the unfunded liability, experience gains and losses, changes in accounting practices, policy, or legislation, and changes in actuarial assumptions for calculating benefit liabilities.

The interest charge on the unfunded liability recognizes that there are insufficient assets to cover existing liabilities, resulting in a shortfall in investment income and assets to pay future claim payments. Premiums that are collected to reduce the unfunded liability include an amount to cover this shortfall.

In addition, the difference between expected and actual experience on items such as indexation, investment returns and claims experience also gives rise to changes in the unfunded liability.

In 2004, the new standard, "Financial Instruments – Recognition and Measurement," was adopted. The impact of this accounting change is a $1,573-million reduction in the unfunded liability as of December 31, 2004.

The actuarial reconciliation of the change in the unfunded liability is as follows:

($ millions)	2004	2003
Unfunded liability, beginning of year	$7,135	$6,591
Add (deduct)		
Investment income not earned due to shortfall in invested assets	502	464
Premiums allocated to reduction of unfunded liability	(1,017)	(861)
Experience (gains)/losses resulting from:		
Indexation of benefits less than expected	(82)	(116)
Lower (higher) than expected investment returns	365	321
Prior and current years' claims experience	400	165
Changes in assumptions:		
Mortality	13	146
Non-economic loss benefits	–	64
Long-term loss of earnings	465	47
Healthcare benefits	110	271
Long-term disability	22	14
External agency rehabilitation payments	27	57
Future claim administration expense	(70)	–
Other changes	14	(28)
Effect of change in accounting policy (note 2)		
At beginning of year	(1,088)	–
Other comprehensive income	(470)	–
The effect on 2004 operating results	(15)	–
Other changes:		
Change in CPP offset policy and child survivor	109	–
Unfunded liability, end of year	**$6,420**	**$7,135**

10. ADMINISTRATIVE AND OTHER EXPENSES

Administrative and other expenses consist of the following:		
($ millions)	**2004**	**2003**
Salaries and employee benefits	$339	$335
Equipment depreciation and maintenance	38	40
Occupancy	42	44
Communication	16	12
Supplies and services	26	21
Travel and vehicle maintenance	6	6
New systems development and integration	9	26
Other	18	17
	494	501
Claim administration costs (note 8)	(290)	(291)
	$204	**$210**

11. RELATED-PARTY TRANSACTIONS

Legislated obligations and commitments

Under the *Workplace Safety and Insurance Act, 1997* and as directed by the Lieutenant Governor through Orders in Council, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the *Occupational Health and Safety Act*. The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal (WSIAT), and the Offices of the Worker and Employer Advisor. These reimbursements and funding amounts are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for the Institute for Work and Health and Safe Workplace Associations, clinics and training centres.

The total amount of funding provided under these legislated obligations and commitments in 2004 was $188 million (2003: $172 million).

Investments

Included in investments are marketable fixed-income securities issued by the Ontario provincial government and related corporations valued at $325 million (2003: $262 million).

Other

In addition to legislated obligations and workplace health and safety expenses, the financial statements include amounts resulting from transactions conducted in the normal course of operations with various Ontario government-controlled ministries, agencies, and Crown corporations. Such transactions are conducted on terms and conditions similar to those that apply to transactions with unrelated parties. Account balances resulting from these transactions are not significant.

12. COMMITMENTS AND CONTINGENCIES

Operating leases

As of December 31, 2004, the WSIB was committed under non-cancellable operating leases requiring future minimum payments of approximately $10 million per year over the next five years, and $23 million in aggregate thereafter.

Legal actions

The WSIB is party to various claims and lawsuits, which are being contested. In the opinion of management, the outcome of such claims and lawsuits will not have a material effect on WSIB expenses or financial position.

Bank line of credit

The WSIB maintains an unsecured $150 million line of credit with a commercial bank.

13. COMPARATIVE FIGURES

Certain of the comparative amounts have been reclassified to conform with the presentation adopted in the current year.

LOSSES DELETED FROM THE ACCOUNTS

(Under the *Financial Administration Act*)
for the year ended March 31, 2005

Ministry	2004/05
	$
FINANCE	124,446,930.71
TRAINING, COLLEGES AND UNIVERSITIES	6,026,094.00
COMMUNITY AND SOCIAL SERVICES	5,691,275.67
MUNICIPAL AFFAIRS AND HOUSING	4,531,659.49
ECONOMIC DEVELOPMENT AND TRADE	3,649,320.87
CONSUMER AND BUSINESS SERVICES	3,450,299.50
HEALTH	3,281,874.67
TRANSPORTATION	1,609,677.49
NATURAL RESOURCES	210,508.57
MANAGEMENT BOARD SECRETARIAT	200,279.79
COMMUNITY SAFETY AND CORRECTIONAL SERVICES	133,800.61
AGRICULTURE AND FOOD	72,740.08
LABOUR	220.00
TOTAL MINISTRIES	153,304,681.45
ONTARIO DEVELOPMENT CORPORATION	6,016.00
TOTAL WRITE-OFFS	**$ 153,310,697.45**

REVENUE REMISSIONS OF $1,000 OR MORE

(Under the *Ministry of Revenue Act*)
granted for the year -ended March 31, 2005

Ministry of Finance	$
Michael Duffney	
Retail Sales Tax	2,067
Serra Foundation of Ontario	
Retail Sales Tax	1,140
Ralph Wintrob	
Retail Sales Tax	1,600

Other Remissions – OIC 1310/2004

Remission of Retail Sales Tax was granted by Order-in-Council 590/2002 to the Royal Ontario Museum and the Ontario Heritage Foundation from December 5, 2001 to June 30, 2004. Order-in-Council 1310/2004, June 17, 2004 extended the remission from June 30, 2004 to June 30, 2006.

The above remission of sales tax payable was extended to the Ontario Science Centre on the cost, including materials, labour and manufacturing overhead, of tangible personal property produced by the Ontario Science Centre for its own consumption.

The estimated revenue impact is approximately $4.36 million for the time periods involved.

Other Remissions – OIC 2424/2004

Remission of Retail Sales Tax was granted from April 1, 1995 to May 2, 2000 to a person holding a subsisting forest resource licence issued by the Ministry of Natural Resources on cones, cuttings, seeds, seedlings and similar planting stock purchased from April 1, 1995 to May 2, 2000 for planting in a Crown forest, as defined in the Crown Forest Sustainability Act, 1994. Assessments of tax for this period were made against a number of forest resource licence holders in amounts totalling $640,436.34.

Other Remissions – OIC 362/2005

Remission of Retail Sales Tax was granted from April 1, 2005 to March 31, 2006, on admissions charged by theatres, including dinner theatres with not more than 3,200 seats which present live dramatic, comedic, choreographic or musical performances.

The estimated revenue impact is between $15 and $20 million for the time period involved.

This publication is available in English and in French. Copies in either language may be obtained by mail from Publications Ontario, 50 Grosvenor Street, Toronto, Ontario M7A 1N8; by calling (416) 326-5300, toll-free 1-800-668-9938; or by visiting the Publications Ontario Bookstore at 880 Bay Street, Toronto. For further options, including on-line ordering, please visit the Publications Ontario website at www.publications.gov.on.ca. For electronic access, visit the Ministry of Finance website at www.fin.gov.on.ca.

Ce document est publié en français et en anglais. On peut obtenir l'une ou l'autre de ces versions par la poste en écrivant à Publications Ontario, 50, rue Grosvenor, Toronto (Ontario) M7A 1N8 ou en téléphonant au 416 326-5300 ou au 1 800 668-9938 (interurbains sans frais). On peut aller en chercher des exemplaires à la librairie de Publications Ontario, située au 880, rue Bay, Toronto. On peut aussi accéder au document par voie électronique en visitant le site Web du ministère des Finances à : www.fin.gov.on.ca. Pour d'autres renseignements, notamment sur les commandes en ligne, veuillez visiter le site Web de Publications Ontario à www.publications.gov.on.ca.