



MINISTRY OF FINANCE

**Public
Accounts
of
ONTARIO**

2006–2007

FINANCIAL STATEMENTS OF
CROWN CORPORATIONS,
BOARDS AND COMMISSIONS

Volume **2**



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of
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BOARDS AND COMMISSIONS

Volume **2**

TABLE OF CONTENTS

General	Page
Guide to Public Accounts	v
 FINANCIAL STATEMENTS	
 Section 1 – Government Business Enterprises	
Algonquin Forestry Authority	March 31, 2007 1-1
Hydro One Inc.	December 31, 2006 1-11
Liquor Control Board of Ontario	March 31, 2007 1-39
Niagara Parks Commission	October 31, 2006 1-49
Ontario Clean Water Agency	December 31, 2006 1-59
Ontario Lottery and Gaming Corporation	March 31, 2007 1-71
Ontario Northland Transportation Commission	March 31, 2007 1-93
Ontario Power Generation Inc.	December 31, 2006 1-115
 Section 2 – Other Government Organizations	
AgriCorp	March 31, 2007 2-1
Agricultural Research Institute of Ontario	March 31, 2007 2-23
Cancer Care Ontario	March 31, 2007 2-33
The Centennial Centre of Science and Technology	March 31, 2007 2-53
Education Quality and Accountability Office	March 31, 2007 2-55
Greater Toronto Transit Authority	March 31, 2007 2-65
Independent Electricity System Operator	December 31, 2006 2-81
Legal Aid Ontario	March 31, 2007 2-95
Metropolitan Toronto Convention Centre Corporation	March 31, 2007 2-111
Northern Ontario Heritage Fund Corporation	March 31, 2007 2-125
Ontario Educational Communications Authority (TV Ontario)	March 31, 2007 2-137
Ontario Electricity Financial Corporation	March 31, 2007 2-157
Ontario Energy Board	March 31, 2007 2-171
Ontario Financing Authority	March 31, 2007 2-183
Ontario Immigrant Investor Corporation	March 31, 2007 2-195
Ontario Infrastructure Projects Corporation	March 31, 2007 2-203
Ontario Mortgage and Housing Corporation	March 31, 2007 2-217
Ontario Place Corporation	December 31, 2006 2-227
Ontario Power Authority	December 31, 2006 2-229
Ontario Racing Commission	March 31, 2007 2-241
Ontario Realty Corporation	March 31, 2007 2-251
Ontario Securities Commission	March 31, 2007 2-263
Ontario Tourism Marketing Partnership Corporation	March 31, 2007 2-277
Ontario Trillium Foundation	March 31, 2007 2-287
Royal Ontario Museum	March 31, 2007 2-299
Royal Ontario Museum	March 31, 2006 2-319
Smart Systems for Health Agency	March 31, 2007 2-339
Toronto Area Transit Operating Authority	March 31, 2007 2-349
Toronto Waterfront Revitalization Corporation	March 31, 2007 2-355
 Section 3 – Trusts and Miscellaneous Financial Statements	
Deposit Insurance Corporation of Ontario	December 31, 2006 3-1
Motor Vehicle Accident Claims Fund	March 31, 2007 3-11
Ontario Pension Board	December 31, 2006 3-23
Pension Benefit Guarantee Fund	March 31, 2007 3-45
Provincial Judges Pension Fund	March 31, 2007 3-57
The Public Guardian and Trustee for the Province of Ontario	March 31, 2007 3-63
Workplace Safety and Insurance Board	December 31, 2006 3-79
Losses deleted from the accounts	March 31, 2007 3-103
Revenue remissions	March 31, 2007 3-105

**RESPONSIBLE MINISTRY FOR GOVERNMENT BUSINESS ENTERPRISES,
ORGANIZATIONS, TRUSTS & MISCELLANEOUS FINANCIAL STATEMENTS**

Ministry of Agriculture, Food and Rural Affairs
 AgriCorp
 Agricultural Research Institute of Ontario

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

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

Ministry of Economic Development and Trade
 Ontario Immigrant Investor Corporation

Ministry of Education
 Education Quality and Accountability Office
 Ontario Educational Communications Authority (TV Ontario)

Ministry of Energy
 Hydro One Inc.
 Independent Electricity System Operator
 Ontario Energy Board
 Ontario Power Authority
 Ontario Power Generation

Ministry of Environment
 Ontario Clean Water Agency

Ministry 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 Securities Commission
 Pension Benefit Guarantee Fund
 Provincial Judges Pension Fund
 Revenue remissions

Ministry of Government Services
 Ontario Pension Board
 Ontario Racing Commission

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

Ministry of Labour
 Workplace Safety and Insurance Board

Ministry of Municipal Affairs and Housing
 Ontario Mortgage and Housing Corporation

Ministry of Natural Resources
 Algonquin Forestry Authority

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

Ministry of Public Infrastructure Renewal
 Liquor Control Board of Ontario
 Ontario Infrastructure Projects Corporation
 Ontario Lottery and Gaming Corporation
 Ontario Realty Corporation
 Toronto Waterfront Revitalization Corporation

Ministry of Tourism
 Metropolitan Toronto Convention Centre Corporation
 Niagara Parks Commission
 Ontario Place Corporation
 Ontario Tourism Marketing Partnership Corporation

Ministry of Transportation
 Greater Toronto Transit Authority
 Toronto Area Transit Operating Authority

A GUIDE TO PUBLIC ACCOUNTS

1. SCOPE OF THE PUBLIC ACCOUNTS

The 2006-2007 Public Accounts of the Province of Ontario comprise the **Annual Report and Consolidated 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, 2006 to March 31, 2007. 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. 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, 2007

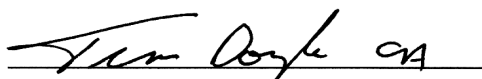
Management's Responsibility for Financial Information

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.

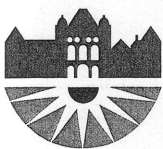
The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the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

Handwritten signature of Tim Doyle in black ink, followed by the letters "CA" in a smaller font.

Tim Doyle C.A.
Treasurer

Handwritten signature of Carl Corbett in black ink.

Carl Corbett R.P.F.
General Manager



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

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, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
June 6, 2007

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15^e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
copieur 416-326-3812

Algonquin Forestry Authority

Statement of Financial Position

March 31

2007

2006

Assets**Current**

Cash and cash equivalents	\$ 2,430,182	\$ 3,411,954
Temporary investments	2,711,684	2,631,934
Receivables	5,102,847	5,410,335
Inventory	314,283	193,358
Prepays	18,780	18,780

10,577,776 11,666,361

Capital assets (Note 4) 559,233 829,192

\$11,137,009 \$12,495,553

Liabilities**Current**

Payables and accruals	\$ 1,548,090	\$ 2,528,353
Contractors' performance holdbacks	115,783	82,754
Due to Consolidated Revenue Fund	338,715	471,128
	2,002,588	3,082,235

Deferred contributions (Note 5) 57,375 -

Obligation for employee future benefits (Note 6) 434,590 429,922

491,965 429,922

Net assets

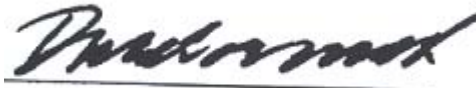
Invested in capital assets	559,233	829,192
Restricted - Forest Renewal Fund (Note 3)	2,861,166	2,706,196
Unrestricted - General Fund	5,222,057	5,448,008
	8,642,456	8,983,396

\$11,137,009 \$12,495,553

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 2007	Total 2006
Revenue				
Product sales	\$ 24,026,657	\$ -	\$ 24,026,657	\$ 23,533,011
Forest renewal activity	-	965,201	965,201	1,232,228
Standing timber sales	599,104	-	599,104	759,881
Other (Note 7)	2,258,334	114,165	2,372,499	1,308,434
	<u>26,884,095</u>	<u>1,079,366</u>	<u>27,963,461</u>	<u>26,833,554</u>
Expense				
Direct program costs	21,799,365	1,040,063	22,839,428	21,676,945
Crown timber stumpage charges	2,681,736	-	2,681,736	2,402,142
Public access road maintenance	242,625	-	242,625	161,901
Operations planning	205,184	-	205,184	121,415
Wood measurement	76,355	-	76,355	117,544
	<u>25,005,265</u>	<u>1,040,063</u>	<u>26,045,328</u>	<u>24,479,947</u>
Operating income	<u>1,878,830</u>	<u>39,303</u>	<u>1,918,133</u>	<u>2,353,607</u>
Administrative and other				
Salaries and benefits	1,354,772	250,838	1,605,610	1,461,139
Amortization	323,316	40,805	364,121	448,924
Office supplies and expenses	95,740	183	95,923	103,849
Office rent	29,585	17,400	46,985	44,243
Directors' allowances and expenses	42,081	-	42,081	22,191
Public relations	37,756	-	37,756	29,301
Insurance	25,128	12,077	37,205	33,048
Staff travel and training	23,396	2,171	25,567	37,569
Consulting, legal and miscellaneous	3,825	-	3,825	5,794
Bad debts	-	-	-	55,546
	<u>1,935,599</u>	<u>323,474</u>	<u>2,259,073</u>	<u>2,241,604</u>
Net (loss) income for the year	<u>\$ (56,769)</u>	<u>\$ (284,171)</u>	<u>\$ (340,940)</u>	<u>\$ 112,003</u>

See accompanying notes to the financial statements.

Algonquin Forestry Authority

Statement of Changes in Net Assets

Year Ended March 31

2007

2006

	Invested In Capital Assets	Restricted - Forest Renewal Fund	Unrestricted - General Fund	Total	Total
Balance, beginning of year	\$ 829,192	\$ 2,706,196	\$ 5,448,008	\$8,983,396	\$ 8,871,393
Net (loss) income for the year	-	(284,171)	(56,769)	(340,940)	112,003
Interfund transfer (Note 9)	-	398,336	(398,336)	-	-
Amortization	(364,121)	40,805	323,316	-	-
Investment in capital assets	<u>94,162</u>	<u>-</u>	<u>(94,162)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 559,233</u>	<u>\$ 2,861,166</u>	<u>\$ 5,222,057</u>	<u>\$8,642,456</u>	<u>\$ 8,983,396</u>

See accompanying notes to the financial statements.

Algonquin Forestry Authority

Statement of Cash Flows

Year Ended March 31

2007

2006

Cash and cash equivalents derived from (applied to)

Operating

Net (loss) income for the year:

General Fund

\$ (56,769)

\$ 251,383

Forest Renewal Fund

(284,171)

(139,380)

Add (deduct): non-cash items

Amortization

364,121

448,924

Loss (gain) on sale of capital assets

2,118(38,090)

25,299

522,837

Change in non-cash operating working capital

(893,084)1,176,685(867,785)1,699,522**Financing**

Obligation for employee future benefits

4,668

29,968

Deferred contributions

57,375(239,802)62,043(209,834)**Investing**

Acquisition of temporary investments

(79,750)

(71,791)

Acquisition of capital assets

(107,350)

(189,351)

Proceeds on sale of capital assets

11,07046,552(176,030)(214,590)

(Decrease) increase in cash and cash equivalents

(981,772)

1,275,098

Cash and cash equivalents, beginning of year

3,411,9542,136,856

Cash and cash equivalents, end of year

\$2,430,182\$3,411,954

Cash and cash equivalents comprised of:

Cash on hand and balances with banks

\$2,430,182\$3,411,954

See accompanying notes to the financial statements.

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2007

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 with original maturities of three months to one year and are recorded at the lower of cost or market. The fair values of the Authority's temporary investments approximate their carrying value due to their short term maturity.

Inventories

Inventories, which consist of harvested wood not yet delivered to customers, are valued on the first in, first out basis at the lower of cost or net realizable value.

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2007

2. Significant accounting policies (continued)

Capital assets

Capital assets are recorded at cost. Amortization is provided on a straight-line basis, using rates of 10% per annum for furniture, fixtures, technical equipment, trailers and leasehold improvements, 20% per annum for data processing equipment and portable steel structures 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 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.

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.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable, as measured by comparing their net book value to the estimated undiscounted future cash flows generated by their use. Impaired assets, if any, are recorded at fair value, determined principally using discounted future cash flows expected from their use and eventual disposition.

Financial instruments

The Authority's financial instruments consist of cash, accounts receivable, temporary investments, accounts payable, accrued liabilities and obligations for employee future benefits. Unless otherwise noted, it is management's opinion that the Authority 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, unless otherwise noted.

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2007

3. Forest Renewal Fund

Effective April 1, 2002 the Authority renewed its 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 requires the Authority to maintain a minimum balance of \$1,500,000 in the Forest Renewal Fund.

4. Capital assets

			<u>2007</u>	<u>2006</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Bridges and access roads	\$5,346,799	\$5,033,378	\$ 313,421	\$ 490,194
Automotive equipment	339,530	190,026	149,504	143,650
Portable steel structures	287,284	247,189	40,095	85,554
Forest renewal assets	324,620	293,946	30,674	67,527
Furniture and fixtures	83,358	72,400	10,958	15,340
Technical equipment	182,531	176,923	5,608	6,830
Leasehold improvements	44,804	40,527	4,277	4,925
Data processing equipment	133,715	130,951	2,764	12,637
Trailers	13,690	11,758	1,932	2,535
	<u>\$6,756,331</u>	<u>\$6,197,098</u>	<u>\$ 559,233</u>	<u>\$ 829,192</u>

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:

	<u>2007</u>	<u>2006</u>
Beginning balance	\$ -	\$ 163,520
Add: amount received in the year	300,000	-
Less: amount spent on road maintenance and related amortization costs in the year	(242,625)	(163,520)
Ending balance	<u>\$ 57,375</u>	<u>\$ -</u>

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2007

6. 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 multiemployer 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 \$100,008 (2006 - \$104,964) 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 \$434,590 at year end (2006 - \$429,922).

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

7. Road maintenance funding

Included in Other Revenue is revenue of \$1.73 million (2006 - \$897,000) received by the Authority pursuant to an agreement with the Ontario Ministry of Natural Resources. The purpose of the agreement is to provide the Authority with reimbursement of road construction and maintenance costs on eligible primary and secondary forest access roads where access to those roads is not limited to the forest industry. A portion of the Ministry funding (2006 - 100%) is passed on to the Authority's customers through a rebate allocated on the basis of sales volumes.

8. Remuneration of appointments

Total remuneration of the Board members of the Authority was approximately \$13,024 during the fiscal year (2006 - \$8,096).

9. Interfund transfer

The Board of Directors has approved, by resolution, that any loss incurred in the Forest Renewal Fund resulting from forest renewal activity expenses exceeding revenue during the year (excluding other income) shall be funded by the General Fund.

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 14, 2007.

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 26, 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, and related disclosure controls and procedures, pursuant to Multilateral Instrument 52-109.

On behalf of Hydro One Inc.'s management:



Laura Formusa
President and Chief Executive Officer (Acting)



Beth Summers
Chief Financial Officer

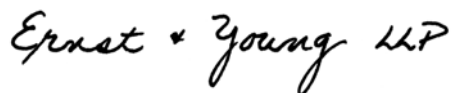
**HYDRO ONE INC.
AUDITORS' REPORT**

To the Shareholder of Hydro One Inc.

We have audited the Consolidated Balance Sheets of Hydro One Inc. (the Company) as at December 31, 2006 and December 31, 2005, 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, 2006. 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, 2006 and December 31, 2005 the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.



Ernst & Young LLP
Chartered Accountants
Toronto, Canada

February 14, 2007

HYDRO ONE INC. CONSOLIDATED STATEMENTS OF OPERATIONS

<i>Year ended December 31 (Canadian dollars in millions)</i>	2006	2005
Revenues		
Transmission (Notes 8 and 14)	1,245	1,310
Distribution (Notes 3 and 14)	3,273	3,085
Other	27	21
	4,545	4,416
Costs		
Purchased power (Notes 3 and 14)	2,221	2,131
Operation, maintenance and administration	880	792
Depreciation and amortization (Note 4)	515	487
	3,616	3,410
Income before financing charges and provision for payments in lieu of corporate income taxes	929	1,006
Financing charges (Note 5)	295	325
Income before provision for payments in lieu of corporate income taxes	634	681
Provision for payments in lieu of corporate income taxes (Notes 6 and 14)	179	198
Net income	455	483
Basic and fully diluted earnings per common share (Canadian dollars) (Note 13)	4,366	4,652

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>Year ended December 31 (Canadian dollars in millions)</i>	2006	2005
Retained earnings, January 1	1,079	887
Net income	455	483
Dividends (Note 13)	(350)	(291)
Retained earnings, December 31	1,184	1,079

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC. CONSOLIDATED BALANCE SHEETS

<i>December 31 (Canadian dollars in millions)</i>	2006	2005
Assets		
Current assets:		
Accounts receivable (net of allowance for doubtful accounts - \$19 million; 2005 - \$14 million) (Note 14)	777	628
Materials and supplies	56	56
Other	13	12
	846	696
Fixed assets (Note 7):		
Fixed assets in service	16,238	15,553
Less: accumulated depreciation	6,180	5,818
	10,058	9,735
Construction in progress	468	375
	10,526	10,110
Other long-term assets:		
Deferred pension asset (Note 11)	382	449
Regulatory assets (Note 8)	311	400
Goodwill	133	133
Deferred debt costs	24	23
Other assets	12	10
	862	1,015
Total assets	12,234	11,821

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (continued)

<i>December 31 (Canadian dollars in millions)</i>	2006	2005
Liabilities		
Current liabilities:		
Bank indebtedness	29	9
Accounts payable and accrued charges (Note 14)	661	700
Accrued interest	49	43
Short-term notes payable (Note 9)	60	-
Long-term debt payable within one year (Note 9)	395	589
	<u>1,194</u>	<u>1,341</u>
Long-term debt (Note 9)	4,872	4,466
Other long-term liabilities:		
Regulatory liabilities (Note 8)	473	495
Employee future benefits other than pension (Note 11)	803	716
Environmental liabilities (Note 12)	55	64
Long-term accounts payable and accrued charges	16	23
	<u>1,347</u>	<u>1,298</u>
Total liabilities	<u>7,413</u>	<u>7,105</u>
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	1,184	1,079
Total shareholder's equity	<u>4,821</u>	<u>4,716</u>
Total liabilities and shareholder's equity	<u>12,234</u>	<u>11,821</u>

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:



Rita Burak
Chair



Eileen Mercier
Chair, Audit and Finance Committee

HYDRO ONE INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Year ended December 31 (Canadian dollars in millions)</i>	2006	2005
Operating activities		
Net income	455	483
Adjustments for non-cash items:		
Depreciation and amortization (net of removal costs)	474	446
Transmission earnings sharing	33	-
Amortization of discount	27	58
Retail settlement variance accounts	7	12
Low-voltage services	(8)	(24)
	988	975
Changes in non-cash balances related to operations (Note 15)	(92)	194
Net cash from operating activities	896	1,169
Financing activities		
Long-term debt issued	775	500
Long-term debt retired	(589)	(648)
Short-term notes payable	60	(40)
Dividends paid	(350)	(291)
Termination of interest rate swap	-	(10)
Other	(4)	2
Net cash used in financing activities	(108)	(487)
Investing activities		
Capital expenditures	(823)	(691)
Other assets	15	9
Net cash used in investing activities	(808)	(682)
Net change in cash and cash equivalents	(20)	-
Cash and cash equivalents, January 1	(9)	(9)
Cash and cash equivalents, December 31 (Note 15)	(29)	(9)

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 Networks 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).

Hydro One Brampton Inc. was dissolved on January 30, 2007. Hydro One Network Services will be dissolved pursuant to the *Business Corporations Act* (Ontario) in 2007. The former Ontario Hydro Energy and Hydro One Markets were dissolved during 2005.

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. Existing transmission rates were set in 1999 to provide a targeted return of 9.88% on deemed common equity and were based on cost of service rate regulation. In October 2005, the OEB initiated a proceeding to review Hydro One's transmission rates and to approve revenue requirements for 2006, 2007, and 2008. On February 21, 2006, the OEB announced a decision to apply an earnings sharing mechanism to equally share, between Hydro One's shareholder and its customers, any transmission earnings in excess of the approved rate of return of 9.88% for the period January 1, 2006 until new transmission rates are set. In September 2006, Hydro One Networks filed a transmission rate application. A decision on this application and the resulting revised transmission rates are anticipated in 2007.

The Company's distribution rates are also based on a revenue requirement that includes a rate of return. On April 12, 2006, the OEB announced its decision regarding the Company's rate application in respect of the distribution business of Hydro One Networks. On the basis of the written and oral evidence submitted, the OEB approved the requested increase in the revenue requirement based on a reduction in the approved rate of return, from a targeted 9.88% to 9.00%, effective May 1, 2006.

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 involves the application of rate regulated accounting, giving 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. 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

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

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. Specific regulatory assets and liabilities are disclosed in Note 8.

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.

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution 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, 2006 amounted to \$386 million (2005 - \$377 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.

Some of the Company's transmission and distribution assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company's

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

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 most asset retirement obligations cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of disposing of assets that the Company is legally required to remove, a related 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 (2006 – 6.39%; 2005 – 6.80%).

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	55
Distribution	15 - 75	41
Communication	7 - 40	19
Administration and service	5 - 50	39

Depreciation rates for easements are based on their contract life. The majority of easements are held in perpetuity and are 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 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. 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.

Discounts and Premiums on Debt

Discounts and premiums are amortized over the period of the related debt.

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 formally designates its hedges, documents all hedging relationships and formally assesses hedge effectiveness. In the event a hedging relationship is extinguished or the relationship is found to be ineffective, realized or unrealized gains or losses are recognized in results of operations. Hedging gains and losses are amortized over the period of the related debt.

The Company does not engage in derivative trading or speculative activities.

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.

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

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 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. ELECTRICITY CREDITS TO CUSTOMERS

Under a regulation issued in October 2005, Regulated Price Plan customers received a credit reflecting a lower cost of power than the fixed commodity price between April 1, 2004 and March 31, 2005. In the fourth quarter of 2005, revenue and purchased power costs were each reduced by \$140 million. The application of the credit did not result in any adjustment to net income.

4. DEPRECIATION AND AMORTIZATION

<i>Year ended December 31 (Canadian dollars in millions)</i>	2006	2005
Depreciation of fixed assets in service	379	369
Fixed asset removal costs	41	41
Amortization of regulatory and other assets	95	77
	515	487

5. FINANCING CHARGES

<i>Year ended December 31 (Canadian dollars in millions)</i>	2006	2005
Interest on short-term notes payable	2	1
Interest on long-term debt payable	296	297
Amortization of discount	27	58
Other	9	5
Less: Interest capitalized on construction in progress	(28)	(21)
Interest capitalized on regulatory assets	(7)	(10)
Interest earned on investments	(4)	(5)
	295	325

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

<i>Year ended December 31 (Canadian dollars in millions)</i>	2006	2005
Income before provision for PILs	634	681
Federal and Ontario statutory income tax rate	36.12%	36.12%
Provision for PILs at statutory rate	229	246
(Decrease) increase resulting from:		
Net temporary differences:		
Recovery of PILs related to prior years	(30)	(21)
Pension contribution in excess of pension expense	(16)	(25)
Employee future benefits other than pension expense in excess of cash payments	14	8
Transmission amounts received but not recognized for accounting purposes due to earnings sharing mechanism	12	-
Overhead capitalized for accounting but deducted for tax purposes	(11)	(10)
Interest capitalized for accounting purposes but deducted for tax purposes	(13)	(11)
Environmental expenditures	(6)	(5)
Capital cost allowance (in excess of) less than depreciation and amortization	(3)	1
Other	4	1
Net temporary differences	(49)	(62)
Permanent differences:		
Large corporations tax	-	13
Other	(1)	1
Net permanent differences	(1)	14
Provision for PILs	179	198
Effective income tax rate	28.23%	29.07%

In 2006, Hydro One recognized a tax benefit of approximately \$30 million in respect of a recovery of PILs from prior years following a successful appeal allowing a deduction for certain overhead costs that had been previously capitalized. In 2005, Hydro One reached an agreement to settle an outstanding legal claim allowing for the dissolution of one of its subsidiaries. As a result, it was determined to be more likely than not that Hydro One would be able to utilize the subsidiary's accumulated tax losses and a future tax asset of approximately \$21 million was recognized. As at December 31, 2006, approximately \$2 million of the 2005 amount remains available for use in 2007.

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, 2006, future income tax liabilities of \$281 million (2005 - \$265 million), based on substantively enacted income tax rates, have not been recorded. In the absence of rate regulated accounting, the Company's provision for PILs would have been recognized using the liability method rather than the taxes payable method. As a result, the provision for PILs would have been higher by approximately \$16 million, including the impact of a change in substantively enacted tax rates.

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****7. FIXED ASSETS**

<i>December 31 (Canadian dollars in millions)</i>	Fixed Assets in Service	Accumulated Depreciation	Construction in Progress	Total
2006				
Transmission	8,293	3,024	359	5,628
Distribution	5,651	2,129	86	3,608
Communication	822	383	18	457
Administration and service	989	583	5	411
Easements	483	61	-	422
	16,238	6,180	468	10,526
2005				
Transmission	8,124	2,889	233	5,468
Distribution	5,319	1,995	65	3,389
Communication	752	344	46	454
Administration and service	877	530	31	378
Easements	481	60	-	421
	15,553	5,818	375	10,110

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 \$28 million in 2006 (2005 - \$21 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 Note 2):

<i>December 31 (Canadian dollars in millions)</i>	2006	2005
Regulatory assets:		
Regulatory asset recovery account I	58	88
Regulatory asset recovery account II	87	92
Employee future benefits other than pension	84	126
Environmental	70	79
Smart meters	10	-
Retail settlement variance accounts	-	11
Other	2	4
Total regulatory assets	311	400
Regulatory liabilities:		
Deferred pension	382	449
Export and wheeling fees	49	32
Transmission earnings sharing	34	-
Retail settlement variance accounts	2	-
Other	6	14
Total regulatory liabilities	473	495

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)***Regulatory assets**Regulatory asset recovery account I (RARA I)*

On December 9, 2004, the OEB issued a decision on the prudence of the distribution-related deferral account balances for which recovery was sought by Hydro One in its May 31, 2004 application. Amounts for which recovery was approved represented balances incurred prior to December 31, 2003, plus associated interest. The OEB ordered that the approved amounts be aggregated into a single regulatory account to be recovered on a straight-line basis over the period ending April 30, 2008. The RARA I 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. In the absence of rate regulated accounting, amortization expense in 2006 would have been lower by approximately \$20 million (2005 - \$20 million). In addition, related financing charges would have been higher by \$3 million (2005 - \$7 million).

Regulatory asset recovery account II (RARA II)

On April 12, 2006, the OEB announced its decision regarding the Company's rate application in respect of the distribution business of Hydro One Networks. As part of this decision, the OEB also approved the distribution-related deferral account balances sought by Hydro One. The OEB ordered that the approved balances be recovered on a straight-line basis over a four year period from May 1, 2006 to April 30, 2010. The RARA II includes retail settlement and cost variance amounts and distribution low-voltage service amounts, plus accrued interest. In the absence of rate regulated accounting, amortization expense in 2006 would have been lower by approximately \$16 million. In addition, related financing charges would have been higher by \$5 million.

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 2 years (2005 - 3 years) and does not earn a return. In the absence of rate regulated accounting, amortization expense in 2006 would have been lower by approximately \$42 million (2005 - \$42 million).

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate past environmental contamination. Because such expenditures are expected to be recoverable in future rates, the Company has recognized an equivalent amount 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. The OEB has the discretion to examine and assess the prudence and the timing of recovery of all of Hydro One's future regulatory expenditures. In the absence of rate regulated accounting, amortization expense in 2006 would have been lower and operation, maintenance and administration expense would have been higher by \$17 million (2005 - \$14 million).

Smart meters

On March 21, 2006, the OEB approved the establishment of deferral accounts for smart meter related expenditures and a monthly customer charge of thirty cents per residential customer was reflected in Hydro One's revenue requirement. Consistent with the OEB's direction and pending further guidance, the Company has recognized a regulatory asset consisting of the net balance of capital and operating expenditures for smart meters less recoveries received from customers. In the absence of rate regulated accounting, the Company's operation, maintenance and administration expense would have been higher by \$4 million and revenues would have been higher by \$2 million.

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. In the absence of rate regulated accounting, the Company's pension expense would have been recognized on an accrual basis rather than on a cash basis. As a result, operation, maintenance and administration expense would have been higher by approximately \$12 million (2005 - \$38 million), assuming no regulatory deferral of distribution and Inergi LP (Inergi) pension-related amounts. In addition, related financing charges would have been higher by \$2 million (2005 - \$4 million).

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 MWh on electricity exported outside of Ontario. The amounts collected in respect of this export and wheeling fee, plus interest, were taken into consideration in the revenue requirement of Hydro One's transmission business as part of the Company's transmission rate application filed with the OEB in September 2006.

Transmission earnings sharing

On February 21, 2006, the OEB issued a decision that established an earnings sharing mechanism in which 50% of any transmission earnings in excess of the approved rate of return of 9.88%, for the period January 1, 2006 until new transmission rates are set will be equally split between the Company's shareholder and ratepayers. The excess earnings calculation will be based on the 2006 audited financial statements of Hydro One Networks' Transmission Business. The application of the earning sharing mechanism will be subject to future OEB review and approval. Any changes resulting from this review will be reflected in results of operations when the OEB renders its decision.

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 allowed for recovery of retail settlement variance amounts accumulated prior to December 31, 2003, inclusive of interest, within the RARA I. The OEB's April 12, 2006 decision allowed for recovery of retail settlement variance amounts accumulated since January 1, 2004 and forecasted through to April 30, 2006, inclusive of interest, within the RARA II. The Company has accumulated a net liability in its retail settlement variance accounts since May 1, 2006 and anticipates that the OEB will include the net balance of this regulatory account in future rates.

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****9. DEBT**

<i>December 31 (Canadian dollars in millions)</i>	2006	2005
Short-term notes payable	60	-
Long-term debt:		
4.15% notes due 2006	-	280
4.20% notes due 2006	-	168
4.30% notes due 2006	-	141
4.45% notes due 2007	282	282
4.55% notes due 2007	73	73
4.10% notes due 2007 ¹	40	40
4.00% notes due 2008	500	500
3.95% notes due 2009	400	400
7.15% debentures due 2010	400	400
6.40% notes due 2011	250	250
5.77% notes due 2012	600	600
4.64% notes due 2016	450	-
7.35% debentures due 2030	400	400
6.93% notes due 2032	500	500
6.35% notes due 2034	385	385
5.36% notes due 2036	600	350
6.59% notes due 2043	315	315
5.00% notes due 2046	75	-
	5,270	5,084
Less: Long-term debt payable within one year	(395)	(589)
Net unamortized premiums (discounts)	9	(14)
Unamortized hedging losses	(12)	(15)
Long-term debt	4,872	4,466

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. In 2006, the notes had a weighted-average interest rate of 4.2%.

Hydro One has a \$750 million committed and unused revolving credit facility with a syndicate of banks maturing in August 2007, with a two-year extension option. If used, interest on the facility would apply based on Canadian benchmark rates. This credit facility supports 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 \$2,500 million of which \$1,725 million is remaining and is currently available until July 2007.

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, 2006, 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	395	4.4
2 years	500	4.0
3 years	400	4.0
4 years	400	7.2
5 years	250	6.4
	1,945	5.0
6 – 10 years	1,050	5.3
Over 10 years	2,275	6.4
	5,270	5.7

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)	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt ¹	5,270	5,831	5,084	5,697

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

Hydro One may enter into derivative agreements, such as forward fixed interest rate swap agreements, 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 2006, Hydro One did not enter into any such derivative agreements. In 2005, Hydro One terminated forward interest rate swap agreements entered into in 2005 and 2004 and having a total notional principal amount of \$150 million, resulting in a loss of \$10 million. The loss is being amortized on an annuity basis over the thirty-year term of the related debt.

As at December 31, 2006, 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 and a fair value of \$nil (2005 - \$nil).

The Company has no significant counter-party credit risk exposure as the fair value of the interest rate swap contracts was not significant in 2006 or in 2005.

Financial assets create a risk that a counter-party will fail to discharge an obligation, causing a financial loss. As at December 31, 2006, 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, 2006, there were no significant balances of accounts receivable due from any single customer.

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

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

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 approximately \$1 million annually.

Plan Asset Mix

Hydro One's pension plan asset mix at December 31, 2006 and 2005 was as follows:

<i>December 31</i>	% of Plan Assets	
	2006	2005
Equity securities	64.6	60.6
Debt securities	32.0	36.2
Other	3.4	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 of the Province of \$92 million and \$79 million at December 31, 2006 and 2005 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, and for new Society of Energy Professionals hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are 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 \$86 million to its pension plan in respect of 2006 (2005 - \$83 million), all of which is required to satisfy minimum funding requirements. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash. Prior to 2004, the Company was not required to contribute to the pension plan because the last actuarial valuation at December 31, 2000 indicated that the plan had a surplus. Contributions after 2006 will be based on actuarial valuation effective December 31, 2006 and will depend on future investment returns, and changes in benefits or actuarial assumptions.

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

Total cash payments for employee future benefits made in 2006, 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 \$122 million in 2006 (2005 - \$123 million).

<i>Year ended December 31 (Canadian dollars in millions)</i>	Pension		Employee Future Benefits other than Pension	
	2006	2005	2006	2005
Change in accrued benefit obligation				
Accrued benefit obligation, January 1	5,355	4,862	1,143	966
Current service cost	106	83	33	26
Interest cost	267	277	58	57
Benefits paid	(253)	(248)	(36)	(40)
Plan amendments	6	-	22	1
Net actuarial (gain) loss	(70)	381	(120)	133
Accrued benefit obligation, December 31	5,411	5,355	1,100	1,143
Change in plan assets				
Fair value of plan assets, January 1	4,713	4,243	-	-
Actual return on plan assets	571	630	-	-
Benefits paid	(253)	(248)	-	-
Employer's contributions ¹	86	83	-	-
Employees' contributions	17	16	-	-
Administrative expenses	(11)	(11)	-	-
Fair value of plan assets, December 31	5,123	4,713	-	-
Funded status				
(Unfunded benefit obligation)	(288)	(642)	(1,100)	(1,143)
Unamortized net actuarial losses	645	1,069	236	385
Unamortized past service costs	25	22	25	6
Deferred pension asset (accrued benefit liability)	382	449	(839)	(752)
Less: current portion	-	-	36	36
Deferred pension asset (long-term liability)	382	449	(803)	(716)

¹ In January, 2007, the Company made a contribution of \$8 million in respect of 2006 (2006 - \$8 million in respect of 2005).

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

<i>Year ended December 31 (Canadian dollars in millions)</i>	Pension		Employee Future Benefits other than Pension	
	2006	2005	2006	2005
Components of net periodic benefit cost				
Current service cost, net of employee contributions	89	67	33	26
Interest cost	267	277	58	57
Actual return on plan asset net of expenses	(560)	(619)	-	-
Actuarial (gain) loss	(70)	381	(120)	133
Plan amendments	6	-	22	-
Other	(1)	-	(1)	-
Costs arising in the period	(269)	106	(8)	216
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	248	327	-	-
Actuarial loss (gain)	177	(268)	149	(113)
Plan amendments	(3)	3	(19)	-
Net periodic benefit cost²	153	168	122	103
Charged to results of operations²	42	23	75	64
Effect of 1% increase in health care cost trends on:				
Accrued benefit obligation, December 31	-	-	156	171
Service cost and interest cost	-	-	13	12
Effect of 1% decrease in health care cost trends on:				
Accrued benefit obligation, December 31	-	-	(124)	(133)
Service cost and interest cost	-	-	(10)	(10)
Significant assumptions				
For net periodic benefit cost:				
Expected rate of return on plan assets	6.75%	7.00%	-	-
Weighted-average discount rate	5.00%	5.75%	4.98%	5.93%
Rate of compensation scale escalation (without merit)	3.25%	3.25%	3.25%	3.25%
Rate of cost of living increase	2.50%	2.75%	2.50%	2.75%
Average remaining service life of employees (years)	10	10	10	10
Rate of increase in health care cost trend ³	-	-	4.40%	4.40%
For accrued benefit obligation, December 31:				
Weighted-average discount rate	5.25%	5.00%	5.24%	4.98%
Rate of compensation scale escalation (without merit)	3.25%	3.25%	3.25%	3.25%
Rate of cost of living increase	2.50%	2.50%	2.50%	2.50%
Rate of increase in health care cost trend ⁴	-	-	4.40%	4.40%

² The Company follows the cash basis of accounting. During 2006, pension costs of \$86 million (2005 - \$83 million) were attributed to labour, of which \$42 million (2005 - \$23 million) was charged to operations, \$34 million (2005 - \$32 million) was capitalized as part of the cost of fixed assets, and \$10 million (2005 - \$28 million) was attributed to a regulatory asset.

³ 7.87% in 2006 grading down to 4.40% per annum in and after 2014 (2005 - 8.47% in 2005 grading down to 4.40% per annum in and after 2014).

⁴ 8.69% in 2007 grading down to 4.40% per annum in and after 2014 (2005 - 7.87% in 2005 grading down to 4.40% per annum in and after 2014).

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. ENVIRONMENTAL LIABILITIES**

<i>December 31 (Canadian dollars in millions)</i>	2006	2005
Environmental liabilities, January 1	79	89
Interest accretion	5	5
Expenditures	(17)	(14)
Revaluation adjustment	3	(1)
Environmental liabilities, December 31	70	79
Less: current portion	(15)	(15)
	55	64

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2006 and in total thereafter are as follows: 2007 - \$15 million; 2008 - \$14 million; 2009 - \$12 million; 2010 - \$10 million; 2011 - \$7 million; and thereafter - \$31 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 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 2006, preferred dividends in the amount of \$18 million (2005 - \$18 million) and common dividends in the amount of \$332 million (2005 - \$273 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. In addition the OEB is related to the Company by virtue of its status as a Provincial Crown Corporation. 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 2006 includes \$1,206 million (2005 - \$1,276 million) related to these services.

Hydro One receives amounts for rural rate protection from the IESO. Distribution revenue for 2006 includes \$127 million (2005 - \$127 million) related to this program. Hydro One also received revenue related to the supply of electricity to remote northern communities from the IESO. Distribution revenue for 2006 includes \$21 million (2005 - \$21 million) related to these services.

In 2006, Hydro One purchased power in the amount of \$2,183 million (2005 - \$2,095 million) from the IESO administered electricity market and \$38 million (2005 - \$36 million) from OPG.

Under the *Ontario Energy Board Act, 1998*, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters. In 2006, Hydro One incurred \$9 million (2005 - \$7 million) in OEB fees.

Hydro One has service level agreements with the other successor corporations. These services include field, engineering, logistics and telecommunications services. Revenues related to the provision of construction and equipment maintenance services to the other successor corporations were \$15 million (2005 - \$11 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 each of 2006 and 2005.

The provision for payments in lieu of corporate income taxes was paid or payable to the 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:

<i>December 31 (Canadian dollars in millions)</i>	2006	2005
Accounts receivable	114	116
Accounts payable and accrued charges	(230)	(263)

Included in accounts payable and accrued charges are amounts owing to the IESO in respect of power purchases of \$195 million (2005 - \$213 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.”

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

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

<i>Year ended December 31 (Canadian dollars in millions)</i>	2006	2005
Accounts receivable (increase) decrease	(149)	87
Materials and supplies increase	-	(9)
Accounts payable and accrued charges (decrease) increase	(39)	68
Accrued interest increase (decrease)	6	(1)
Long-term accounts payable and accrued charges decrease	(7)	(3)
Employee future benefits other than pension increase	87	62
Other	10	(10)
	(92)	194
Supplementary information:		
Interest paid	302	300
Payments in lieu of corporate income taxes	252	210

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 a materially adverse effect on the Company's consolidated financial position, results of operations or cash flows.

On March 29, 1999, the Whitesand First Nation Band commenced an action in the Ontario Court (General Division), now the Superior Court Justice, 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 for breach of an alleged contract to reimburse the band for negotiation costs with Ontario Hydro. The Whitesand Band asserts multiple causes of action, including trespass, breach of fiduciary duty, nuisance and negligence. The May 24, 2001 case was consolidated in 2004 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 integrated nature of the transmission system with the entire electricity system, which includes the method of generating power. To date, Hydro One has not filed a defence. Hydro One believes that it is unlikely that the outcome of this litigation will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

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

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

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 the 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, the 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 ranged 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, 2006, and in total thereafter are as follows: 2007 - \$110 million; 2008 - \$98 million; 2009 - \$94 million; 2010 - \$91 million; 2011 - \$87 million; and thereafter - \$16 million.

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, 2006, the Company provided prudential support, using a combination of bank letters of credit of \$22 million (2005 - \$21 million) and parental guarantees of \$275 million (2005 - \$275 million).

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, 2006, Hydro One had bank letters of credit of \$93 million (2005 - \$82 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, 2006 and in total thereafter are as follows: 2007 - \$5 million; 2008 - \$5 million; 2009 - \$4 million; 2010 - \$1 million; 2011 - \$nil; and thereafter - \$1 million.

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

<i>Year ended December 31 (Canadian dollars in millions)</i>	Transmission	Distribution	Other	Consolidated
2006				
Segment profit				
Revenues	1,245	3,273	27	4,545
Purchased power	-	2,221	-	2,221
Operation, maintenance and administration	390	460	30	880
Depreciation and amortization	241	269	5	515
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	614	323	(8)	929
Financing charges				295
Income before provision for payments in lieu of corporate income taxes				634
Capital expenditures	402	417	4	823
2005				
Segment profit				
Revenues	1,310	3,085	21	4,416
Purchased power	-	2,131	-	2,131
Operation, maintenance and administration	353	413	26	792
Depreciation and amortization	246	236	5	487
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	711	305	(10)	1,006
Financing charges				325
Income before provision for payments in lieu of corporate income taxes				681
Capital expenditures	349	338	4	691

<i>December 31 (Canadian dollars in millions)</i>	2006	2005
Total assets		
Transmission	6,965	6,827
Distribution	5,170	4,902
Other	99	92
	12,234	11,821

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

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. COMPARATIVE FIGURES**

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2006 Consolidated Financial Statements.

HYDRO ONE INC.

FIVE-YEAR SUMMARY OF FINANCIAL AND OPERATING STATISTICS

<i>Year ended December 31 (Canadian dollars in millions)</i>	2006	2005	2004	2003	2002
Statement of operations data					
Revenues					
Transmission	1,245	1,310	1,262	1,298	1,317
Distribution	3,273	3,085	2,874	2,734	2,682
Other	27	21	17	26	32
	4,545	4,416	4,153	4,058	4,031
Costs					
Purchased power	2,221	2,131	1,987	1,872	1,858
Operation, maintenance and administration ¹	880	792	771	795	832
Depreciation and amortization	515	487	480	454	411
	3,616	3,410	3,238	3,121	3,101
Regulatory recovery ²	-	-	91	-	-
Income before financing charges and provision for payments in lieu of corporate income taxes	929	1,006	1,006	937	930
Financing charges	295	325	331	348	353
Income before provision for payments in lieu of corporate income taxes	634	681	675	589	577
Provision for payments in lieu of corporate income taxes	179	198	177	193	233
Net income	455	483	498	396	344
Basic and fully diluted earnings per common share (Canadian dollars)	4,366	4,652	4,798	3,779	3,258
<i>December 31 (Canadian dollars in millions)</i>					
Balance sheet data					
Assets					
Transmission	6,965	6,827	6,785	6,589	6,638
Distribution	5,170	4,902	4,845	4,623	4,694
Other	99	92	95	94	90
Total assets	12,234	11,821	11,725	11,306	11,422
Liabilities					
Current liabilities (including current portion of long-term debt)	1,194	1,341	1,262	1,192	1,894
Long-term debt	4,872	4,466	4,613	4,539	3,938
Other long-term liabilities	1,347	1,298	1,326	1,284	1,451
Shareholder's equity					
Share capital	3,637	3,637	3,637	3,637	3,637
Retained earnings	1,184	1,079	887	654	502
Total liabilities and shareholder's equity	12,234	11,821	11,725	11,306	11,422

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

<i>Year ended December 31 (Canadian dollars in millions)</i>	2006	2005	2004	2003	2002
Other financial data					
Capital expenditures					
Transmission	402	349	432	289	260
Distribution	417	338	288	292	286
Other	4	4	7	16	24
Total capital expenditures	823	691	727	597	570
Ratios					
Net asset coverage on long-term debt ³	1.92	1.93	1.88	1.86	1.90
Earnings coverage ratio ⁴	2.67	2.69	2.70	2.43	2.35
Operating statistics					
Transmission					
Units transmitted (TWh) ⁵	151.1	157.0	153.4	151.7	153.2
Ontario 20-minute system peak demand (MW) ⁵	27,056	26,219	25,204	24,849	25,629
Ontario 60-minute system peak demand (MW) ⁵	27,005	26,160	24,979	24,753	25,414
Total transmission lines (circuit-kilometres)	28,600	28,547	28,643	28,621	28,492
Distribution					
Units distributed to Hydro One customers (TWh) ⁵	29.0	29.7	28.5	27.9	27.1
Units distributed through Hydro One lines (TWh) ^{5,6}	44.7	45.6	44.8	44.7	45.1
Total distribution lines (circuit-kilometres)	122,460	122,118	121,736	121,285	120,767
Customers	1,293,396	1,273,768	1,258,925	1,238,748	1,219,614
Total regular employees	4,295	4,189	4,118	3,967	3,933

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

² As a result of the oral and written evidence submitted by Hydro One, on December 9, 2004 the OEB issued a ruling, 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. Consequently, a one-time regulatory recovery of \$91 million was recorded.

³ 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).

⁴ 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.

⁵ System related statistics include preliminary figures for December.

⁶ Units distributed through Hydro One lines represent total distribution system requirements and include electricity distributed to consumers who purchased power directly from the IESO.

Responsibility for Financial Reporting

Liquor Control Board of Ontario

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 13, 2007.

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.

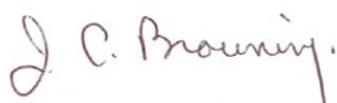
The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, generally 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:



N. Robert Peter
President & Chief Executive Officer



J. Alex Browning
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 13, 2007



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

Auditor's Report

To the Liquor Control Board of Ontario
and to the Minister of Public Infrastructure Renewal

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-327-9862

B.P. 105, 15^e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-327-9862

www.auditor.on.ca

Toronto, Ontario
June 13, 2007

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Liquor Control Board of Ontario

Balance Sheet

As at March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
ASSETS		
Current		
Cash and cash equivalents	135,785	108,530
Accounts receivable, trade and others	24,042	20,520
Inventories	320,675	285,817
Prepaid expenses	20,017	13,038
	<u>500,519</u>	<u>427,905</u>
Long-term		
Capital Assets (Note 5)	233,073	228,702
	<u>733,592</u>	<u>656,607</u>
<u>LIABILITIES AND RETAINED INCOME</u>		
Current		
Accounts payable and accrued liabilities	361,785	320,193
Current portion of accrued benefit obligation (Note 3)	11,943	5,323
	<u>373,728</u>	<u>325,516</u>
Long-term		
Accrued benefit obligation (Note 3)	48,983	41,111
Retained income	310,881	289,980
	<u>733,592</u>	<u>656,607</u>
Commitments and Contingencies (Notes 6 and 8)		

See accompanying notes to financial statements.

Approved by:



Chair



Board Member, Chair
Audit Committee

Liquor Control Board of Ontario
Statement of Income and Retained Income
Year Ended March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
Sales and other income	3,922,648	3,682,919
Cost and expenses		
Cost of sales	1,989,297	1,885,612
Retail stores and marketing	423,276	400,443
Warehousing and distribution	79,553	76,072
Administration	80,688	67,349
Amortization	49,233	49,099
	<u>2,622,047</u>	<u>2,478,575</u>
Net income for the year	1,300,601	1,204,344
Retained income, beginning of year	289,980	285,636
	<u>1,590,581</u>	<u>1,489,980</u>
Deduct		
Dividend paid to the Province of Ontario	1,275,000	1,195,000
Payment to municipalities on behalf of the Province of Ontario (Note 9)	4,700	5,000
	<u>1,279,700</u>	<u>1,200,000</u>
Retained income, end of year	<u>310,881</u>	<u>289,980</u>

See accompanying notes to financial statements.

Liquor Control Board of Ontario

Statement of Cash Flows

Year Ended March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
Cash provided from operations		
Net income	1,300,601	1,204,344
Amortization	49,233	49,099
Loss (Gain) on sale of capital assets	(2,060)	339
	<u>1,347,774</u>	<u>1,253,782</u>
Net change in non-cash items		
Working capital	(3,767)	(1,085)
Accrued benefit obligation	14,492	3,991
	<u>1,358,499</u>	<u>1,256,688</u>
Cash used for investment activities		
Purchase of capital assets	(54,217)	(54,535)
Proceeds from sale of capital assets	2,673	104
	<u>(51,544)</u>	<u>(54,431)</u>
Cash used for financing activities		
Dividend paid to the Province of Ontario	(1,275,000)	(1,195,000)
Payment to municipalities on behalf of the Province of Ontario	(4,700)	(5,000)
	<u>(1,279,700)</u>	<u>(1,200,000)</u>
Increase in cash during the year	27,255	2,257
Cash and cash equivalents, beginning of year	108,530	106,273
Cash and cash equivalents, end of year	<u>135,785</u>	<u>108,530</u>

See accompanying notes to financial statements.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements March 31, 2007

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 or 10 years
Computer Equipment	3 years or 4 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, 2007****(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 and unused vacation entitlements.

In fiscal 2007, the cost of these employee future benefits was \$23.2 million (2006 – \$ 10.9 million) and is included in Cost and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2007 is \$60.9 million (2006 – \$46.4 million) of which \$11.9 million (2006 – \$5.3 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by the Ministry of Government Services 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 2007, the expense was \$15.9 million (2006 – \$15.3 million) and is included in Cost and expenses in the Statement of Income and Retained Income.

5. CAPITAL ASSETS

	2007 (\$ 000)			2006 (\$ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	13,139	—	13,139	13,223
Buildings	332,611	230,643	101,968	103,669
Furniture and fixtures	82,266	51,408	30,858	33,397
Leasehold improvements	231,400	172,668	58,732	54,431
Computer equipment	102,609	74,233	28,376	23,982
	762,025	528,952	233,073	228,702

LIQUOR CONTROL BOARD OF ONTARIO**Notes to Financial Statements
March 31, 2007****6. LEASE COMMITMENTS**

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

	(\$ 000)
2008	41,862
2009	40,896
2010	36,984
2011	34,673
2012	31,248
Thereafter	240,071
	<u>425,734</u>

7. FINANCIAL INSTRUMENTS

The Board's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The carrying values of these instruments approximate fair value due to the short-term maturities of these instruments.

In management's opinion, the Board is not exposed to significant interest, foreign exchange or credit risks arising from these financial instruments. To manage foreign exchange risk associated with its purchases from foreign suppliers, the Board is authorized to enter into foreign exchange forward contracts, which are commitments to purchase foreign currencies at a specified date in the future at a fixed rate. As at March 31, 2007, the Board had no (2006 – nil) foreign exchange forward contracts outstanding.

Credit risk is the risk that a party to a foreign exchange forward contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risks 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.

LIQUOR CONTROL BOARD OF ONTARIO**Notes to Financial Statements
March 31, 2007**

9. PAYMENT TO MUNICIPALITIES

Consistent with prior years, in fiscal 2007, the Board was directed by the Government to contribute \$4.7 million (2006 - \$5 million) to assist municipalities with their glass-recycling costs. For each of fiscal 2008 and 2009, the Board has been directed by the Government to continue making a contribution of \$5 million.

10. ONTARIO DEPOSIT RETURN PROGRAM

On November 6, 2006, the Government of Ontario entered into an agreement with the Brewers Retail Inc. for management of a province-wide container deposit return program on wine, liquor and beer containers sold through the Board and Winery and Distillery Retail Stores. The Brewers Retail Inc. is appointed the exclusive service provider for a period of 5 years effective February 5, 2007.

Under the program, the Board is to collect a deposit of 10 or 20 cents on wine, liquor and beer containers. The Board is to reimburse Brewers Retail Inc. for deposits that it pays to customers who return containers to return locations it operates, plus a service fee. In addition, the Government has directed the Board to spend \$7.5 million over the first two years of the agreement to promote the program.

For the year ended March 31, 2007, the Board collected \$6.3 million of deposits on containers and was invoiced \$3.8 million by the Brewers Retail Inc. for refunds to the customers.

Expenditures in connection with this program for the year ended March 31, 2007 amounted to \$2.5 million for service fees to Brewers Retail Inc. and \$5.8 million for promoting the program. These expenditures are included in Administration in the Statement of Income and Retained Income.

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 principles. 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 the Auditor General. Crawford, Smith and Swallow Chartered Accountants LLP has full and free access to the records of the Commission.



John A. M. Kernahan
General Manager
December 15, 2006



Neil McDougall, CMA
Executive Director, Corporate Services
December 15, 2006

AUDITORS' REPORT

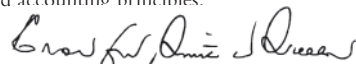
To The Niagara Parks Commission, the Minister of Tourism and the Auditor General

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, 2006 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, 2006 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 15, 2006, Niagara Falls, Ontario

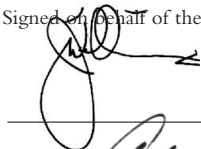
Balance Sheet ~ October 31, 2006

STATEMENT 1

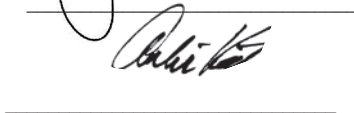
	<i>(In thousands of dollars)</i>	
Assets	2006	2005
	\$	\$
Current Assets		
Cash	3,768	7,722
Accounts receivable	2,257	1,946
Inventories		
Saleable merchandise	3,432	3,531
Maintenance and other supplies	1,215	1,115
Prepaid expenses	480	529
	11,152	14,843
Fixed Assets - notes 2 and 3	133,005	131,828
	144,157	146,671
Liabilities and Equity		
Current Liabilities		
Accounts payable	5,646	6,496
Accrued payroll	1,854	1,800
Current portion of long-term financing	1,109	1,339
	8,609	9,635
Long-Term Financing - note 3	3,008	4,022
Post-Employment Benefits - note 4	3,294	3,116
Commitments - note 6		
Contingencies - note 7		
Equity - Statement 2	129,246	129,898
	144,157	146,671

see accompanying notes

Signed on behalf of the Commission:



Chairman



Commissioner

Statement of Equity ~ for the year ended October 31, 2006

STATEMENT 2

	<i>(In thousands of dollars)</i>	
	2006	2005
	\$	\$
Equity, Beginning of Year	129,898	126,817
Net Income (Loss) for the Year - Statement 3	(652)	3,081
Equity, End of Year	129,246	129,898

see accompanying notes

Statement of Operations ~ for the year ended October 31, 2006

STATEMENT 3

	<i>(In thousands of dollars)</i>	
	2006	2005
	\$	\$
Income		
Gift shops, restaurants and attractions	68,113	69,871
Land rent	5,914	5,806
Commissions, rentals and fees	3,971	3,067
Premium on United States funds – net	460	472
Gain (loss) on disposal of fixed assets – net	(3)	33
Sundry income	202	43
	78,657	79,292
Expenses		
Gift shops, restaurants and attractions		
Cost of goods sold	12,733	13,497
Operating expenses	31,075	29,723
Maintenance	13,178	11,977
Administrative and police	9,819	10,140
Marketing and promotion	3,860	3,087
	70,665	68,424
Net Income for the Year before Undernoted Items		
	7,992	10,868
Other Items		
Interest expense – net – note 8	305	277
Depreciation – note 9	8,339	7,510
	8,644	7,787
Net Income (Loss) for the Year	(652)	3,081

see accompanying notes

Statement of Cash Flows ~ for the year ended October 31, 2006

STATEMENT 4

	<i>(In thousands of dollars)</i>	
	2006	2005
	\$	\$
Operating Activities		
Net income (loss) for the year	(652)	3,081
Charges against income not requiring an outlay of funds		
- post-employment benefits	376	345
- depreciation	8,339	7,510
- loss (gain) on disposal of fixed assets - net	216	(33)
	8,279	10,903
Net change in non-cash working capital balances related to operations - note 11	(1,059)	3,288
Funds provided by operating activities	7,220	14,191
Investing Activities		
Fixed asset acquisitions - note 11	(9,764)	(10,352)
Proceeds on sale of fixed assets	32	37
Funds used by investing activities	(9,732)	(10,315)
Financing Activities		
Net increase (decrease) in long-term financing	(1,244)	5,211
Cash outlay related to post-employment benefits	(198)	(205)
Funds provided (used) by financing activities	(1,442)	5,006
Increase (Decrease) in Cash Position	(3,954)	8,882
Cash Position (Deficiency), Beginning of Year	7,722	(1,160)
Cash Position (Deficiency), End of Year	3,768	7,722

see accompanying notes

Notes to Financial Statements ~ for the year ended October 31, 2006

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 33 per cent for buildings, roadways and structures, 10 to 33 per cent for equipment and furnishings and from 8 to 33 per cent for vehicles.

Foreign currency translation

These financial statements are presented in Canadian dollars. Assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Gains and losses on translation are reflected in net earnings of the period.

2. Fixed Assets

	<i>(In thousands of dollars)</i>			
	Cost	Accumulated Depreciation	2006	2005
	\$	\$	\$	\$
Land	13,555	—	13,555	13,555
Land improvements	17,135	—	17,135	17,091
Buildings, roadways and structures	152,178	63,531	88,647	89,966
Equipment and furnishings	34,174	24,241	9,933	9,625
Vehicles	9,478	7,561	1,917	730
	226,520	95,333	131,187	130,967
Capital works in progress	1,818	—	1,818	861
	228,338	95,333	133,005	131,828

Notes to Financial Statements ~ for the year ended October 31, 2006

3. Long-Term Financing

(In thousands of dollars)

	2006 \$	2005 \$
Fixed rate term loan requiring principal payments of \$1,000,000 per annum, bearing interest at 4.01% through to December, 2009	4,000	5,000
The Commission has an obligation under capital lease, bearing interest of nil, requiring one payment of \$ 81,363 to November, 2006, secured by equipment with a net book value of \$ 243,607	81	298
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of \$ 2,779 to March, 2007, secured by equipment with a net book value of \$ 58,722	13	44
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of \$ 875 to September, 2007, secured by equipment with a net book value of \$ 20,705	9	19
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of \$ 489 to October, 2009, secured by equipment with a net book value of \$ 14,171	14	—
	4,117	5,361
Less portion due within one year	1,109	1,339
	3,008	4,022

The principal payments of the long-term financing obligations are due in the following fiscal periods:

(In thousands of dollars)

	\$
2007	1,109
2008	1,006
2009	1,002
2010	1,000

4. Post-Employment Benefits

Defined Termination Benefit

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, 2006 is \$ 3,294,058 (2005 - \$ 3,115,931).

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, 2006 is \$ 3,359,635 (2005 - \$ 3,181,508). Since the actuarial loss is less than 10% of the actual obligation, no minimum amortization has been recorded for the year.

The Commission requires that an actuarial valuation of the post employment benefits be conducted every three years. Therefore, the next valuation required would be for the year ending October 31, 2007.

Notes to Financial Statements ~ for the year ended October 31, 2006

4. Post-Employment Benefits cont'd.

Defined Benefit Plan Information

(In thousands of dollars)

	2006	2005
	\$	\$
Employee benefit plan assets	—	—
Employee benefit plan liabilities	3,294	3,116
Employee benefit plan deficit	3,294	3,116
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	3,116	2,976
Expense for the year	376	345
Benefits paid during the year	(198)	(205)
Benefit obligation, end of year	3,294	3,116

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.

Pension 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 \$ 1,522,827 (2005 – \$ 1,404,290) and are 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.

5. Credit Facilities

The credit 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.

6. Commitments

The Commission is committed to spending approximately \$ 1,260,000 on capital projects in the next year.

7. 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.

Notes to Financial Statements ~ for the year ended October 31, 2006

8. Interest Expense

(In thousands of dollars)

	2006	2005
	\$	\$
Interest income	(135)	(64)
Loan interest expense	440	341
	305	277

9. Depreciation

(In thousands of dollars)

	2006	2005
	\$	\$
Depreciation of income producing assets	4,894	4,399
Depreciation of non-income producing assets	3,445	3,111
	8,339	7,510

10. Operating Leases

The Commission leases vehicles, equipment and premises under operating leases expiring in various years through 2010. The total obligation under operating leases amounts to approximately \$ 749,941.

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

(In thousands of dollars)

	\$
2007	305
2008	222
2009	143
2010	80

11. Statement of Cash Flows

Changes in working capital components include:

(In thousands of dollars)

	2006	2005
	\$	\$
Accounts receivable	(311)	204
Inventories	(1)	641
Prepaid expenses	49	75
Accounts payable and accrued payroll	(796)	2,368
	(1,059)	3,288

Acquisition of fixed assets

During the year, fixed assets were acquired at an aggregate cost of \$ 9,764,000 (2005 - \$ 10,352,000) of which \$ 17,000 (2005 - \$ 487,000) was acquired by means of capital leases. Cash payments of \$ 9,747,000 (2005 - \$ 9,865,000) were made to purchase fixed assets.

Notes to Financial Statements ~ for the year ended October 31, 2006

11. Statement of Cash Flows cont'd.

	<i>(In thousands of dollars)</i>	
	2006	2005
	\$	\$
Interest		
Interest received	135	64
Interest paid	398	170

12. Financial Instruments and Risk Management

Fair Value

The Commission's financial instruments include cash, accounts receivable, 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 is 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 has cash of \$ 1,151,987 that is denominated in US dollars. This account has been converted to the Canadian equivalent at the rate of \$ 1 US equals \$ 1.1270 Canadian. The Commission realizes approximately 14.4% (2005 - 17.3%) 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.

13. 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.

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 judgements.

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 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.

Signed by:

Dante Pontone
President and Chief Executive Officer

Signed by:

Brenda Baker
Vice President, Finance and Corporate Services



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

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, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed by:

Toronto, Ontario
March 16, 2007

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Balance Sheet - Assets

As at December 31, 2006

(in thousands of dollars)	2006	2005
Current assets:		
Cash and short-term investments	34,617	33,060
Accounts receivable, net		
Municipalities and other customers	22,318	20,433
Ministry of the Environment	60	162
Goods and services tax receivable	982	1,150
Prepaid expenses	3,390	3,125
Current portion of investments receivable:		
Water and wastewater facilities (note 3)	2,673	2,745
Facilities under construction (note 4)	1,241	3,297
	65,281	63,972
Non-current assets		
Investments receivable for water and wastewater facilities (note 3 and note 14b)	8,891	11,172
Loan receivable — Infrastructure Ontario (note 6)	120,000	120,000
Loan receivable — Top-up loan (note 5)	246	255
Note receivable — Stelco Inc. (note 7)	211	0
Fixed assets, net (note 8)	4,662	5,066
	134,010	136,493
Total Assets	199,291	200,465

See accompanying notes to financial statements

Balance Sheet - Liabilities and Equity

As at December 31, 2006

(in thousands of dollars)	2006	2005
Current liabilities:		
Accounts payable and accrued liabilities	16,248	20,349
Current portion of employee future benefits (note 11)	1,000	1,000
Provision for restructuring costs	172	261
	17,420	21,610
Long-term liabilities:		
Municipal contributions payable (note 10)	271	1,108
Employee future benefits (note 11)	7,014	6,537
	7,285	7,645
Equity of Ontario:		
Contributed surplus (note 13)	95,872	96,127
Retained earnings	78,714	75,083
	174,586	171,210
Contingencies (note 14)		
Total Liabilities and Equity	199,291	200,465

See accompanying notes to financial statements

On behalf of the Board

Signed by

Dante Pontone
Director

Signed by

Gadi Mayman
Director

Statement of Retained Earnings

As at December 31, 2006

(in thousands of dollars)	2006	2005
Utility Operations Revenues:		
Utility operations	110,098	104,241
Fees	2,710	1,791
Total Operating Revenues	112,808	106,032
Operating Expenses:		
Salaries and benefits (note 11 and note 12)	48,929	48,361
Other operating expenses	65,518	62,143
Amortization of fixed assets	1,673	1,739
Electronic Operating Systems (note 1c)	0	656
Total Operating Expenses	116,120	112,899
Net Loss — Utility Operations	(3,312)	(6,867)
Financing Revenues:		
Interest from investments, loans receivable and facilities under construction	7,115	7,164
Total Financing Revenues	7,115	7,164
Financing Expenses:		
New Tecumseth loan provision (note 14b)	0	18,579
Interest	30	26
Loan administration expenses	32	32
Amortization of fixed assets	60	60
Total Financing Expenses	122	18,697
Net Income (Loss) — Financing	6,993	(11,533)
Net Income (Loss) for the Year Before Property Transfer Initiative	3,681	(18,400)
Property Transfer Initiative (note 15)	(50)	(48)
Net Income (Loss) for the Year	3,631	(18,448)
Retained earnings, opening balance	75,083	93,531
Retained earnings, ending balance	78,714	75,083

See accompanying notes to financial statements

Statement of Cash Flows

As at December 31, 2006

(in thousands of dollars)	2006	2005
Cash provided by (used for)		
Operating activities:		
Net Income	3,631	(18,448)
Items not affecting cash:		
- Amortization of fixed assets	1,733	1,799
- New Tecumseth loan provision	0	18,579
	5,364	1,930
Changes in non-cash operating working capital		
- Accounts receivable	(1,615)	10,507
- Prepaid expenses	(265)	(485)
- Accounts payable and accrued liabilities	(4,101)	15
- Provision for restructuring costs	(89)	261
	(6,070)	10,298
Net cash flows from operating activities	(706)	12,228
Financing Activities:		
Decrease in investments receivable for water and wastewater facilities	2,353	3,571
Decrease in investments receivable for facilities under construction	2,056	5,225
Decrease in municipal contributions payable	(837)	(334)
Increase (decrease) in future employee benefits payable	477	(60)
Decrease in loan receivable - Top-up loan	9	50
Increase in note receivable	(211)	0
Changes in contributed surplus	(255)	(728)
Net cash flows from financing activities	3,592	7,724
Fixed assets - acquired	(1,329)	(858)
Increase in Cash	1,557	19,094
Cash and Short-Term Investments, Opening Balance	33,060	13,966
Cash and Short-Term Investments, Ending Balance	34,617	33,060

See accompanying notes to financial statements

Notes on Financial Statements

General

The Ontario Clean Water Agency ("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, encouraging conservation of water resources and supporting 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 short-term investments

Cash and short-term investments 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

(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, as 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 short-term investments, accounts receivable, accounts payable and accrued liabilities approximate 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.

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, they include 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 10.52%. Scheduled principal repayments of the investments are as follows:

(in thousands of dollars)	
2007	2,673
2008	1,333
2009	1,206
2010	881
2011	904
Thereafter	4,567
	11,564
Less: Current portion	2,673
	\$ 8,891

4. **Investments Receivable for Facilities Under Construction**

“Investments receivable for facilities under construction” represents new water and wastewater facilities or major capital improvements to existing facilities that have been undertaken by the Agency on behalf of its clients.

5. **Loan Receivable — Top-Up Loan**

The Agency made a loan to finance water and wastewater facilities to a municipality that received provincial assistance under the Municipal Assistance Program. The loan was made for 25 years at an interest rate of 8.85% set by the Province at the time the loan was granted and matures on December 15, 2020.

6. **Loan Receivable — Infrastructure Ontario**

The Agency has a loan of \$120 million with Infrastructure Ontario, an agency of the provincial government, 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 Canadian Dollar Offered Rate. The market value of the note approximates cost.

7. Note Receivable — Stelco Inc.

The Agency received a Secured Floating Rate Note from Stelco Inc. This note is in payment of a balance outstanding for services provided by the Agency. The note has a maturity date of March 31, 2016 and a value of \$183,000 United States Currency. The note was recorded by the Agency at a value of \$0.2 million Canadian Currency.

8. Fixed Assets

(in thousands of dollars)	Cost	Accumulated Amortization	Net December 31, 2006	Net December 31, 2005
Furniture and fixtures	1,788	1,417	371	484
Automotive equipment	166	131	35	49
Computer hardware	7,466	6,106	1,360	1,358
Computer software	4,345	3,417	928	462
Leasehold improvements	6,626	4,827	1,799	2,531
Machinery and equipment	558	389	169	182
	\$20,949	16,287	4,662	5,066

9. 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)	
2007	2,276
2008	1,892
2009	974
2010	381
2011	137
	\$ 5,660

10. Municipal Contribution Payable

At December 31, 2006, the Agency held funds on behalf of the municipalities amounting to \$0.3 million (2005—\$1.1 million). These funds are included in cash and short-term investments.

11. 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 at \$8.0 million (2005—\$7.5 million) of which \$1.0 million has been classified as current liability. The amount accrued in 2006 was \$1.4 million (2005—\$0.8 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 \$1.7 million (2005—\$1.1 million). 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, 2005.

It is management's opinion that the balance at December 31, 2006 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 the Ministry of Government Services and therefore is not included in the financial statements.

12. 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 \$2.3 million (2005—\$2.4 million) and is included in salaries and benefits in the Statement of Income and Retained Earnings.

13. Contributed Surplus

When the Agency was first established, 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 relate to repairs and maintenance, legal costs and the write off of provincial assistance advances that were agreed to prior to the establishment of the Agency. The funds committed for such repairs 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 \$5.6 million has been spent.

(in thousands of dollars)	December 31, 2006	December 31, 2005
Opening balance, January 1	\$ 96,127	\$ 96,855
Adjustments to opening balance	(255)	(728)
	\$ 95,872	\$ 96,127

14. Contingencies

(a) 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 \$5,000 to \$100,000, depending on when the event giving rise to 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. The Agency's insurers have denied coverage with respect to several related multi-million dollar lawsuits in which the Agency has been named as a defendant by the same plaintiff. These lawsuits are currently being held in abeyance and it is believed that the Agency's exposure is significantly less than the amounts claimed, although the exact amount of the Agency's exposure cannot be determined at this time. In the event the litigation proceeds, the Agency's exposure will need to be re-evaluated periodically.

(b) 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, which was completed in May 2000. The outstanding loan balance including accumulated interest was \$18.6 million at December 31, 2005. The loan agreement specified that repayment would be through sales of water, rather than according to a predetermined schedule. As of December 31, 2006, there have been no sales of water and accordingly no principal or interest payments have been made. Currently, the pipeline and the payments of the outstanding loan is the subject of ongoing discussions amongst various levels of government. Given the significant uncertainty regarding future water sales, in December 2005, the Agency provided for this loan in the full amount of \$18.6 million. Beginning January 1, 2006, the Agency stopped recognizing interest on the loan and will recognize that interest revenue when payment is received. At December 31, 2006, the outstanding loan balance including accumulated interest is \$19.9 million.

15. 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 substantially completed and \$4.7 million has been spent.

16. 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 \$2.3 million during 2006 from the Ministry of the Environment for water and wastewater treatment services OCWA provided. The services were provided at competitive rates similar to those of other OCWA clients.
- (b) The Agency provided a \$120 million loan to Infrastructure Ontario, as described in note 6.
- (c) The Agency relies on the Ministry of Government Services to process its payroll and administer its benefits. The Ministry of Government Services absorbs some of these administrative costs.
- (d) The Agency received revenue of \$0.7 million during 2006 from the Ontario Realty Corporation for water and wastewater treatment services OCWA provided. The services were provided at competitive rates similar to those of other OCWA clients.

17. 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 2006.

Name	Position	Salary Paid	Other Benefits
Atkinson, Daniel	Vice President, Operations	119,825.33	209.61
Baker, Brenda	Vice President, Finance and Corporate Services	116,779.69	205.69
Carter, John	Manager, Project Development & Tech. Services	117,212.73	199.17
Chin, Edward	Manager, Administration and Procurement	101,480.61	178.53
Dormer, Robert	Project Manager	105,268.30	175.59
Ethier, Marc	Regional Manager, Midwestern Region	100,497.73	177.30
Jenkins, Robert	Project Manager	105,237.56	144.85
Kempenaar, Gary	Regional Manager, Operational Efficiency & Innovation	103,649.77	176.78
Kind, Robin	General Counsel	195,595.24	302.83
Komulainen, Ilmari	Regional Manager, Eastern Region	107,315.14	177.30
Love, Steven	Legal Counsel	105,781.53	131.49
Pontone, Dante	President and Chief Executive Officer	146,892.04	256.16
Reid, Nicholas	Chief Information Officer	105,226.85	186.76
Rinas, Wilhelm	Legal Counsel	135,776.87	222.28
Seguire, John	Assistant Operations Manager	101,695.51	116.01
Terry, George	Vice President, Project Development & Tech. Services and Director, Market Development	106,894.00	182.26
Valickis, Andy	Project Manager	107,810.25	175.59
Williams, Gordon	Regional Manager, Northern Region	104,329.63	177.30



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 Chief Risk Officer, responsible for Internal Audit and Enterprise Risk Management, reports directly to the Audit and Risk Management 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.

Michelle DiEmanuele
Interim Chief Executive Officer

John Black
Chief Financial Officer

May 18, 2007

AUDITORS' REPORT

To the Board of Directors of the Ontario Lottery and Gaming Corporation and to the Minister of Public Infrastructure Renewal

We have audited the consolidated balance sheet of the Ontario Lottery and Gaming Corporation as at March 31, 2007 and the consolidated statement of income, cash flows, changes in Due to the Province of Ontario and equity in capital assets 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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 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, Licensed Public Accountants
Toronto, Canada
May 18, 2007



Chartered Accountants, Licensed Public Accountants
Sault Ste. Marie, Canada
May 18, 2007

Ontario Lottery and Gaming Corporation
Consolidated Balance Sheet

As at March 31, 2007, with comparative figures for 2006
(in thousands of dollars)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 408,076	\$ 320,818
Accounts receivable	78,699	48,641
Prepaid expenses and other	59,276	56,744
Current portion of loans receivable (Note 4)	7,482	7,904
	<u>553,533</u>	<u>434,107</u>
Restricted cash (Note 2)	122,400	282,851
Pre-opening and deferred expenditures (Note 3)	5,550	12,081
Loans receivable (Note 4)	49,760	51,833
Capital assets (Note 5)	2,412,353	2,293,833
Goodwill (Note 7)	1,776	-
Assets contributed to Chippewas of Mnjikaning (Note 8)	15,057	16,139
Cash and short-term investments held for First Nations (Note 9)	173,113	156,346
	<u>\$ 3,333,542</u>	<u>\$ 3,247,190</u>
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 384,338	\$ 328,691
Due to operators (Note 10)	50,754	48,871
Due to Chippewas of Mnjikaning (Note 10)	2,534	1,138
Due to Government of Canada (Note 18)	6,042	6,361
Deferred revenues	13,366	16,875
Current portion of long-term liabilities (Note 11)	176,974	263,952
	<u>634,008</u>	<u>665,888</u>
Due to First Nations (Note 9)	173,113	156,346
Long-term liabilities (Note 11)	214,747	378,511
Asset retirement obligation	1,165	1,081
Equity		
Due to Province of Ontario	167,174	161,459
Reserves (Note 2)	122,091	233,616
Equity in capital assets	2,021,244	1,650,289
	<u>2,310,509</u>	<u>2,045,364</u>
	<u>\$ 3,333,542</u>	<u>\$ 3,247,190</u>

Commitments (Notes 2, 4, 10 and 13)
Contingencies (Notes 10 and 14)
Subsequent event (Note 10e)

See accompanying notes to consolidated financial statements.

On behalf of the Board



Michael Gough, Chair



Marlene McGraw, Director

Ontario Lottery and Gaming Corporation**Consolidated Statement of Income**

Year ended March 31, 2007, with comparative figures for 2006
(in thousands of dollars)

	2007	2006
Revenues		
Lotteries and bingo	\$ 2,655,607	\$ 2,432,673
Resort casinos	1,463,676	1,666,851
Casinos and slots at racetracks	1,965,510	1,924,225
	6,084,793	6,023,749
Operating expenses		
Lotteries and bingo	1,919,744	1,699,428
Resort casinos	1,489,268	1,562,424
Casinos and slots at racetracks	1,043,755	1,019,000
	4,452,767	4,280,852
Income before the undernoted	1,632,026	1,742,897
Interest and other income	46,175	42,795
Interest on long-term debt	-26,864	-33,905
Foreign exchange gain	16,784	20,012
Net income	\$ 1,668,121	\$ 1,771,799

Segmented information (Note 15)

See accompanying notes to consolidated financial statements.

Ontario Lottery and Gaming Corporation**Consolidated Statement of Cash Flows**

Year ended March 31, 2007, with comparative figures for 2006

(in thousands of dollars)

	2007	2006
Cash derived from (used in):		
Operations		
Net income	\$ 1,668,121	\$ 1,771,799
Amortization of capital assets	230,333	208,803
Amortization of non-capital assets	8,098	9,496
Accretion expense	84	71
Loss on disposal of capital assets	10,559	7,728
Change in non-cash working capital:		
Accounts receivable	(30,058)	(6,491)
Prepaid expenses and other	(2,532)	5,153
Accounts payable and accrued liabilities	55,647	50,098
Due to operators	1,883	3,247
Due to Chippewas of Mnjikaning	1,396	(260)
Due to Government of Canada	(320)	(3,294)
Deferred revenues	(3,509)	(1,165)
Net cash from operations	1,939,702	2,045,185
Financing		
Increase in long-term liabilities	-	7,752
Repayments of long-term liabilities	(250,742)	(176,650)
Net cash used in financing activities	(250,742)	(168,898)
Investing		
Due from Falls Management Company	-	3,665
Pre-opening and deferred expenditures	(486)	(3,660)
Issuance of loans receivable	(7,555)	(22,043)
Repayment of loans receivable	10,051	7,585
Capital expenditures	(362,062)	(277,618)
Proceeds on disposal of capital assets	3,374	3,695
Business acquisition (Note 7)	(2,500)	-
Decrease (increase) in restricted cash	160,451	(9,980)
Net cash used in investing activities	(198,727)	(298,356)
Other		
Payments to Province of Ontario	(1,362,566)	(1,486,408)
Distributions to First Nations	(46,044)	(100,820)
Decrease (increase) in due to First Nations	5,635	(314)
Net cash used in other activities	(1,402,975)	(1,587,542)
Increase (decrease) in cash and cash equivalents	87,258	(9,611)
Cash and cash equivalents, beginning of year	320,818	330,429
Cash and cash equivalents, end of year	\$ 408,076	\$ 320,818
Supplemental disclosure of cash flow information:		
Cash interest received	\$ 19,042	\$ 13,336
Cash paid for interest	25,847	34,390

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, 2007, with comparative figures for 2006

(in thousands of dollars)

	2007	2006
Net income	\$ 1,668,121	\$ 1,771,799
Add (deduct)		
Capital expenditures, net	(348,130)	(266,195)
Amortization of capital assets	230,333	208,803
Business acquisition	(2,500)	-
Accretion expense	84	71
Repayments of long-term liabilities	(250,742)	(176,650)
Increase in long-term liabilities	-	7,752
Distributions to First Nations	(40,409)	(101,134)
Transfers from (to) reserves, net	111,524	(14,782)
	(299,840)	(342,135)
Current year amount due	1,368,281	1,429,664
Payments to Province of Ontario	(1,362,566)	(1,486,408)
Amount due less payments	5,715	(56,744)
Due to Province of Ontario, beginning of year	161,459	218,203
Due to Province of Ontario, end of year	\$ 167,174	\$ 161,459

See accompanying notes to consolidated financial statements.

Consolidated Statement of Equity in Capital Assets

Year ended March 31, 2007, with comparative figures for 2006

(in thousands of dollars)

	2007	2006
Balance, beginning of year	\$ 1,650,289	\$ 1,424,070
Capital expenditures, net	348,130	266,195
Amortization of capital assets	(230,333)	(208,803)
Business acquisition	2,500	-
Accretion expense	(84)	(71)
Repayments of long-term liabilities	250,742	176,650
Increase in long-term liabilities	-	(7,752)
Balance, end of year	\$ 2,021,244	\$ 1,650,289

See accompanying notes to consolidated financial statements.

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(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, seventeen slot operations at racetracks and four resort casinos in the Province of Ontario.

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

The assets, liabilities and operations of the Great Blue Heron Charity Casino Slot Machine Facility are included in these consolidated financial statements. The operating results are included with the results of the casinos and slots at racetracks. These consolidated 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 subsidiary.

In addition, the consolidated financial statements combine the financial position and results of operations of the resort 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 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.

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 slots at racetracks 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.

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

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. As at March 31, 2007, cash and cash equivalents include bank term deposits amounting to \$78,700,000 (2006 – \$32,900,000) at an interest rate of 4.1 to 4.2 per cent (2006 – 3.6 to 3.7 per cent).

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 15 years
Lottery gaming assets	3 to 7 years
Casino and racetrack slot operations gaming assets	2 to 10 years

Capital assets are amortized when put into use.

Construction in progress and assets not in use are stated at cost. Costs will be amortized commencing upon completion of the related project.

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 consolidated 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.

As at March 31, 2007 and March 31, 2006, no impairments in the carrying value of these assets existed, except as disclosed in Note 6.

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

h) Asset retirement obligations

The Corporation records the fair value of an asset retirement obligation as a liability in the year in which it is incurred and can be reasonably estimated. This liability is 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. The Corporation has recognized a discounted liability associated with obligations arising from provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. The adjustment to leasehold improvements in respect of asset retirement costs is amortized into income on a straight-line basis over the remaining life of the leases.

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.

For the year ended March 31, 2007, the Corporation recorded amortization expense of \$227,000 (2006 - \$226,000) in the consolidated statement of income. The Corporation recorded a liability of \$1,165,000 (2006 - \$1,081,000) for the estimated present value of the costs of retiring leasehold improvements at the maturity of the leases and recorded deferred asset retirement costs of \$564,000 (2006 - \$784,000).

The gross amount of the obligation is \$1,299,000 (2006 - \$1,285,000), which is expected to be paid out in two to nine years. The credit adjusted risk-free rate is 7 per cent. The accretion expense for the year was \$84,000 (2006 - \$71,000).

i) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Corporation enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but instead is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any. As at March 31, 2007, no impairment in the carrying value of this asset existed.

j) 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.

k) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

the year-end exchange rates. Non-monetary assets and liabilities are translated at historical 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.

l) 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 11). 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 Corporation believes 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.

Interest rate swap agreements are used as part of the Corporation's program to manage the fixed and floating interest rate mix of the Corporation's total debt portfolio and related overall cost of borrowing. The interest rate swap agreement involves the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and is recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from the counterparties is included as an adjustment to accrued interest. The fair value represents the amount that would be paid to terminate or replace the contracts.

Gains and losses on terminations of interest rate swap agreements are deferred on the consolidated balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event 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.

m) 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 consolidated financial statements.

n) Use of estimates

The preparation of consolidated financial statements requires the Corporation 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 consolidated financial statements and the reported amounts of revenue and expenses for the year. Significant estimates are used in determining, but are not limited to, the valuation of markers receivable, valuation of loans receivable, the useful lives of all depreciable assets, the recoverability of capital assets and goodwill, unclaimed prize liability, asset retirement obligations, the players club point provision and the outstanding chip, ticket and token liability. Actual results could differ from those estimates.

o) Non-monetary transactions

CICA (Canadian Institute of Chartered Accountants) Handbook Section 3831, Non-monetary Transactions, requires that an asset exchanged or transferred in a non-monetary transaction must be measured at its fair value, except when: the transaction lacks commercial substance; the transaction is an exchange of a product or property to be sold in the same line of business to facilitate sales to customers other than the

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

parties to the exchange; neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; or the transaction is a non-monetary non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation. In these cases, the transaction must be measured at the carrying value. As at March 31, 2007, the Corporation does not have any non-monetary transactions.

p) Recent Canadian accounting pronouncements

Accounting changes:

In 2006, the CICA issued Handbook Section 1506, Accounting Changes ("CICA 1506"). CICA 1506 prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. This new standard, to be adopted on April 1, 2007, is not expected to have a material impact on the Corporation's consolidated financial statements.

Financial instruments:

In 2005, the CICA issued Handbook Section 3855, Financial Instruments – Recognition and Measurement, Handbook Section 1530, Comprehensive Income, Handbook Section 3251, Equity, and Handbook Section 3865, Hedges. The new standards are effective for the Corporation's consolidated financial statements commencing April 1, 2007.

The new standards will have the following principal impacts on the Fiscal 2008 consolidated financial statements:

All financial assets will be classified as available-for-sale, loans and receivables or held-to-maturity investments. Available-for-sale investments will be carried at fair value on the consolidated balance sheet, with changes in fair value recorded in other comprehensive income/loss. Loans and receivables, held-to-maturity investments and all financial liabilities will be carried at amortized cost. No financial assets or liabilities will be classified as held-for-trading. The Corporation continues to assess the impact this will have on the Corporation's consolidated balance sheet, including the opening accumulated other comprehensive income/loss.

All derivatives, including embedded derivatives that must be separately accounted for, will be measured at fair value with changes in fair value recorded in the consolidated statement of income. The impact of re-measuring hedging derivatives at fair value at April 1, 2007 will be recognized in opening undistributed earnings and opening accumulated other comprehensive income/loss.

Other comprehensive income/loss will form part of equity. A new statement entitled "Statement of Comprehensive Income/Loss" will be added to the consolidated financial statements and will include net income as well as other comprehensive income/loss.

Capital disclosures:

In 2006, the CICA issued Handbook Section 1535, Capital Disclosures ("CICA 1535"). CICA 1535 requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital inducing disclosures of any externally imposed capital requirements and the consequences for non-compliance. The new standard will be effective for the Corporation commencing April 1, 2008.

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

2. Restricted cash

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

The Corporation has established cash reserves at the resort casinos in accordance with their respective operating agreements, or other terms as otherwise agreed to, 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 the termination or layoff of employees of an operator in connection with the termination of an operator

	2007	2006
Reserves		
Capital renewals	\$65,348	\$122,380
Operating	23,729	81,506
Severance	33,014	29,730
	122,091	233,616
Less unrestricted capital renewals	36,827	-
	85,264	233,616
Prize funds on deposit	28,602	31,961
Term loan proceeds	8,534	17,274
	\$122,400	\$282,851

The unrestricted capital renewal funds represent funds at Casino Windsor that will be utilized in current operations during fiscal 2008, in accordance with the terms of the operating agreement.

On March 30, 2007, capital renewal reserve funds of \$34,864,000 and operating reserve funds of \$41,265,000 were utilized to repay long term debt (Note 11).

In fiscal 2008, the Corporation has committed to transferring cash of \$95 million and \$14 million to Casino Windsor's operating and capital reserves, respectively, to replenish the reserve accounts to the balances specified by the terms of the operating agreement.

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 consumers.

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

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

3. Pre-opening and deferred expenditures

			2007	2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Pre-opening expenditures				
Resort casinos	\$19,015	\$17,853	\$1,162	\$3,909
Casinos and slots at racetracks	6,813	4,027	2,786	4,699
	25,828	21,880	3,948	8,608
Deferred expenditures	25,699	24,097	1,602	3,473
	\$51,527	\$45,977	\$5,550	\$12,081

4. Loans receivable

	2007	2006
Loans receivable	\$60,442	\$63,637
Less provision for loans receivable	3,200	3,900
	57,242	59,737
Less current portion of loans receivable	7,482	7,904
	\$49,760	\$51,833

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 Royal Bank of Canada's prime rate and are repayable over periods ranging from one to fifteen 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.

During 2006 funds were advanced to a racetrack operator for which the repayment is conditional upon obtaining government approval for the expansion of this property. The borrower's requirement to repay the conditional loan is dependant upon the Corporation providing written notice, within five years of the date of opening of the site (i.e. by March 2011), that an expansion will proceed. As at March 31, 2007 \$14,092,000 had been advanced and has been included in loans receivable based on the Corporation's assessment that governmental approval will be obtained and written notice will be provided to the borrower.

The Corporation's maximum remaining commitment as at March 31, 2007 is \$1,908,000 to one racetrack operator which relates to the conditional loan referred to in the preceding paragraph and \$536,000 to one municipality.

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

5. Capital assets

			2007	2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$137,008	\$ —	\$137,008	\$139,235
Buildings	1,462,548	157,056	1,305,492	1,286,305
Furniture and fixtures	621,360	426,941	194,419	202,872
Leasehold improvements	562,972	287,519	275,453	302,461
Lottery gaming assets	163,266	103,787	59,479	82,527
Casino and racetrack slot operation gaming assets	583,835	331,819	252,016	223,583
Construction in progress and assets not in use	188,486	—	188,486	56,850
	\$3,719,475	\$1,307,122	\$2,412,353	\$2,293,833

Amortization for the year was \$230,106,000 (2006 – \$208,577,000).

6. Asset Impairment Charges

As a result of the review of carrying values, as compared to undiscounted future net cash flows, as set out in Note 1g to the consolidated financial statements, the Corporation has recorded an impairment charge of \$1,320,000 (2006 - nil) for certain Bingo revitalization pilot assets. Future cash flows are based on the Corporation's estimate of the operating results of these sites. The charge is included in General and Administration expenses in Note 15 to the consolidated financial statements.

7. Business Acquisition

On March 30, 2007 the Corporation acquired certain assets of a restaurant for cash consideration of \$2,500,000. The acquisition was accounted for as the acquisition of a business using the purchase method. The purchase price was allocated to the assets acquired, comprised of capital assets of \$724,000, based on their relative fair values at the date of acquisition with the residual of \$1,776,000 allocated to goodwill of the resort casinos.

8. Assets contributed to Chippewas of Mnjikaning

			2007	2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Assets contributed to Chippewas of Mnjikaning	\$32,337	\$17,280	\$15,057	\$16,139

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

	2007	2006
Segregated bank account, beginning of year	\$150,077	\$110,821
Distributions to the segregated bank account during the year	16,250	35,620
Interest earned during the year	6,786	3,636
Segregated bank account, end of year	173,113	150,077
Current distribution due to First Nations	-	6,269
	\$173,113	\$156,346

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(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, 2007, 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 2006 is included above as a current distribution due to First Nations. Under the terms of the Casino Rama operating agreement, cash in fiscal 2007 was utilized to repay the Casino Rama debt (Note 11).

10. Related party transactions

- a) Under the terms of the development and operating agreements for each of the resort 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. The operators of the casinos are as follows: Casino Niagara and Fallsview - Falls Management Group, L.P., the general partner of which is Falls Management Company (owned by Niagara Casino Group, L.P., Highland Gaming, Inc., Shiplake Gaming Corporation, Olympic V, Inc. and 3048505 Nova Scotia Company and the sole limited partner of which is Falls Entertainment Corporation; Casino Rama - CHC Casinos Canada Limited, an indirectly wholly owned subsidiary of Penn National Gaming, Inc.); the Great Blue Heron Slot Machine Facility - Great Blue Heron Gaming Company; and Casino Windsor - Windsor Casino Limited (WCL), which is owned equally by Harrah's Entertainment, Inc. and Hilton Hotels Corporation, in each case through wholly-owned subsidiaries.

On December 14, 2006, the Corporation entered into a new operating agreement with Caesars Entertainment Windsor Holding, Inc. (CEWH), one of the shareholders of WCL. Under the terms of the new operating agreement, commencing on the expiry or termination of the current operating agreement, CEWH will succeed WCL as the operator of Casino Windsor until July 31, 2020, subject to earlier termination of the new operating agreement by the Corporation or CEWH upon the occurrence of certain events. The terms of the new operating agreement are substantially similar to those contained in the current operating agreement.

At each of the resort casinos, the operator is the employer of the employees working at that commercial casino. All payroll and payroll-related costs are charged to the Corporation on a monthly basis, and are expensed in the Corporation's consolidated statement of income.

- 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 the provision of ongoing operating services. During the year, \$5,514,000 (2006 - \$5,392,000) was expensed. Other Chippewas of Mnjikaning charges amounting to \$7,429,000 (2006 - \$6,326,000) were also incurred during the year in connection with snow removal, water, sewer and emergency services. In addition, under the terms of a five-year lease renewal ending July 2011, for the rental of office space, \$659,000 (2006 - \$594,000) 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

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006

(tabular amounts in thousands of dollars)

company related to the Chippewas of Mnjikaning. During the year, \$334,000 was expensed (2006 – \$325,000).

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 noted above and is defined in the agreement for the period 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, \$4,309,000 (2006 – \$4,211,000) was expensed.

The terms of various agreements provide for the designation and leasing of Additional Parking Lands, as defined, by the Chippewas of Mnjikaning to Casino Rama with an annual rent payable of approximately \$1,700,000, adjusted for inflation. While the designation and leases are not yet complete, the lands are permitted and currently in use at Casino Rama. During the year, \$1,932,000 (2006 – \$1,890,000) was expensed.

In May 2006, the Corporation entered into a Letter of Agreement regarding a new eight-month trial process governing the management and administration of leasehold improvement projects at Casino Rama, which require building permits in order to effect and expedite improvements, renovations and repairs at the casino. The Letter of Agreement was finalized in January 2007. Under the terms of this Letter of Agreement, the Chippewas of Mnjikaning contract directly with the contractors selected by the Corporation. During the year, \$3,369,000 was paid to the Chippewas of Mnjikaning under this Letter of Agreement for the acquisition of leasehold improvements.

- c) Under the terms of the development and operating agreement, the Mississaugas of Scugog Island First Nation receive an amount equal to five 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, \$4,836,000 (2006 – \$6,279,000) was paid to the Mississaugas of Scugog Island First Nation.
- d) Under the terms of the Niagara Falls Permanent Casino Operating Agreement, in a Competitive Environment, as defined, the Operator is entitled to receive additional Operator services fees and an Attractor fee. The Attractor fee is calculated, as defined, to allow for the amortization of the total capital contributions of the Operator to external attractors, to a maximum contribution of \$30,000,000. As at March 31, 2007, the Operator's fees, due to the Operator, included an Attractor fee accrual of \$8,289,000 (2006 – \$8,506,000).
- e) Casino Rama is located on reserve lands of the Chippewas of Mnjikaning First Nation under the authority 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 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, as well as the proceeds from the disposition of the moveable assets, as defined, and remaining undistributed earnings upon the dissolution or wind up of Casino Rama.

On March, 15, 2006, Her Majesty the Queen in Right of Ontario, the Corporation and the Ontario First Nations Limited Partnership (OFNLP) entered into a Gaming and Revenue Sharing Agreement-in-Principle (the Agreement). The Agreement is a non-binding agreement and includes financial commitments to be

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

executed if Formal (binding) Agreements were executed and delivered by all parties on or before December 31, 2006 and all other terms and conditions in the Agreement were executed. On December 21, 2006 an extension of the Agreement was signed, extending the deadline for completion of Formal Agreements from December 31, 2006 to March 30, 2007 and on March 30, 2007 a further extension was agreed to with a revised deadline of June 29, 2007 to finalize Formal Agreements, for OFNLP ratification, and completion of all terms and conditions of the Closing Agreement. The OFNLP ratification vote took place on June 18, 2007. The OFNLP did not ratify the Formal Agreements and the negotiations are now concluded.

11. Long-term liabilities

	2007	2006
Casino Rama non-revolving term loan	\$ -	\$107,215
Niagara Fallsview Casino Resort loan	391,721	535,248
	391,721	642,463
Less current portion	176,974	263,952
	\$214,747	\$378,511

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 provided for an \$186,560,000 non-revolving term credit facility for the project. The credit facility was fully repaid on March 30, 2007 using funds in the capital renewal reserve, the operating reserve, and the Corporation's operating bank accounts. Interest for the period paid on the credit facility amounted to \$6,906,000 (2006 - \$7,798,000).

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, 2007, amounted to \$62,550,000 (2006 - \$75,718,000). 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 2.3 per cent at March 31, 2007. The net interest rate receivable or payable under the contract is settled quarterly with the counter party, which is a Canadian chartered bank. On March 30, 2007 the interest rate swap was settled, resulting in a payment of \$375,000 representing the fair value at that date. The Corporation recorded the payment as interest expense in the consolidated statement of income.

b) Niagara Fallsview Casino Resort

In June 2004, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario, a related party) 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 principal loan repayments expected to be made over the next three years are approximately:

2008	\$176,974
2009	170,867
2010	43,880

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

12. Financial Instruments

a) Financial Instruments

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, due from/to Government of Canada, restricted cash, 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, net of the allowance for loan losses, approximates carrying value 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.

b) Concentration of Credit Risk

The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of cash and 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 resort 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, which when realized have been within the range of the Corporation's expectations.

13. Commitments

a) Obligations under operating leases

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

2008	\$21,488
2009	16,506
2010	15,241
2011	10,264
2012	4,851
	68,350
Thereafter	7,216
	<u>\$75,566</u>

b) Suppliers

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

2008	\$13,397
2009	11,108
2010	11,011
2011	10,719
2012	10,089
	56,324
Thereafter	12,500
	<u>\$68,824</u>

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

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.

The Corporation is committed to a redevelopment project at Casino Windsor with a total cost not to exceed \$400,000,000. As at March 31, 2007, \$204,412,000 (2006 - \$74,232,000) has been expended. In December 2006, the Corporation entered into a trademark licence agreement with Caesars World, Inc. (Caesars), a wholly-owned indirect subsidiary of Harrah's. Under the terms of the trademark licence agreement, Casino Windsor will be re-branded as Caesars Windsor upon the completion of construction relating to the project. The Caesars trademark licence agreement will terminate on July 31, 2020 or on such earlier date as Caesars, or its subsidiary, ceases to be the operator of the Windsor casino complex. Caesars will be paid a licence fee that will be calculated as a percentage of revenue and operating results, as defined, for the Windsor casino complex. Along with the Caesars re-branding, upon the receipt of all regulatory approvals, the Windsor casino complex will introduce several new customer service and marketing programs, including Harrah's Total Rewards customer loyalty program.

The Corporation is committed to the design, construction and commissioning of an energy centre on Casino Windsor property with a total cost not to exceed \$50,000,000. As at March 31, 2007, \$11,899,000 (2006 - nil) has been expended.

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.

14. 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 judgment plus damages in the amount of \$300,000,000. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated 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 consolidated financial statements.

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006

(tabular amounts in thousands of dollars)

- c) The Corporation has signed four Bingo Centre Service Provider Agreements (Service Providers) for Bingo Revitalization Project pilot site operations in Barrie, Peterborough, Kingston, and Sudbury, Ontario. The contracts provide that, in the event of notification of termination of the Bingo Revitalization Project pilot by the Corporation, or if the Service Providers and the Corporation mutually agree to not renew or extend the Agreement, the Corporation will be required to pay the Service Providers an amount not to exceed \$3,013,000 in respect of the Service Providers' capital investments in the Bingo Centres. No events have taken place to indicate that the pilot sites will not continue, and as such, no amounts have been accrued in these consolidated financial statements.
- d) Subsequent to year end, the Corporation and the Interprovincial Lottery Corporation were served with a statement of claim, related to a class action for general damages of \$1 billion and punitive damages of \$1 billion. The statement of claim alleges the Corporation was negligent in the operation and management of its lottery business and that it breached fiduciary and other duties. The action is at a very early stage and the Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.
- e) 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 consolidated financial statements. Estimates, where appropriate, have been included in these consolidated 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, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

15. Segmented information

2007	Lotteries & Bingo	Resort Casinos	Casinos & Slots at Racetracks	Total
Revenues				
Lotteries & bingo	\$2,655,607	\$ —	\$ —	\$2,655,607
Slots	—	1,062,784	1,956,998	3,019,782
Tables	—	426,094	55,437	481,531
Non-gaming	—	240,684	28,593	269,277
	2,655,607	1,729,562	2,041,028	6,426,197
Less promotional allowances	—	265,886	75,518	341,404
	2,655,607	1,463,676	1,965,510	6,084,793
Operating expenses				
Non-gaming	—	224,678	30,872	255,550
Gaming and lottery operations	101,858	325,913	283,393	711,164
Lottery prizes	1,444,145	—	—	1,444,145
Commissions	192,670	—	392,924	585,594
Marketing and promotion	51,998	143,980	72,894	268,872
Operators' fees (Note 10a)	—	64,500	5,404	69,904
Amortization	30,449	136,669	71,312	238,430
General and administration (Note 6)	34,374	108,973	64,341	207,688
Facilities	7,692	145,408	74,416	227,516
Win contribution (Note 17)	—	297,663	19,266	316,929
Payments to Government of Canada (Note 18)	56,558	41,484	28,933	126,975
	1,919,744	1,489,268	1,043,755	4,452,767
Income before the undernoted	735,863	(25,592)	921,755	1,632,026
Interest and other income	5,175	22,795	18,205	46,175
Interest on long-term debt	—	(26,864)	—	(26,864)
Foreign exchange gain	3	13,361	3,420	16,784
	5,178	9,292	21,625	36,095
Net income (loss)	\$741,041	(\$16,300)	\$943,380	\$1,668,121
2006	Lotteries & Bingo	Resort Casinos	Casinos & Slots at Racetracks	Total
Revenues				
Lotteries & bingo	\$2,432,673	\$ —	\$ —	\$ 2,432,673
Slots	—	1,246,365	1,907,369	3,153,734
Tables	—	443,816	59,734	503,550
Non-gaming	—	239,566	30,077	269,643
	2,432,673	1,929,747	1,997,180	6,359,600
Less promotional allowances	—	262,896	72,955	335,851
	2,432,673	1,666,851	1,924,225	6,023,749
Operating expenses				
Non-gaming	—	217,780	32,215	249,995
Gaming and lottery operations	96,170	345,896	283,400	725,466
Lottery prizes	1,259,652	—	—	1,259,652
Commissions	171,494	—	373,136	544,630
Marketing and promotion	48,383	144,823	72,009	265,215
Operators' fees (Note 10a)	—	86,311	7,298	93,609
Amortization	25,395	129,946	62,958	218,299
General and administration (Note 6)	33,295	104,573	60,016	197,884
Facilities	7,609	150,668	69,307	227,584
Win contribution (Note 17)	—	338,048	25,048	363,096
Payments to Government of Canada (Note 18)	57,430	44,379	33,613	135,422
	1,699,428	1,562,424	1,019,000	4,280,852
Income before the undernoted	733,245	104,427	905,225	1,742,897
Interest and other income	3,346	22,181	17,268	42,795
Interest on long-term debt	—	(33,905)	—	(33,905)
Foreign exchange gain	8	15,840	4,164	20,012
	3,354	4,116	21,432	28,902
Net income	\$ 736,599	\$ 108,543	\$ 926,657	\$ 1,771,799

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2007, with comparative figures for 2006
(tabular amounts in thousands of dollars)

16. Post employment plans

The Corporation contributes 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 in 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 \$17,019,000 (2006 – \$16,795,000).

The operators of the resort casinos have created defined contribution pension plans for their employees. The pension expense for the year amounted to \$22,436,000 (2006 – \$22,589,000).

17. Win contribution

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

18. Payments to Government of Canada

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

	2007	2006
Payments on behalf of the Province of Ontario	\$24,748	\$24,436
Goods and Services Tax	102,227	110,986
	\$126,975	\$135,422

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 percent (12 percent effective July 1, 2006) 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.

19. Comparative amounts

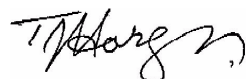
Certain prior year amounts have been reclassified to conform with current year consolidated financial statement presentation.

Ontario Northland Transportation Commission Management's Responsibility

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 financial 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 Auditor General of Ontario, whose report follows.



T. Hargreaves
Chair



S. Carmichael
President and CEO

North Bay, Ontario
May 31, 2007



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

Auditor's 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 March 31, 2007 and the consolidated statements of investment by the 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 March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15^e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

www.auditor.on.ca

Toronto, Ontario
May 31, 2007

Jim McCarter, CA
Auditor General
Licensed Public Accountant

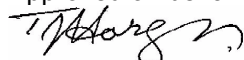
Ontario Northland Transportation Commission

Consolidated Balance Sheet

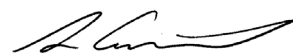
(dollars in thousands)

	March 31 2007	March 31 2006
Assets		
Current		
Cash and cash equivalents	\$ -	\$ 1,340
Accounts receivable (Net of allowance - \$1,452; 2006 - \$1,282)	17,831	20,854
Inventory	18,876	18,614
Prepaid expenses	1,219	1,098
	37,926	41,906
Development costs (Note 1)	5,649	6,095
Self-Insurance Fund (Note 2)		
- Market value \$ 6,294; (2006 - \$6,004)	6,294	6,004
Investment in property, plant and equipment (Schedule 1)	261,425	266,058
Accrued pension benefit asset (Note 4)	74,343	77,278
	\$ 385,637	\$ 397,341
Liabilities and Province of Ontario Equity		
Current		
Bank Indebtedness	\$ 505	\$ -
Operating line of credit (Note 3)	15,000	15,000
Accounts payable and accrued liabilities	29,419	31,799
Current portion of long-term debt (Note 5a)	4,509	4,308
Current portion of capital lease obligations (Note 5b)	276	1,574
Current portion of deferred revenue	2,726	3,101
	52,435	55,782
Deferred revenue (Note 6)	2,939	5,120
Provision for Self-Insurance (Note 2)	6,294	6,004
Long-term debt (Note 5a)	27,769	30,540
Capital lease obligations (Note 5b)	292	523
Accrued Non-Pension Benefit Obligation (Note 4)	57,969	56,369
	147,698	154,338
Contingencies (Note 10) / Commitments (Note 11)		
Province of Ontario Equity		
Investment by the Province of Ontario	109,583	103,979
Retained earnings	128,356	139,024
	237,939	243,003
	\$ 385,637	\$ 397,341

Approved on behalf of the Commission:



Chair



President and CEO

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

	year ended March 31, 2007	15-month period ended March 31, 2006
Balance, beginning of period		
Net investment in property, plant and equipment	\$ 34,753	\$ 24,447
Net investment other than share capital	<u>69,226</u>	<u>48,949</u>
	<u>103,979</u>	<u>73,396</u>
Net changes during the period		
One-time investment from Province of Ontario (Note 13)	-	20,277
Contributions from Province of Ontario	7,397	11,911
Retirements	-	(102)
Amortization	<u>(1,793)</u>	<u>(1,503)</u>
	<u>5,604</u>	<u>30,583</u>
Balance, end of period		
Net investment in property, plant and equipment	40,357	34,753
Net investment other than share capital	<u>69,226</u>	<u>69,226</u>
	<u>\$ 109,583</u>	<u>\$ 103,979</u>

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

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

	year ended March 31, 2007	15-month period ended March 31, 2006
Revenues (Schedule 2)	\$ 144,471	\$ 167,336
Expenses (Schedule 2)	133,534	157,408
Income from operations, before other revenues and expenses	10,937	9,928
Other revenues and expenses		
Amortization (Schedule 2)	12,916	16,904
Pension/non-pension expense (Schedule 2 and Note 4)	6,654	6,042
Interest expense (Schedule 2)	2,699	2,448
Investment and other income	(9)	(17)
Gain on sale of property, plant and equipment (Schedule 2)	(655)	(168)
Net expenses	21,605	25,209
Net loss for the period	(10,668)	(15,281)
Retained earnings, beginning of period	139,024	154,305
Retained earnings, end of period	\$ 128,356	\$ 139,024

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

Ontario Northland Transportation Commission

Consolidated Statement of Cash Flows

(dollars in thousands)

	year ended March 31, 2007	15-month period ended March 31, 2006
Cash provided by (used in)		
Operating activities		
Loss	\$ (10,668)	\$ (15,281)
Items not affecting cash		
Amortization (Schedule 2)	12,916	16,904
Gain on disposal of property, plant and equipment	(655)	(168)
Development costs	446	-
Deferred revenue	(2,181)	-
Pension/non-pension expense (Note 4)	6,654	6,042
	<u>6,512</u>	<u>7,497</u>
Changes in non-cash working capital balances		
Accounts receivable	3,023	(1,078)
Inventory	(262)	(6,127)
Prepaid expenses	(121)	(98)
Accounts payable and accrued liabilities	(2,380)	2,136
Deferred revenue	(375)	1,866
	<u>6,397</u>	<u>4,196</u>
Investing activities		
Investment in property, plant and equipment	(12,347)	(23,939)
Proceeds from sale of property, plant and equipment	1,711	622
Development costs	-	(5,520)
Decrease in other assets	(180)	(181)
	<u>(10,816)</u>	<u>(29,018)</u>
Financing activities		
Bank Indebtedness	505	-
Long-term debt (Note 5a)	(2,570)	4,997
Capital lease obligations (Note 5b)	(314)	(305)
Contributions from the Province of Ontario	7,397	32,188
Operating line of credit	-	(12,000)
Deferred revenue	-	2,227
Other liabilities	(1,939)	(1,955)
	<u>3,079</u>	<u>25,152</u>
Change in cash and cash equivalents during the period	(1,340)	330
Cash and cash equivalents, beginning of period	1,340	1,010
Cash and cash equivalents, end of period	\$ -	\$ 1,340
Supplemental disclosure of cash flow information:		
Interest paid during the period and included in net loss	\$ 2,699	\$ 2,566

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

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

March 31, 2007 March 31, 2006

	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Rail Services				
Roadway	\$ 240,986	\$ 96,823	\$ 144,163	\$ 144,149
Buildings	39,629	15,650	23,979	23,767
Equipment	73,462	43,002	30,460	31,536
Equipment under capital lease	1,022	45	977	938
Under construction	4,336	-	4,336	1,971
Telecommunications (Ontera)				
Equipment	143,851	101,624	42,227	39,459
Buildings	5,750	3,819	1,931	2,024
Under construction	303	-	303	6,509
Motor Coach Services				
Coaches	9,958	4,971	4,987	6,949
Buildings	2,696	47	2,649	110
Under construction	-	-	-	2,443
Refurbishment				
Equipment	547	28	519	535
Buildings	3,305	150	3,155	3,240
Marine Services (Moosonee)				
Vessels	385	337	48	58
Under construction	42	-	42	35
Development				
Land and buildings	2,851	1,202	1,649	1,685
Land held for resale	-	-	-	650
	\$ 529,123	\$ 267,698	\$ 261,425	\$ 266,058

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

Ontario Northland Transportation Commission

Consolidated Schedule of Operating Revenues and Expenses

Schedule 2

(dollars in thousands)

	year ended March 31, 2007	15-month period ended March 31, 2006
Rail Services		
Sales revenue (Notes 9 and 15)	\$ 72,737	\$ 88,690
Government reimbursement (Note 7)	18,551	23,771
Operating revenue	91,288	112,461
Operating expense	76,048	97,317
Operating income	15,240	15,144
Amortization	7,699	9,524
Pension/non-pension expense (Note 4)	4,297	3,807
Gain on sale of property, plant and equipment	(647)	(250)
Interest expense	1,278	1,488
Income from operations	2,613	575
Telecommunications (Ontera)		
Sales revenue (Note 8)	30,074	38,023
Operating expense	28,206	39,533
Operating (loss) income	1,868	(1,510)
Amortization	4,194	6,009
Pension/non-pension expense (Note 4)	1,065	967
Loss on sale of property, plant and equipment	-	4
Loss from operations	(3,391)	(8,490)
Motor Coach Services		
Sales revenue	11,530	13,764
Operating expense	9,415	12,306
Operating income	2,115	1,458
Amortization	616	932
Pension/non-pension expense (Note 4)	399	363
Loss on sale of property, plant and equipment	-	110
Interest expense	140	-
Income from operations	960	53
Refurbishment		
Sales revenue	10,870	2,128
Operating expense	13,470	1,303
Operating (loss) income	(2,600)	825
Amortization	82	95
Pension/non-pension expense (Note 4)	427	483
Interest expense	466	247
(Loss) income from operations	(3,575)	-

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

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

	year ended March 31, 2007	15-month period ended March 31, 2006
Marine Services (Moosonee)		
Sales revenue	146	107
Government reimbursement (Note 7)	49	229
	<u>195</u>	<u>336</u>
Operating revenue	195	336
Operating expense	270	174
	<u>(75)</u>	<u>162</u>
(Loss) income from operations	(75)	162
Rental Properties		
Sales revenue	514	624
Operating expense	281	381
	<u>233</u>	<u>243</u>
Operating income	233	243
Amortization	37	46
Gain on sale of property, plant and equipment	(8)	(32)
	<u>204</u>	<u>229</u>
Income from operations	204	229
Administration		
Operating revenue	-	-
Operating expense	5,844	6,394
	<u>(5,844)</u>	<u>(6,394)</u>
Operating loss	(5,844)	(6,394)
Amortization	288	298
Pension/non-pension expense (Note 4)	466	422
Interest expense	815	713
	<u>(7,413)</u>	<u>(7,827)</u>
Loss from operations	(7,413)	(7,827)
Total Operations		
Sales revenue	125,871	143,336
Government reimbursement (Note 7)	18,600	24,000
	<u>144,471</u>	<u>167,336</u>
Total revenues	144,471	167,336
Expenses	133,534	157,408
	<u>10,937</u>	<u>9,928</u>
Income from operations	10,937	9,928
Amortization	12,916	16,904
Pension/non-pension expense (Note 4)	6,654	6,042
Interest expense	2,699	2,448
Gain on sale of property, plant and equipment	(655)	(168)
	<u>(10,677)</u>	<u>(15,298)</u>
Loss from operations	\$ (10,677)	\$ (15,298)

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

Ontario Northland Transportation Commission Summary of Significant Accounting Policies

March 31, 2007

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., 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: <table style="margin-left: 40px;"> <tr> <td>Roadway - main line and branches</td><td>20 to 50 years</td></tr> <tr> <td>Railway diesel locomotives</td><td>25 years</td></tr> <tr> <td>Railway cars</td><td>33 years</td></tr> <tr> <td>Buildings</td><td>50 years</td></tr> <tr> <td>Telecommunications equipment</td><td>15 to 25 years</td></tr> <tr> <td>Vehicles</td><td>3 years</td></tr> <tr> <td>Computer equipment</td><td>5 years</td></tr> <tr> <td>Coaches</td><td>12 years</td></tr> </table> 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 5).	Roadway - main line and branches	20 to 50 years	Railway diesel locomotives	25 years	Railway cars	33 years	Buildings	50 years	Telecommunications equipment	15 to 25 years	Vehicles	3 years	Computer equipment	5 years	Coaches	12 years
Roadway - main line and branches	20 to 50 years																
Railway diesel locomotives	25 years																
Railway cars	33 years																
Buildings	50 years																
Telecommunications equipment	15 to 25 years																
Vehicles	3 years																
Computer equipment	5 years																
Coaches	12 years																

Ontario Northland Transportation Commission Summary of Significant Accounting Policies

March 31, 2007

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, 2006. The date of the next actuarial valuation for funding purposes is expected to be January 1, 2009.

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

March 31, 2007

Development Costs	The Commission incurred certain costs related to its development of a new line of business (Refurbishment). The development costs are expensed, beginning in fiscal 2006-2007. Development costs that meet generally accepted criteria, including reasonable assurance regarding future benefits, are deferred and amortized on a straight line, completed-unit basis over a period not exceeding five years.
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. Included in Rail revenue is a foreign currency gain of \$ 470,000 (2005-2006 - \$697,000) arising mainly from Rail traffic settlements between Canada and the U.S.A.
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

March 31, 2007

1. Development costs

	2007	2006
Development costs - beginning of year	\$ 6,095,000	\$ -
Additions	-	6,095,000
Amortization	446,000	-
Development costs - end of year	\$ 5,649,000	\$ 6,095,000

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 cash in the amount of \$2,066,000 (2006 - \$ 6,120,000) plus \$ 4,228,000 receivable from the Commission (2006 - \$ 116,000 payable to the Commission).

Periodically, the Commission borrows cash from the fund for its temporary use. The Commission pays interest to the Fund at the bank's prime rate less 1.75% on these temporary borrowings.

3. Operating Line of Credit

The Commission currently holds an operating line of credit with the Ontario Financing Authority (OFA) in the amount of \$8,000,000, of which \$8,000,000 was being utilized as at March 31, 2007 (2006 - \$8,000,000). In addition, the Commission has a revolving operating line of credit with the OFA in the amount of \$7,000,000, of which \$7,000,000 was being utilized as at March 31, 2007 (2006 - \$7,000,000). 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.

The Commission also holds a demand operating line of credit with the Canadian Imperial Bank of Commerce in the amount of \$1,500,000 which is available for letters of guarantee and is secured by the Commission's accounts receivable. As of March 31, 2007, two letters of guarantee totaling \$1,428,000 (2006 - \$ 1,428,000) have been issued with an annual renewal commission of .375%.

Ontario Northland Transportation Commission Summary of Significant Accounting Policies

March 31, 2007

Development Costs	The Commission incurred certain costs related to its development of a new line of business (Refurbishment). The development costs are expensed, beginning in fiscal 2006-2007. Development costs that meet generally accepted criteria, including reasonable assurance regarding future benefits, are deferred and amortized on a straight line, completed-unit basis over a period not exceeding five years.
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. Included in Rail revenue is a foreign currency gain of \$ 470,000 (2005-2006 - \$697,000) arising mainly from Rail traffic settlements between Canada and the U.S.A.
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

March 31, 2007

4. Employee Future Benefits (continued)

b. Accrued Non-Pension Benefit Obligation

	<u>2007</u>	<u>2006</u>
Accrued benefit liability - beginning of year	\$ 56,369,000	\$ 55,261,000
Expense – Non-WSIB	3,464,000	2,926,000
Expense – WSIB	75,000	137,000
Funding contributions – Non-WSIB	<u>(1,939,000)</u>	<u>(1,955,000)</u>
Accrued benefit liability - end of year	<u>\$ 57,969,000</u>	<u>\$ 56,369,000</u>

Included in the accrued non-pension benefit liability is worker's compensation benefits in the amount of \$11,306,000 (2006 - \$11,231,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2006.

c. Components of Net Periodic Pension Benefit expense

	year ended March 31, 2007	15-month period ended March 31, 2006
Current service cost less employee contributions	\$ 9,470,000	\$ 6,721,000
Interest cost on accrued benefit obligation	25,630,000	25,045,000
Expected return on plan assets	(35,295,000)	(30,881,000)
Amortization of initial obligation	197,000	197,000
Amortization of past service costs	1,195,000	1,153,000
Amortization of net actuarial gain	<u>1,918,000</u>	<u>744,000</u>
	<u>\$ 3,115,000</u>	<u>\$ 2,979,000</u>

d. Components of Net Periodic Non-Pension Benefit Expense

	year ended March 31, 2007	15-month period ended March 31, 2006
Current service cost	\$ 1,001,000	\$ 793,000
Interest on accrued benefit obligation	2,538,000	2,283,000
Amortization of net actuarial gain	<u>-</u>	<u>(13,000)</u>
	<u>\$ 3,539,000</u>	<u>\$ 3,063,000</u>

Ontario Northland Transportation Commission

Notes to Consolidated Financial Statements

March 31, 2007

4. Employee Future Benefits (continued)

e. Weighted Average Assumptions

Discount rate - pension	5.25	5.75
Discount rate - non pension	5.25	5.75
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 10.0%

5. Long-term Debt and Capital Lease Obligations

	2007	2006
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	\$ 3,415,000	3,598,000
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.	541,000	1,012,000
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.	11,754,000	12,937,000
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.	7,748,000	8,543,000
Loan from Ontario Financing Authority, bearing interest at 4.717% per annum, blended annual payments of \$1,681,000 for 4 years beginning March 31, 2007.	6,000,000	6,000,000
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, blended monthly payments of \$13,000 for 25 years beginning February 1, 2006.	2,244,000	2,292,000
Construction advance from the Bank of Montreal, bearing interest at the bank's prime rate less .75%. Further advances will be made up to \$6,000,000 then converted to a fixed term loan, term not to exceed 10 years, bearing interest at bank cost of funds plus 25 basis points. Secured by assets of Ontera.	250,000	-
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.	326,000	466,000
	32,278,000	34,848,000
Less current portion	4,509,000	4,308,000
	<u>\$ 27,769,000</u>	<u>\$ 30,540,000</u>

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2007

5. Long-term Debt and Capital Lease Obligations (continued)

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

2007-2008	\$ 4,509,000
2008-2009	4,420,000
2009-2010	4,230,000
2010-2011	4,178,000
2011-2012	2,945,000
Thereafter	<u>11,996,000</u>
	<u>\$ 32,278,000</u>

	<u>2007</u>	<u>2006</u>
b. Capital lease bearing interest of 5.93% per annum, blended monthly payments of \$7,000 for 4 years beginning January 24, 2006	\$ 211,000	280,000
Capital lease bearing interest of 5% per annum, blended monthly payments of \$10,000 for 3 years beginning March 1, 2006.	219,000	334,000
Capital lease bearing interest of 10% per annum, blended monthly payments of \$11,000 for 2 years beginning November 27, 2005.	73,000	198,000
Capital lease bearing interest of 7% per annum, blended monthly payments of \$1,000 for 5 years beginning September 22, 2006.	65,000	-
Capital lease bearing interest of 5.5% per annum, blended monthly payments of \$22,000 for 2 years beginning December 18, 2004.	-	1,285,000
	568,000	2,097,000
Less current portion	276,000	1,574,000
	<u>\$ 292,000</u>	<u>523,000</u>

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2007

5. Long-term Debt and Capital Lease Obligations (continued)

Payments under capital leases included above are as follows:

2007-2008	\$ 303,000
2008-2009	217,000
2009-2010	76,000
2010-2011	13,000
2011-2012	<u>6,000</u>
Total minimum payments	615,000
Less: amount representing interest	<u>47,000</u>
Obligations under capital lease	<u>\$ 568,000</u>

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 from the customer of \$4,030,000 in 2005-2006 in addition to the \$2,627,000 received in 2004 to defray contract costs. An amount of \$ 3,961,000 (2005-2006 - \$5,723,000) has been included as deferred revenue, of which \$1,866,000 relates to periods after March 31, 2008. The deferred revenue will be recognized based on the percentage of completion method. During 2006-2007, \$1,762,000 (2005-2006 - \$ 750,000) of the advance was recognized as revenue.

Hydro One has entered into a 20-year agreement for the use of the Commission's fibre optic cable, expiring in March 2022. The total contract value is \$1,380,000. The remaining balance of \$1,104,000 has been included as deferred revenue, of which \$1,035,000 relates to periods after March 31, 2008. The deferred revenue will be recognized on a straight line basis over the life of the agreement. During 2006-2007 \$ 69,000 (2005-2006 - \$86,000) 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.

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2007

7. Government Reimbursement (continued)

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 March 31, 2007.

Details of Government reimbursement are as follows:

	year ended March 31, 2007	15-month period ended March 31, 2006
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	\$ 16,051,000	\$ 20,646,000
Marine Services (Moosonee)	<u>49,000</u>	<u>229,000</u>
	16,100,000	20,875,000
From Transport Canada:		
Current period's operations	<u>2,500,000</u>	3,125,000
	<u>\$ 18,600,000</u>	24,000,000

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.

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2007

9. Passenger Revenue

In compliance with the Travel Industry Act, the 2006-2007 gross retail sales were \$ 547,000 (2005-2006 - \$226,000) and the 2006-2007 gross wholesale sales were \$ 61,000 (2005-2006 - \$58,000).

10. Contingencies

a. Ontera assets

O.N.Tel Inc. (operating as Ontera) has sustained losses from operations over the current and the past accounting period as well as losses on a cash flow basis over the past accounting period (see Schedule 2). In response to the situation, management has developed a business plan that will require a significant investment in Ontera's property, plant and equipment along with associated financing. The plan has been reviewed by an independent third party consultant and formally approved by the Commission. The Province has also approved the plan including the underlying capital investment component and negotiations are currently underway with various lenders to secure the necessary financing.

b. Statement of claim

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.

c. Derailment

On March 30, 2007 one of the Commission's freight trains derailed in a remote area of Northeastern Ontario. The train carried, in addition to other commodities, sulphuric acid. Costs to clean-up the derailment and the environment are not estimable as of the date of printing of these financial statements and will be accounted for in the coming fiscal period. As per past practice, these costs are expected to be covered by the Self-Insurance Fund (Note 2).

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2007

11. Commitments

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.

12. Financial Instruments

The Commission's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, operating line of credit, accounts payable and accrued liabilities, long-term debt and, capital lease obligations. 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.

13. Contribution by the Province of Ontario

In March 2005, the Ontario Financing Authority released the Commission from its obligation to repay \$20,277,000 of the operating line of credit. This amount was reclassified to Investment by the Province of Ontario.

14. Related Party Transactions

During the period, the Commission charged the ONTC Contributory Pension Fund \$ 177,000 (2005-2006 - \$160,000) for financial and administrative support.

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2007

15. Economic Dependence

During 2006-2007, the Rail Services Division derived 35% (2005-2006 - 38%) of its revenue from three major customers.

16. Comparative Figures

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

Pursuant to an amendment made to the Ontario Northland Transportation Commission Act in 2006, the Commission changed its year-end to March 31st from December 31st. As a result, the comparative amounts in this presentation cover a fifteen month period ended March 31, 2006.

Statement of Management's Responsibility for Financial Information

Ontario Power Generation Inc.'s ("OPG") management is responsible for presentation and preparation of the annual consolidated financial statements and Management's Discussion and Analysis ("MD&A").

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the requirements of the Ontario Securities Commission ("OSC"), as applicable. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators and its related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Something is considered material if it is reasonably expected to have a significant impact on the Company's earnings, cash flow, value of an asset or liability, or reputation. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal control and internal audit, including organizational and procedural controls and internal controls over financial reporting. Our system of internal controls includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies, which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

Management, including the President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of OPG's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators) as of December 31, 2006. Management concluded that, as of December 31, 2006, OPG's disclosure controls and procedures were effective to provide reasonable assurance that material information relating to OPG and its consolidated subsidiaries and interests in jointly controlled entities would be made known to them by others within those entities, particularly during the period in which this report was being prepared.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Accordingly, we, as OPG's Chief Executive Officer and Chief Financial Officer, will certify OPG's annual disclosure documents filed with the OSC, which includes attesting to the design and effectiveness of OPG's disclosure controls and procedures and the design of internal control over financial reporting.

The Board of Directors, based on recommendations from its Audit/Risk Committee, reviews and approves the consolidated financial statements and the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions.

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, as confirmed by the Audit/Risk Committee, had direct and full access to the Audit/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.



Jim Hankinson
President and Chief Executive Officer



Donn W. J. Hanbidge
Chief Financial Officer

ONTARIO POWER
GENERATION

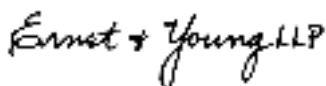
February 14, 2007

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, 2006 and 2005 and the consolidated statements of income, 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, 2006 and 2005 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**

Chartered Accountants

Licensed Public Accountants

Toronto, Canada

February 14, 2007

Consolidated Statements of Income**Years Ended December 31**

(millions of dollars except where noted)

	2006	2005
Revenue (Note 19)		
Revenue before revenue limit and Market Power Mitigation Agreement rebates	5,725	6,949
Revenue limit rebate (Note 16)	(161)	(739)
Market Power Mitigation Agreement rebate (Note 17)	–	(412)
	5,564	5,798
Fuel expense	1,098	1,297
Gross margin	4,466	4,501
Expenses (Note 19)		
Operations, maintenance and administration	2,777	2,516
Depreciation and amortization (Note 5)	664	753
Accretion on fixed asset removal and nuclear waste management liabilities (Note 9)	499	476
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 9)	(371)	(381)
Property and capital taxes	106	107
Restructuring	–	10
	3,675	3,481
Income before the following:	791	1,020
Impairment of long-lived assets (Note 5)	22	265
Income before interest, income taxes and extraordinary item	769	755
Net interest expense	193	197
Income before income taxes and extraordinary item	576	558
Income tax expense (Note 10)		
Current	60	80
Future	26	38
	86	118
Income before extraordinary item	490	440
Extraordinary item (Note 10)	–	74
Net income	490	366
Basic and diluted income per common share before extraordinary item (dollars)	1.91	1.72
Basic and diluted income per common share (dollars)	1.91	1.43
Common shares outstanding (millions)	256.3	256.3

See accompanying notes to the consolidated financial statements

Consolidated Statements of Retained Earnings**Years Ended December 31**

(millions of dollars)

	2006	2005
Retained earnings (deficit), beginning of year	261	(105)
Net income	490	366
Dividend (Note 19)	(128)	–
Retained earnings, end of year	623	261

See accompanying notes to the consolidated financial statements

Ontario Power Generation Inc.

Consolidated Statements of Cash Flows**Years Ended December 31**

(millions of dollars)

	2006	2005
Operating activities		
Net income	490	366
Adjust for non-cash items:		
Depreciation and amortization (Note 5)	664	753
Accretion on fixed asset removal and nuclear waste management liabilities (Note 9)	499	476
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 9)	(371)	(381)
Pension cost (Note 11)	218	115
Other post employment benefits and supplementary pension plans (Note 11)	255	181
Future income taxes	26	38
Transition rate option contracts (Note 15)	(12)	(36)
Provision for restructuring	–	10
Mark-to-market adjustment on energy contracts	(29)	23
Provision for used nuclear fuel	33	28
Impairment of long-lived assets (Note 5)	22	265
Excess inventory write-off	–	57
Regulatory assets and liabilities (Note 6)	27	11
Extraordinary item (Note 10)	–	74
Other	(11)	18
	1,811	1,998
Contributions to nuclear fixed asset removal and nuclear waste management funds (Note 9)	(454)	(454)
Expenditures on fixed asset removal and nuclear waste management (Note 9)	(164)	(90)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management (Note 9)	19	23
Contributions to pension fund (Note 11)	(261)	(254)
Expenditures on other post employment benefits and supplementary pension plans (Note 11)	(69)	(65)
Revenue limit rebate (Note 16)	(860)	–
Market Power Mitigation Agreement rebate (Note 17)	–	(851)
Expenditures on restructuring	(8)	(18)
Net changes to other long-term assets and liabilities	(94)	(92)
Changes in non-cash working capital balances (Note 23)	477	1,004
Cash flow provided by operating activities	397	1,201
Investing activities		
Increase in regulatory assets (Note 6)	(13)	(265)
Investment in fixed assets (Notes 5 and 18)	(637)	(494)
Proceeds on sale of other fixed assets	–	3
Net proceeds from purchase of long-term investments	–	(4)
Cash flow used in investing activities	(650)	(760)
Financing activities		
Issuance of long-term debt (Note 8)	270	495
Repayment of long-term debt (Note 8)	(806)	(4)
Dividend paid	(128)	–
Net increase (decrease) in short-term notes (Note 7)	15	(26)
Cash flow (used in) provided by financing activities	(649)	465
Net (decrease) increase in cash and cash equivalents	(902)	906
Cash and cash equivalents, beginning of year	908	2
Cash and cash equivalents, end of year	6	908

Consolidated Balance Sheets**As at December 31**

(millions of dollars)

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	6	908
Accounts receivable (Notes 4 and 19)	256	538
Future income taxes (Note 10)	–	18
Fuel inventory (Note 18)	669	581
Materials and supplies (Note 18)	112	115
	1,043	2,160
Fixed assets (Notes 5 and 18)		
Property, plant and equipment	17,136	15,172
Less: accumulated depreciation	4,375	3,760
	12,761	11,412
Other long-term assets		
Deferred pension asset (Note 11)	706	663
Nuclear fixed asset removal and nuclear waste management funds (Note 9)	7,594	6,788
Long-term materials and supplies (Note 18)	326	273
Regulatory assets (Note 6)	251	266
Long-term accounts receivable and other assets	69	61
	8,946	8,051
	22,750	21,623

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheets**As at December 31**

(millions of dollars)

2006 2005**Liabilities****Current liabilities**

Accounts payable and accrued charges (Notes 11, 15, and 19)	989	958
Revenue limit rebate payable (Note 16)	40	739
Short-term notes payable (Note 7)	15	–
Long-term debt due within one year (Note 8)	406	806
Future income taxes (Note 10)	3	–
Deferred revenue due within one year	12	12
Income and capital taxes payable (Note 10)	128	81
	1,593	2,596

Long-term debt (Note 8)	2,953	3,089

Other long-term liabilities

Fixed asset removal and nuclear waste management (Note 9)	10,520	8,759
Other post employment benefits and supplementary pension plans (Note 11)	1,396	1,212
Long-term accounts payable and accrued charges	150	183
Deferred revenue	132	144
Future income taxes (Note 10)	246	241
Regulatory liabilities (Note 6)	11	12
	12,455	10,551

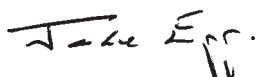
Shareholder's equity

Common shares (Note 13)	5,126	5,126
Retained earnings	623	261
	5,749	5,387
	22,750	21,623

Commitments and Contingencies (Notes 2, 5, 7, 8, 9, 10, 12, 14 and 18)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:


Honourable Jake Epp

Chairman


M. George Lewis

Director

Notes to the Consolidated Financial Statements for the Years Ended December 31, 2006 and 2005

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

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles. 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, 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 OPG and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant intercompany transactions have been eliminated on consolidation.

Certain of the 2005 comparative amounts have been reclassified from financial statements previously presented to conform to the 2006 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 \$21 million (2005 – \$13 million) at an average effective rate of 4.0 per cent (2005 – 2.8 per cent) is offset against interest expense in the consolidated statements of income.

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 day 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.

Notes to the Consolidated Financial Statements

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 that are unique to OPG's 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 and major components	15 to 49 years ¹
Fossil generating stations and major components	25 to 40 years ²
Hydroelectric generating stations and major components	25 to 100 years
Administration and service facilities	10 to 50 years
Computers, and transport and work equipment assets – declining balance	9% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

1 The end of station life for depreciation purposes for the Darlington, Pickering A, Pickering B, and Bruce B nuclear generating stations ranges between 2012 and 2021. Major components are depreciated over the lesser of the station life and the life of the components. The Bruce A nuclear generating station was fully depreciated in 2003. Bruce Power decided to refurbish the Bruce A generating station contributing to an increase in the asset retirement obligation at December 31, 2006 and an increase in the carrying value of the Bruce A station. The station will now be depreciated over the period to 2030.

2 Commencing July 1, 2006, the end of station life for depreciation purposes for the coal-fired generating stations was changed to 2012, due to the expected shutdown of these stations by the end of 2012. The Lennox generating station is depreciated to 2016.

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.

Rate Regulated Accounting

In December 2004, the *Electricity Restructuring Act, 2004* (Ontario) received royal assent. A regulation made pursuant to that statute provides that OPG receives regulated prices beginning April 1, 2005 for most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. This includes electricity generated by Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and the Pickering A and B, and Darlington nuclear generating stations. The regulation was amended in February 2007. The amendment clarified certain aspects of the regulation and directed OPG to establish a deferral account related to certain changes in its liability for nuclear used fuel management and its liability for nuclear decommissioning and low and intermediate level waste management.

OPG's regulated prices were established by the Province of Ontario (the "Province") based on a forecast of production volumes and total operating costs, and a return on rate base, which assumed an average five per cent return on equity. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets, deferred charges, and an allowance for working capital. The initial prices took effect April 1, 2005, and are expected to remain in effect until at least March 31, 2008, at which time it is anticipated that new regulated prices to be established by the Ontario Energy Board ("OEB") will take effect. If there are changes to the fundamental assumptions on which the initial prices were developed, the Province may amend these initial prices.

The OEB is a self-funding Crown corporation. Its mandate and authority come from the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports

to the Legislature of the Province through the Minister of Energy. It regulates the Province's natural gas and electricity industries and carries out its regulatory functions through public hearings and other more informal processes such as consultations.

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. When the regulation provides sufficient assurance that incurred costs will be recovered in the future, then OPG 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 OPG reports a regulatory liability. Also, if the regulation provides for lesser or greater than planned revenue to be received or returned by OPG through future regulated prices, then OPG recognizes and reports a regulatory asset or liability, respectively. The measurement of such regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation. See the Company's revenue recognition policy and Notes 6 and 10 to the consolidated financial statements for additional disclosures required under rate regulated accounting.

Long-Term Portfolio Investments

Long-term portfolio investments, other than investments owned by the Company's wholly owned subsidiary OPG Ventures Inc. ("OPGV"), 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.

In accordance with Accounting Guideline 18, Investment Companies ("AcG-18"), investments owned by OPGV are recorded at fair value, and changes to the fair value of the investments are included in revenue in the period in which the change occurs. The fair values of these investments are estimated based on readily available market information or using estimation techniques based on historical performance.

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 or storage 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

Pursuant to the Ontario Nuclear Funds Agreement ("ONFA") between OPG and the Province of Ontario, OPG established a Used Fuel Fund and a Decommissioning Fund (together the "Nuclear Funds"). The Used Fuel Fund is intended to fund expenditures associated with the disposal of highly radioactive used nuclear fuel bundles, while the Decommissioning Fund was established to fund expenditures associated with nuclear fixed asset removal and the disposal of low and intermediate level nuclear waste materials. OPG maintains the Nuclear Funds in third party custodial accounts that are segregated from the rest of OPG's assets.

The Nuclear Funds are invested in fixed income and equity securities, which OPG records as long-term investments and accounts for at their amortized cost value. Therefore, gains and losses are recognized only upon the sale of an underlying security. As such, there may be unrealized gains and losses associated with the investments in the Nuclear Funds, which OPG has not recognized in its consolidated financial statements. After applying the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement in 2007, the Nuclear Funds will be measured at fair value with gains and losses recognized in net income. More detail on the impact of the new accounting standards is provided in the Future Accounting Changes section.

Notes to the Consolidated Financial Statements

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"). Prior to April 1, 2005, revenue was recorded as electricity was 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 computed the average spot energy price that prevailed since the beginning of the current settlement period and recognized a Market Power Mitigation Agreement rebate if the average price exceeded 3.8¢/kilowatt hour ("kWh"), based on the amount of energy subject to the rebate.

Effective April 1, 2005, the generation from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates became rate regulated. As a result, energy revenue generated from the nuclear facilities is recognized based on a regulated price of 4.95¢/kWh. The regulated price received by OPG for the first 1,900 megawatt hours (MWh) of production from the regulated hydroelectric facilities in any hour is 3.3¢/kWh. Any production from these regulated hydroelectric facilities above 1,900 MWh in any hour receives the Ontario electricity spot market price.

The production from OPG's remaining hydroelectric, fossil-fuelled and wind generating stations remains unregulated and continues to be sold at the Ontario electricity spot market price. However, 85 per cent of the generation output from these other generating assets, excluding the Lennox generating station and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets are also excluded from the output covered by the revenue limit. In addition, until the Transition – Generation Corporation Designated Rate Options ("TRO") expired on April 30, 2006, volumes sold under such options were also excluded from the revenue limit rebate. This revenue limit, which was originally established for a period of 13 months ending April 30, 2006, was subsequently extended for an additional three years. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh. On May 1, 2007, the revenue limit will return to 4.7¢/kWh and increase to 4.8¢/kWh effective May 1, 2008. In addition, beginning May 1, 2006, volumes sold under a Pilot Auction administered by the Ontario Power Authority ("OPA") are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these two revenue limits are returned to the IESO for the benefit of consumers.

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. 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. Accordingly, power purchases of \$163 million in 2006 and \$228 million in 2005 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 as products are delivered.

Accounting for Certain Leases

OPG accounts for certain lease revenues relating to the regulated business using the cash basis of accounting. Under the cash basis of accounting, OPG recognizes lease income as stipulated in the lease agreement to the extent that the lease payments are expected to be included in future regulated prices charged to customers.

If OPG did not apply the cash basis of accounting for leases and the taxes payable method for the related income tax accounting in 2006, the revenue and the related future income tax expense would have increased by \$21 million (2005 – \$15 million) and \$6 million (2005 – \$5 million) respectively.

As of December 31, 2006, had OPG accounted for the leases related to the regulated business using a straight-line basis and the related income taxes using the liability method, OPG would have reported a deferred lease receivable of \$36 million (2005 – \$15 million) and a related future income tax liability of \$11 million (2005 – \$5 million).

Derivatives

OPG is exposed to changes in electricity prices associated with a 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 unregulated 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 other revenue.

OPG also enters into derivative contracts with major financial institutions 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.

OPG is exposed to changes in market interest rates on debt expected to be issued in the future. OPG uses interest rate derivative contracts to hedge this exposure. Gains and losses on interest rate hedges are recorded as an adjustment to interest expense for the debt being hedged. Gains and losses that do not meet the effectiveness criteria are recorded through net income in the period incurred.

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.

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.

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.

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 estimate assumptions. The discount rates used by OPG in determining projected benefit obligations and the costs for the Company's employee benefit plans are based on representative AA corporate bond yields.

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.

Notes to the Consolidated Financial Statements

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 follows the liability method of accounting for income taxes of its unregulated operations. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the 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.

Commencing April 1, 2005, with the introduction of rate regulation, OPG accounts for income taxes relating to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes are expected to be recovered in future regulated prices charged to customers.

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.

Changes in Accounting Policies and Estimates***Depreciation of Long-Lived Assets***

The accounting estimates related to the depreciation of long-lived assets require significant management judgment to assess the appropriate useful lives of OPG's long-lived assets, including consideration of various technological and other factors.

Effective January 1, 2006, following the completion of a review of the life limiting components of the Pickering B nuclear generating station, OPG revised and extended, for the purpose of calculating depreciation, the estimated remaining service life of the Pickering B nuclear generating station to 2014 from 2009. The extension reduced depreciation expense by \$36 million in 2006.

The Province has accepted the advice of the IESO in their June 2006 report that indicates a need for 2,500 to 3,000 MW of additional capacity to maintain system reliability. Therefore, further delays will be necessary in the Province's plan to replace coal-fired generation by 2009. As a result of these delays, effective July 1, 2006, OPG extended the life for all of the coal-fired generating stations, for purposes of calculating depreciation, to December 31, 2012. The extension reduces depreciation expense by \$64 million in 2006, \$126 million in 2007, and \$46 million in 2008. From 2009 to 2012, the depreciation expense will increase by \$59 million in each year. OPG will reassess the service life of the coal-fired stations upon release of the submitted Integrated Power System Plan, and as subsequently approved by the OEB. Any change to the estimated service life of the coal-fired generating stations, for purposes of calculating depreciation, could have a material impact on OPG's consolidated financial statements.

OPG will continue to review the estimated useful lives of its generating stations including the Darlington and Bruce nuclear generating units. Any changes resulting from the review would be reflected in 2007.

Reportable Segments

As noted in Note 18, effective April 1, 2005, the output from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates became rate regulated. OPG continues to receive the spot market price for the output from its other generating stations, subject to a revenue limit on the majority of this output. With the introduction of rate regulation, OPG revised its reportable business segments to separately reflect the regulated and unregulated aspects of its business. Since the second quarter of 2005, OPG reported its business segments as Regulated – Nuclear, Regulated – Hydroelectric, and Unregulated Generation. Commencing in the first quarter of 2006, OPG separated the Unregulated Generation business segment into two reportable segments, identified as Unregulated – Fossil-Fuelled and Unregulated – Hydroelectric, as a result of changes in the management structure of these segments. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Notes to the Consolidated Financial Statements

Future Accounting Changes

In 2005, the CICA issued three new accounting standards: Handbook Section 1530, Comprehensive Income; Handbook Section 3855, Financial Instruments – Recognition and Measurement; and Handbook Section 3865, Hedges. These standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

These standards are effective for OPG beginning in 2007. OPG has completed assessing the impact of these standards on its consolidated financial statements. The impact of implementing these new standards on OPG's consolidated financial statements is summarized below under the heading Impact of Adoption. The following provides further information on each of the three new accounting standards as they relate to OPG.

Comprehensive Income

As a result of adopting these standards, a new category, accumulated other comprehensive income, will be added to shareholder's equity in the consolidated balance sheets. Major components for this category will include unrealized gains and losses on financial assets classified as available-for-sale, changes in the fair value of the effective portion of cash flow hedging instruments, and unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations. These amounts will be recorded in the statement of other comprehensive income until the criteria for recognition in the consolidated statement of income are met.

Financial Instruments – Recognition and Measurement

Under the new standard, for accounting purposes, financial assets will be classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale, and financial liabilities will be classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition. All derivatives, including embedded derivatives that must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheets.

Hedges

This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting is to be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in net income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in other comprehensive income. The ineffective portion will be recognized in net income. The amounts recognized in accumulated other comprehensive income will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, foreign exchange gains and losses on the hedging instruments will be recognized in other comprehensive income.

Impact of Adoption

Upon adoption of the financial instruments accounting standards, the assets in the Nuclear Funds that have been carried at amortized cost until the end of 2006, will be classified as held-for-trading in 2007 and reported at fair value. The transition adjustment related to the change in accounting for the funds will be recognized in the opening balance of retained earnings as at January 1, 2007. The transition adjustment for embedded derivatives within long-term contracts will also be recognized in the opening balance of retained earnings as at January 1, 2007. Prior to January 1, 2007, OPG valued securities in the Nuclear Funds based on the closing price of the securities. Starting January 1, 2007, OPG will apply bid pricing, however, the change in the pricing methodology is not expected to have a significant impact to the Nuclear Funds balance on the consolidated balance sheets. The fair value of hedging instruments designated as cash flow hedges will be recognized in the opening accumulated other comprehensive income on a net of tax basis. The fair values of these hedges are disclosed in Note 12 to the audited consolidated financial statements.

Notes to the Consolidated Financial Statements

The transition amounts that will be recorded in the opening retained earnings or in the opening accumulated other comprehensive income balance on January 1, 2007 are as follows:

Transition Amounts – January 1, 2007				
(millions of dollars)	At Cost December 31, 2006	At Fair Value January 1, 2007	Opening Retained Earnings	Opening Accumulated Other Comprehensive Income
Nuclear funds balance ¹	7,694	9,041	1,347	–
Due to Province	(100)	(928)	(828)	–
	7,594	8,113	519	–
Accounts receivable and other assets	325	372	–	47
Accounts payable and accrued charges	(989)	(1,005)	(6)	(10)
Net future income tax liability	(249)	(265)	–	(16)
Transition adjustments			513	21

¹ OPG applied bid pricing for securities in the Nuclear Funds. As a result, the fair value of the Nuclear Funds above is lower than that reported under Note 9 of the financial statements. The change in pricing methodology does not have any impact to the overall balance on the consolidated balance sheets because the reduction in fair value is offset by the corresponding change in the due to Province balance.

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, OPG 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. In December 2005, the Company extended this agreement to August 2009.

OPG 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 2006, OPG has recognized pre-tax charges of \$13 million (2005 – \$9 million) on such sales at an average cost of funds of 4.4 per cent (2005 – 3.1 per cent). As at December 31, 2006, OPG had sold receivables of \$300 million from its total portfolio of \$392 million.

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

(millions of dollars)	Principal Amount of Receivables as at December 31		Average Balance of Receivables for Year Ended December 31	
	2006	2005	2006	2005
Total receivables portfolio ¹	392	668	445	559
Receivables sold	300	300	300	300
Receivables retained	92	368	145	259
Average cost of funds			4.4%	3.1%

¹ Amount represents receivables outstanding, including receivables that have been securitized, 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, 2006 and 2005.

Notes to the Consolidated Financial Statements

Details of cash flows from securitizations for the years ended December 31, 2006 and 2005 are as follows:

(millions of dollars)	2006	2005
Collections reinvested in revolving sales ¹	3,600	3,600
Cash flows from retained interest	2,020	2,927

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 total of 12 monthly amounts.

5

Fixed Assets

Depreciation and amortization expense consists of the following:

(millions of dollars)	2006	2005
Depreciation and amortization	659	748
Nuclear waste management costs	5	5
	664	753

Fixed assets consist of the following:

(millions of dollars)	2006	2005
Property, plant and equipment		
Nuclear generating stations	6,275	4,754
Regulated Hydroelectric generating stations	4,384	4,379
Unregulated Hydroelectric generating stations	3,481	3,447
Fossil-Fuelled generating stations	1,465	1,411
Other fixed assets	854	833
Construction in progress	677	348
	17,136	15,172
Less: accumulated depreciation		
Generating stations	4,066	3,497
Other fixed assets	309	263
	4,375	3,760
	12,761	11,412

Interest capitalized to construction in progress at 6.0 per cent during the years ended December 31, 2006 and 2005 was \$21 million and \$27 million, respectively.

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, 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.

Pickering A Nuclear Generating Station Units 2 and 3

OPG completed, in the second quarter of 2005, an assessment of the cost, schedule and risks related to the return to service of Units 2 and 3 at the Pickering A nuclear generating station. The assessment considered results from inspection programs with respect to feeder pipe and steam generator degradation mechanisms, and potential degradation of the calandria vault components, all of which could impact the future capability factor, operating costs and the life of the units. Upon consideration of the scope of the refurbishment work, the costs and the risks related to the return to service of these two units, OPG determined that the return to service of these two units was not justified on a commercial basis even though technically feasible. OPG recorded an impairment loss of \$63 million in the second quarter of 2005 related to the carrying amount of

Notes to the Consolidated Financial Statements

these two units including construction in progress. In addition to the impairment loss for these two units, OPG recorded OM&A expenses of \$57 million related to the write-off of inventory identified as excess or unusable, as a result of not returning Units 2 and 3 to service.

OPG expects to recover the amounts recorded in the deferral account established under a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) relating to non-capital costs incurred on or after January 1, 2005 associated with the return to service of Units 2 and 3. The deferred costs relating to Units 2 and 3 are disclosed in Note 6 to the audited consolidated financial statements.

Lennox Generating Station

As a result of the Government's "Request for Information/Request for Proposal for 2,500 MW of New Clean Generation and Demand Side Management Projects" released in September 2004 and the related contractual arrangements, future wholesale electricity market revenue is expected to be lower than previously anticipated. As a relatively high variable cost generating station, the Lennox generating station will not be able to recover its fixed operating costs and its carrying value from the wholesale electricity market in the future. Given these factors, OPG had initiated discussions with the Province, with the expectation of entering into a contractual arrangement for the recovery of the annual fixed operating costs and the carrying value of the Lennox generating station. In March 2005, OPG was advised by the Province that it would continue to support OPG in negotiating an arrangement that would allow for the recovery of fixed operating costs, but that the Province would not support an arrangement that would allow for the recovery of the carrying value of the Lennox generating station. As a result of this change in circumstance, OPG recorded the impairment loss of \$202 million in the first quarter of 2005.

In March 2006, the OEB issued a decision approving a reliability must-run ("RMR") contract between OPG and the Independent Electricity System Operator ("IESO") for the Lennox generating station, for the period October 1, 2005 to September 30, 2006. Reliability must-run contracts are designed to ensure that generating stations remain available to maintain the reliability of the electricity system. In its decision, the OEB found it appropriate for OPG to recover the fixed and variable operating costs of the Lennox generating station that are not recovered through market revenues. As a result of the decision, OPG recorded \$59 million in revenue in 2006. The RMR contract is a cost-based contract that provides for regular payments, which are subject to adjustments for actual costs. OPG negotiated a similar contract with the IESO for the period October 1, 2006 to September 30, 2007. The contract was approved by the OEB in January 2007.

Thunder Bay and Atikokan Generating Stations

OPG recognized an impairment loss on the Thunder Bay and Atikokan coal-fired generating stations in 2006 of \$22 million, which represented the carrying amount or net book value of these stations. OPG tested the recoverability of the carrying amounts of the coal-fired stations as a result of changes in circumstance, which included a decrease in forecast Ontario spot market prices and the extension of the lives of the coal-fired stations. The fair value of the coal-fired generating stations, which was determined using a discounted cash flow method, was compared to the carrying value of the generating assets to determine the impairment loss. It was determined that the Thunder Bay and Atikokan coal-fired generating stations would not be able to recover their operating and capital expenditures and carrying amount, over their remaining service lives.

6**Regulatory Assets and Liabilities**

The regulatory assets and liabilities as at December 31, 2006 and 2005 are as follows:

(millions of dollars)	2006	2005
Regulatory assets		
Pickering A generating station return to service costs	249	261
Ancillary service revenue variance	–	5
Transmission outages and transmission restrictions variance	2	–
Total regulatory assets	251	266
Regulatory liabilities		
Hydroelectric production variance	4	4
Other	7	8
Total regulatory liabilities	11	12

Notes to the Consolidated Financial Statements

The changes in the regulatory assets and liabilities for 2006 and 2005 are as follows:

(millions of dollars)	Pickering A Return to Service Costs	Ancillary Service Revenue Variance	Hydro- electric Production Variance	Transmission Outages and Transmission Restrictions Variance	Other
Regulatory assets (liabilities), January 1, 2005	–	–	–	–	–
Increase (decrease) during the year	265	5	(4)	–	(8)
Amortization during the year	(4)	–	–	–	–
Regulatory assets (liabilities), December 31, 2005	261	5	(4)	–	(8)
Increase (decrease) during the year	13	(5)	–	2	1
Amortization during the year	(25)	–	–	–	–
Regulatory assets (liabilities), December 31, 2006	249	–	(4)	2	(7)

Pickering A Return to Service Costs

Effective January 1, 2005, in accordance with a regulation made under the *Electricity Restructuring Act, 2004* (Ontario), OPG was required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005 that are associated with the planned return to service of all units at the Pickering A nuclear generating station. As a result, the change in accounting was prospectively adopted on January 1, 2005. As at December 31, 2006, the deferral account was \$249 million, consisting of non-capital costs of \$232 million relating to Unit 1, \$19 million relating to Units 2 and 3, \$20 million of general return to service costs, interest of \$7 million, and accumulated amortization of \$29 million.

As at December 31, 2005, the deferral account was \$261 million, consisting of non-capital costs of \$228 million relating to Unit 1, \$19 million relating to Units 2 and 3, \$11 million of general return to service costs, interest of \$7 million, and accumulated amortization of \$4 million.

Under the regulation, the OEB is directed to ensure that OPG recovers any balance in the deferral account on a straight-line basis over a period not to exceed 15 years.

Had OPG not charged costs to the deferral account as required by the regulation, OM&A expenses would have been reduced by \$12 million (2005 – would have been increased by \$254 million). Further, the net interest expense would have been \$7 million higher in 2005.

Variance Accounts and Other Regulatory Balances

Effective April 1, 2005, in accordance with a regulation made under the *Electricity Restructuring Act, 2004* (Ontario), OPG was directed to establish variance accounts for capital and non-capital costs incurred and revenues earned or foregone on or after April 1, 2005 due to deviations from the forecast information provided to the Province for the purposes of establishing regulated prices that are associated with differences in hydroelectric electricity production due to differences between forecast and actual water conditions, unforeseen changes to nuclear regulatory requirements or unforeseen technological changes, changes to revenues for ancillary services from the regulated facilities, acts of God (including severe weather events), and transmission outages and transmission restrictions. OPG recorded a reduction in revenue during 2006 of \$5 million, reflecting ancillary services revenue that was favourable compared to the forecast for 2006 provided to the Province for the purposes of establishing regulated prices. OPG recorded revenue during 2006 of \$2 million reflecting lower generation sales caused by transmission outages and transmission restrictions in 2006.

OPG recorded revenue during 2005 of \$5 million, reflecting ancillary services revenue that was unfavourable compared to that forecasted for 2005. OPG recorded a reduction in revenue during 2005 of \$4 million, reflecting water conditions that were favourable compared to those forecasted for 2005.

The OEB is directed by the regulation to ensure recovery of amounts recorded in the variance accounts to the extent that the OEB is satisfied that the revenues recorded in the accounts were earned or foregone, that the costs recorded in the accounts were prudently incurred, and that both revenues and costs are accurately recorded. Any balances approved by the OEB will be amortized over a period not to exceed three years. The amortization will commence when OPG starts to recover the balances through new prices that will be set by the OEB. Any balances in the account disallowed by the OEB will be reflected in results of operations in the period that the OEB decision occurs.

Notes to the Consolidated Financial Statements

The other regulatory liability includes a portion of non-regulated revenue earned by OPG's regulated assets, which may result in a reduction of future regulated prices to be established by the OEB.

Had OPG not accounted for the variance accounts and other regulatory balances as regulatory assets and liabilities, revenue for 2006 would have been higher by \$2 million (2005 – lower by \$1 million).

Liability for Nuclear Used Fuel Management and Liability for Nuclear Decommissioning and Low and Intermediate Level Waste Management

In February 2007 the Province amended a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) to require OPG to establish a deferral account in connection with certain changes to its liability for nuclear used fuel management and its liability for nuclear decommissioning and low and intermediate level waste management. The deferral account requires OPG to record a regulatory asset or liability representing the revenue requirement impact associated with the changes in these nuclear liabilities arising from an Approved Reference Plan, approved after April 1, 2005, in accordance with the terms of the ONFA. Revenue requirement is a regulatory construct, which represents all costs and a return on rate base at an allowed rate of return that the regulator determines to be appropriate. On December 31, 2006, OPG recorded an increase of \$1,386 million in these nuclear liabilities arising from the 2006 Approved Reference Plan.

Commencing on January 1, 2007 and up to the effective date of the OEB's first order establishing regulated prices, which is expected to be after March 31, 2008, OPG will record a regulatory asset associated with the increase in the nuclear liabilities arising from the 2006 Approved Reference Plan. The OEB is directed by the regulation to ensure that OPG recovers the balance recorded in the deferral account on a straight line basis over a period not to exceed three years, to the extent that the OEB is satisfied that the revenue requirement impacts are accurately recorded.

7**Short-Term Credit Facilities**

OPG's \$1 billion revolving committed bank credit facility is divided into two tranches – a \$500 million 364-day term tranche maturing May 22, 2007, and a \$500 million three-year term tranche maturing May 22, 2009. The total credit facility will be used primarily as support for notes issued under OPG's commercial paper program. As of December 31, 2006, there was \$15 million of commercial paper outstanding (2005 – \$ nil). OPG had no other outstanding borrowing under its bank credit facility in 2006 and 2005.

OPG also maintains \$26 million (2005 – \$26 million) in short-term uncommitted overdraft facilities as well as \$240 million (2005 – \$215 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support the supplementary pension plans and is required to post Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the OEB's Retail Settlement Code. At December 31, 2006, there was a total of \$185 million (2005 – \$157 million) of Letters of Credit issued, which included \$159 million relating to the supplementary pension plans (2005 – \$138 million) and \$16 million (2005 – \$ nil) relating to the construction of the Portlands Energy Centre.

8**Long-Term Debt**

Long-term debt consists of the following:

(millions of dollars)	2006	2005
Notes payable to the OEFC	3,165	3,695
Share of non-recourse limited partnership debt	194	200
	3,359	3,895
Less: due within one year		
Notes payable to the OEFC	400	800
Share of limited partnership debt	6	6
	406	806
Long-term debt	2,953	3,089

Notes to the Consolidated Financial Statements

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, 2006 for notes payable to the OEFC are as follows:

(millions of dollars)		Principal Outstanding		
Year of Maturity	Interest Rate (%)	Senior Notes	Subordinated Notes	Total
2007	5.85	400	–	400
2008	5.90	400	–	400
2009	6.01	350	–	350
2010	6.00	595	375	970
2011	6.65	–	375	375
2012	5.72	400	–	400
2016	4.91	270	–	270
		2,415	750	3,165

In March 2005, the Company reached an agreement with the OEFC to obtain additional financing up to \$600 million until March 31, 2006. In April 2005, \$400 million was drawn under this facility, with a seven-year term.

In September 2005, OPG reached an agreement with the OEFC to provide debt financing for the Niagara Tunnel project. The funding, which is up to \$1 billion over the duration of the project, will be in the form of 10-year notes, which will be issued quarterly to meet the project's obligations. Interest will be fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. In October 2006, OPG issued \$160 million against this facility.

In October 2005, OPG reached a similar agreement with the OEFC to provide debt financing for the Thunder Bay Gas Conversion project. Under this credit facility, up to \$95 million was available to OPG and could be drawn as needed over the construction period. In light of the directive to the OPA to determine how best to replace coal-fired generation, the Province determined that it was no longer advisable to continue with the conversion of the Thunder Bay generating station to run on natural gas. On July 12, 2006, OPG received a Shareholder Declaration revoking the October 2005 Shareholder Declaration, effectively cancelling the project.

In December 2006, OPG reached an agreement with the OEFC to provide debt financing for the Lac Seul Hydroelectric Generating Station and the Portlands Energy Centre projects. There will be up to \$50 million available for the Lac Seul project and up to \$400 million available for the Portlands Energy Centre project under each credit facility. The credit facilities will be drawn as needed to fund the respective projects over the construction period. The funding will be in the form of 10-year notes with interest rates fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. In December 2006, OPG issued \$20 million and \$90 million against the Lac Seul project credit facility and the Portlands Energy Centre credit facility respectively.

Interest paid in 2006 was \$248 million (2005 – \$235 million), of which \$229 million relates to interest paid on long-term debt (2005 – \$220 million).

9

Fixed Asset Removal and Nuclear Waste Management

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

(millions of dollars)	2006	2005
Liability for nuclear used fuel management	5,669	4,940
Liability for nuclear decommissioning and low and intermediate level waste management	4,659	3,627
Liability for non-nuclear fixed asset removal	192	192
Fixed asset removal and nuclear waste management liabilities	10,520	8,759

Notes to the Consolidated Financial Statements

The changes in the fixed asset removal and nuclear waste management liability for the years ended December 31, 2006 and 2005 are as follows:

(millions of dollars)	2006	2005
Liabilities, beginning of year	8,759	8,339
Increase in liabilities due to accretion	499	476
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	38	34
Liabilities settled by expenditures on waste management	(164)	(90)
Increase in the liability for non-nuclear fixed asset removal	2	–
Increase in the liability for nuclear used fuel management and the liability for nuclear decommissioning and low and intermediate level waste management to reflect the change in cost estimates	1,386	–
Liabilities, end of year	10,520	8,759

OPG's fixed asset removal and nuclear waste management liabilities 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. As at December 31, 2006, OPG updated the estimates for the nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management liabilities. The resulting updated Reference Plan ("2006 Approved Reference Plan") was approved by the Province in accordance with the terms of the ONFA. The increase in cost estimates reflected in the Approved Reference Plan is mainly due to additional used fuel and waste quantities resulting from station life extension, recent experience in decommissioning reactors, and changes in economic indices. The increase is partially offset by the deferral of some station decommissioning dates.

As a result of the approval of the new Reference Plan, OPG will recognize additional expenses including accretion on the fixed asset removal and nuclear waste management liabilities and depreciation of the carrying value of the related fixed assets. The impact of these additional expenses will be reduced by the recognition of a regulatory asset to be recovered through future prices charged to customers, as prescribed by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) discussed in Note 6 to the consolidated financial statements.

Nuclear and fossil-fuelled plant closures are projected to occur over the next six to 33 years. The updated Reference Plan includes cash flow estimates to 2073 for decommissioning nuclear stations and to approximately 2159 for nuclear used fuel management. The undiscounted amount of estimated cash flows associated with the liabilities expected to be incurred up to and upon closure of generating stations is approximately \$24 billion. The discount rate used to calculate the present value of the liabilities was 5.75 per cent for liabilities established prior to December 31, 2006. The upward revision in the amount of the undiscounted estimated cash flows for OPG's liability for nuclear waste management and decommissioning was discounted at 4.6 per cent. The cost escalation rates ranged from 1.8 per cent to 3.6 per cent. 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 may 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 have been studied by Canadian nuclear utilities via the Nuclear Waste Management Organization as part of the options study required by the federal *Nuclear Fuel Waste Act* (Canada) ("NFWA"). The options study was submitted to the federal government in November 2005. The federal government will decide which management alternative should be followed. The pending decision could have a significant impact on OPG's estimate of the liability.

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.

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 a disposal facility for low and intermediate level waste with an in-service date of 2017. The option has been approved by the Municipality of Kincardine and the Environmental Assessment ("EA") process is now underway.

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 2012 and 2039.

In addition to the \$103 million liability for active sites, OPG also has an asset retirement obligation liability of \$89 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 its nuclear fixed asset removal and nuclear waste management liabilities. In July 2003, OPG and the Province completed arrangements, pursuant to the ONFA. To comply with the ONFA, OPG established the Nuclear Funds. OPG jointly oversees the investment management of the Nuclear Funds with the Province. The assets of the Nuclear Funds are maintained in third party custodian accounts that are segregated from the rest of OPG's assets.

The Decommissioning Fund will be used to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management and a portion of used fuel storage costs after station life. The initial funding of the Decommissioning Fund was intended to be sufficient to fully discharge the 1999 estimate of the liability. OPG bears the risk and liability for cost estimate increases and fund earnings in the Decommissioning Fund.

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 \$9.1 billion in 2006 dollars) based on used fuel bundle projections of 2.23 million bundles consistent with the station lives included within the initial financial reference plan. The graduated liability thresholds do not apply to additional used fuel bundles as projected in the 2006 Approved ONFA Reference Plan. OPG makes quarterly payments to the Used Fuel Fund over the life of its nuclear generating stations, as specified in the ONFA. Required funding for 2006 under the ONFA was \$454 million, including a contribution to The Ontario NFWA Trust (the "Trust") of \$50 million.

Notes to the Consolidated Financial Statements

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. The NFWA also requires OPG to make annual contributions of \$100 million to the Trust, to be deposited into the Trust no later than the November anniversary of the NFWA. To comply with this requirement, OPG contributed \$150 million to the Trust in 2005 (\$50 million of the funding was part of OPG's funding requirement for 2006), and \$50 million in 2006 to complete the 2006 funding requirement. Under the NFWA, OPG must continue to deposit \$100 million annually into the Trust until the federal government has approved a long-term plan. Future contributions to the Trust beyond 2006 will be dependent on the direction chosen by the federal government based on the recommendations submitted in November 2005. 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.

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 2006 of \$8 million (2005 – \$8 million).

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"), but only for the Used Fuel Fund relating to the liability associated with the first 2.23 million used fuel bundles. 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, up to December 31, 2006, 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, 2006, the Used Fuel Fund accounts included an amount due to the Province of \$100 million (2005 – \$4 million). If the investments in the Used Fuel Fund were accounted for at fair market value in the consolidated financial statements, at December 31, 2006, there would be an amount due to the Province of \$641 million (2005 – \$306 million).

Under the ONFA, the Decommissioning Fund had a long-term target rate of return of 5.75 per cent per annum. Under the 2006 Approved Reference Plan, the rate was revised to 5.15 per cent. The target rate of return is subject to future changes in the ONFA Reference Plan. If the rate of return deviates from 5.15 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. As at December 31, 2006, the Decommissioning Fund became underfunded on an amortized cost basis as a result of the approval of the 2006 Approved ONFA Reference Plan. Accordingly, no excess adjustment was reported in the Decommissioning Fund as at December 31, 2006. At December 31, 2005, the Decommissioning Fund exceeded the estimated completion cost under the previous ONFA Reference Plan approved in 1999 on an amortized cost basis. OPG reported an excess of \$7 million due to the Province on an amortized cost basis in 2005. If the investments in the Decommissioning Fund were accounted for at fair market value in the consolidated financial statements at December 31, 2006, and the Decommissioning Fund was terminated under the ONFA, there would be an amount due to the Province of \$294 million (2005 – \$484 million).

Notes to the Consolidated Financial Statements

The nuclear fixed asset removal and nuclear waste management funds as at December 31, 2006 and 2005, consist of the following:

	Amortized Cost Basis		Fair Value	
(millions of dollars)	2006	2005	2006	2005
Decommissioning Fund	4,356	4,106	5,169	4,583
Due to Province – Decommissioning Fund	–	(7)	(294)	(484)
	4,356	4,099	4,875	4,099
Used Fuel Fund ¹	3,338	2,693	3,879	2,995
Due to Province – Used Fuel Fund	(100)	(4)	(641)	(306)
	3,238	2,689	3,238	2,689
	7,594	6,788	8,113	6,788

1 The Ontario NFWA Trust represents \$1,102 million as at December 31, 2006 (December 31, 2005 – \$1,003 million) of the Used Fuel Fund on an amortized cost basis.

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, 2006 and 2005 are as follows:

	Amortized Cost Basis		Fair Value	
(millions of dollars)	2006	2005	2006	2005
Cash and cash equivalents and short-term investments	556	516	553	515
Marketable equity securities	4,250	3,772	5,608	4,547
Bonds and debentures	2,306	1,757	2,305	1,762
Receivable from the OEFC	588	759	588	759
Administrative expense payable	(6)	(5)	(6)	(5)
	7,694	6,799	9,048	7,578
Due to Province – Decommissioning Fund	–	(7)	(294)	(484)
Due to Province – Used Fuel Fund	(100)	(4)	(641)	(306)
Total	7,594	6,788	8,113	6,788

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2006 and 2005 mature according to the following schedule:

	Fair Value	
(millions of dollars)	2006	2005
Less than 1 year	–	–
1 – 5 years	1,167	769
5 – 10 years	467	485
More than 10 years	671	508
Total maturities of debt securities	2,305	1,762
Average yield	4.5%	4.3%

The receivable of \$588 million (2005 – \$759 million) from the OEFC does not have a specified maturity date. The effective rate of interest on the OEFC receivable was 3.9 per cent in 2006 (2005 – 5.8 per cent).

Notes to the Consolidated Financial Statements

The change in the Nuclear Funds for the years ended December 31, 2006 and 2005 are as follows:

	Amortized Cost Basis		Fair Value	
(millions of dollars)	2006	2005	2006	2005
Decommissioning Fund, beginning of year	4,099	3,858	4,099	3,882
Increase in fund due to return on investments	256	255	592	459
Decrease in fund due to reimbursement of expenditures	(6)	(7)	(6)	(7)
Decrease (increase) in Due to Province	7	(7)	190	(235)
Decommissioning Fund, end of year	4,356	4,099	4,875	4,099
Used Fuel Fund, beginning of year	2,689	2,118	2,689	2,118
Increase in fund due to contributions made	454	454	454	454
Increase in fund due to return on investments	204	133	443	283
Decrease in fund due to reimbursement of expenditures	(13)	(16)	(13)	(16)
(Increase) decrease in Due to Province	(96)	–	(335)	(150)
Used Fuel Fund, end of year	3,238	2,689	3,238	2,689

10**Income Taxes**

Commencing April 1, 2005, OPG accounts for income taxes related to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes related to the rate regulated segments of its business to the extent that the future income taxes are expected to be recovered in future regulated prices charged to customers. As part of the transition, on April 1, 2005, OPG reversed the net future income tax asset balance of \$74 million relating to the rate regulated segments of its business, and recognized the amount as an extraordinary loss in determining net income. The extraordinary item reduced basic and diluted earnings per share for the year ended December 31, 2005 by \$0.29 per share.

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

(millions of dollars)	2006	2005
Income before income taxes	576	558
Combined Canadian federal and provincial statutory income tax rates, including surtax	36.1%	36.1%
Statutory income tax rates applied to accounting income	208	202
Increase (decrease) in income taxes resulting from:		
Large corporations tax in excess of surtax	–	28
Lower future tax rate on temporary differences	(4)	(12)
Non-taxable income items	(5)	7
Unrecorded future income tax related to regulated operations	(89)	(157)
Change in income tax positions	10	50
Other changes in future tax rate	(34)	–
	(122)	(84)
Income tax expense	86	118
Effective rate of income taxes	14.9%	21.1%

The Company has revised its future income tax assets and liabilities to reflect the lower federal income tax rates recently enacted.

Notes to the Consolidated Financial Statements

In the third quarter of 2006, OPG received a preliminary communication from the Provincial Tax Auditors ("Tax Auditors") with respect to their initial findings from their audit of OPG's 1999 taxation year. Many of the issues raised through the audit are unique to OPG and relate either to start-up matters and positions taken on April 1, 1999 upon commencement of operations, or matters that were not adequately addressed through the *Electricity Act, 1998*. OPG has estimated that the proposed adjustments could result in additional taxes payable for the 1999 taxation year in excess of \$200 million. Although OPG has subsequently resolved some of these issues, there is uncertainty as to how the remaining issues will be resolved.

OPG expects to receive a reassessment for its 1999 taxation year. The Company would defend its position through the tax appeals process. The potential increase in taxes payable related to these issues for 1999 and subsequent taxation years could be material. Because OPG uses the taxes payable method to account for income taxes in the regulated business segments and the liability method for the unregulated business segments, the impact of any potential adjustments on future income tax expense could vary significantly, depending on the resolution of these issues.

OPG has previously recorded income tax charges related to certain income tax positions that the Company has taken in prior years that may be disallowed. Given the uncertainty as to how these income tax matters will be resolved, OPG has not adjusted its income tax liabilities. Should the ultimate outcome materially differ from OPG's recorded income tax liabilities, the Company's effective tax rate and its earnings could be affected positively or negatively in the period in which the matters are resolved.

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

(millions of dollars)	2006	2005
Current income tax expense	60	80
Future income tax expense (benefits):		
Change in temporary differences	–	(51)
Non-capital loss carry-forward	52	88
Other	(26)	1
	26	38
Income tax expense	86	118

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)	2006	2005
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	29	27
Other liabilities and assets	107	107
Non-capital loss carry-forward	28	98
Future recoverable Ontario minimum tax	64	37
	228	269
Future income tax liabilities:		
Fixed assets	332	351
Other liabilities and assets	145	141
	477	492
Net future income tax liabilities	249	223
Represented by:		
Current portion liability (asset)	3	(18)
Long-term portion	246	241
	249	223

The following table summarizes the difference in the balance sheet amounts under the taxes payable method used by the Company to account for income taxes compared to what would have been reported had OPG applied the liability method for the regulated business as at December 31, 2006 and 2005:

	2006		2005	
	As Stated	Liability Method ¹	As Stated	Liability Method ¹
(millions of dollars)				
Future income tax (liabilities) assets – current	(3)	(4)	18	38
Long-term future income tax liabilities	(246)	(417)	(241)	(344)

¹ As discussed in note 3, OPG accounts for certain lease revenues relating to the regulated business using the cash basis of accounting. The related future income tax impact disclosed in note 3 is excluded from the above.

The following table summarizes the difference in the income statement amounts under the method used by the Company to account for income taxes compared to what would have been reported had OPG applied the liability method for the regulated business for the years ended December 31, 2006 and 2005:

	2006		2005	
	As Stated	Liability Method ¹	As Stated	Liability Method ¹
(millions of dollars)				
Extraordinary item	–	–	74	–
Future income tax expense	26	115	38	195

¹ As discussed in note 3, OPG accounts for certain lease revenues relating to the regulated business using the cash basis of accounting. The related future income tax impact disclosed in note 3 is excluded from the above.

As at December 31, 2006, OPG had available approximately \$308 million (2005 – \$236 million) of non-capital loss carry-forwards for Ontario income tax purposes. The non-capital loss carry-forward for the purpose of calculating Ontario income taxes is related to the following taxation years:

	Ontario Loss-Carry Forward	Expiry Date
(millions of dollars)		
2004	236	2014 ¹
2006	72	2026

¹ The Province of Ontario recently introduced legislation in anticipation of the Ontario Corporate tax harmonization whereby these losses would be replaced by a special tax credit which would expire in 2011.

The amount of cash income taxes paid during 2006 was \$24 million (2005 – \$20 million).

Notes to the Consolidated Financial Statements

11

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 most 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 plans are defined benefit plans 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, 2006.

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2006	2005	2006	2005
Weighted Average Assumptions – Benefit Obligation at Year End				
Rate used to discount future benefits	5.25%	5.00%	5.22%	4.97%
Salary schedule escalation rate	3.00%	3.00%	–	–
Rate of cost of living increase to pensions	2.00%	2.00%	–	–
Initial health care trend rate	–	–	7.34%	7.76%
Ultimate health care trend rate	–	–	4.68%	4.68%
Year ultimate rate reached	–	–	2014	2014
Rate of increase in disability benefits	–	–	2.00%	2.00%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2006	2005	2006	2005
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	5.00%	6.00%	4.97%	5.88%
Salary schedule escalation rate	3.00%	3.25%	–	–
Rate of cost of living increase to pensions	2.00%	2.25%	–	–
Initial health care trend rate	–	–	7.76%	7.03%
Ultimate health care trend rate	–	–	4.68%	4.46%
Year ultimate rate reached	–	–	2014	2014
Rate of increase in disability benefits	–	–	2.00%	2.25%
Average remaining service life for employees (years)	11	11	11	11

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	2006	2005	2006	2005	2006	2005
Changes in Plan Assets						
Fair value of plan assets at beginning of year	7,921	7,056	–	–	–	–
Contributions by employer	261	254	7	7	62	58
Contributions by employees	61	56	–	–	–	–
Actual return on plan assets net of expenses	945	858	–	–	–	–
Settlements	–	(2)	–	–	–	–
Benefit payments	(359)	(301)	(7)	(7)	(62)	(58)
Fair value of plan assets at end of year	8,829	7,921	–	–	–	–
Changes in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	9,095	7,663	144	144	2,065	1,499
Employer current service costs	212	163	6	7	71	47
Contributions by employees	61	56	–	–	–	–
Interest on projected benefit obligation	459	461	7	9	104	88
Past service costs	–	–	–	–	13	1
Settlement gain	–	(2)	–	–	–	–
Benefit payments	(359)	(301)	(7)	(7)	(62)	(58)
Net actuarial loss (gain)	(155)	1,055	2	(9)	(124)	488
Projected benefit obligation at end of year	9,313	9,095	152	144	2,067	2,065
Funded Status – Deficit at end of year	(484)	(1,174)	(152)	(144)	(2,067)	(2,065)

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.

	2006	2005
Registered pension plan fund asset investment categories		
Equities	67%	64%
Fixed income	30%	33%
Cash and short-term	3%	3%
Total	100%	100%

Based on the most recently filed actuarial valuation, as at January 1, 2005, there was an unfunded liability on a going-concern basis of \$465 million and a deficiency on a wind-up basis of \$1,979 million. The deficit disclosed in the next filed funding valuation, which must have an effective date no later than January 1, 2008, could be significantly different.

Notes to the Consolidated Financial Statements

The supplementary plans are not funded, but are secured by Letters of Credit totalling \$159 million (2005 – \$138 million).

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	2006	2005	2006	2005	2006	2005
Reconciliation of Funded Status to Accrued Benefit Asset (Liability)						
Funded status – deficit at end of year	(484)	(1,174)	(152)	(144)	(2,067)	(2,065)
Unamortized net actuarial loss	1,108	1,737	20	18	699	885
Unamortized past service costs	82	100	3	4	25	16
Accrued benefit asset (liability) at end of year	706	663	(129)	(122)	(1,343)	(1,164)
Short-term portion	–	–	(6)	(7)	(70)	(67)
Long-term portion	706	663	(123)	(115)	(1,273)	(1,097)

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	2006	2005	2006	2005	2006	2005
Components of Cost Recognized						
Current service costs	212	163	6	7	71	47
Interest on projected benefit obligation	459	461	7	9	104	88
Expected return on plan assets net of expenses	(551)	(527)	–	–	–	–
Amortization of past service costs	18	18	1	1	4	3
Amortization of net actuarial loss	80	–	–	1	62	25
Cost recognized	218	115	14	18	241	163

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	2006	2005	2006	2005	2006	2005
Components of Cost Incurred and Recognized						
Current service costs	212	163	6	7	71	47
Interest on projected benefit obligation	459	461	7	9	104	88
Actual return on plan assets net of expenses	(945)	(858)	–	–	–	–
Past service costs	–	–	–	–	13	1
Net actuarial loss (gain)	(155)	1,055	2	(9)	(124)	488
Cost incurred in year	(429)	821	15	7	64	624
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	394	331	–	–	–	–
Past service costs	18	18	1	1	(9)	2
Net actuarial (gain) loss	235	(1,055)	(2)	10	186	(463)
Cost recognized	218	115	14	18	241	163

A one per cent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2006 OPEB cost recognized of \$34 million (2005 – \$26 million) or a decrease in the service and interest components of the 2006 OPEB cost recognized of \$26 million (2005 – \$20 million), respectively. A one per cent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2006 of \$342 million (2005 – \$343 million) or a decrease in the projected OPEB obligation at December 31, 2006 of \$265 million (2005 – \$266 million).

Contracts for all trading transactions are carried on the consolidated balance sheet as assets or liabilities at fair value, with changes in fair value recorded in trading revenue as gains or losses.

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.

Forward pricing information is inherently uncertain so that fair values of the derivative instruments may not accurately represent the cost to enter into these positions. To address the impact of some of this uncertainty on trading positions, OPG established liquidity reserves against the mark-to-market gains or losses of these positions. During 2006, the liquidity reserve increased trading revenue by \$1 million (2005 – \$4 million).

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 2006	Fair Value	Notional Quantity	Terms 2005	Fair Value
(millions of dollars except where noted)						
Gain (loss)						
Electricity derivative instruments	4.3 TWh	1–4 yrs	51	4.1 TWh	1–2 yrs	(125)
Foreign exchange derivative instruments	U.S.\$2	Jan/07	–	U.S.\$15	Jan/06	–
Floating to fixed interest rate hedges	45	1–12 yrs	(3)	47	1–13 yrs	(3)
Forward start interest rate hedges	622	1–14 yrs	(9)	400	1–15 yrs	(7)

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, 2006 was U.S.\$0.87 (2005 – U.S.\$0.87) for every Canadian dollar.

One of the Company's joint ventures is exposed to changes in interest rates. The joint venture entered into an interest rate swap to manage the risk arising from fluctuations in interest rates by swapping the short-term floating interest rate with a fixed rate of 5.33 per cent. OPG's proportionate interest in the swap is 50 per cent and is accounted for as a hedge.

OPG entered into a number of forward start interest rate swap agreements to hedge against the effect of future interest rate movement based on the anticipated future borrowing requirement for the Niagara Tunnel and the Portlands Energy Centre projects. These transactions are accounted for as hedges.

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)				
Foreign exchange derivative	–	–	U.S.\$3	–
Commodity derivative instruments				
Assets	3.9 TWh	25	3.3 TWh	13
Liabilities	2.6 TWh	(25)	1.1 TWh	(37)
		–		(24)
Liquidity reserve		(2)		(3)
Total		(2)		(27)

Foreign exchange derivative instruments that were not designated as hedges had a weighted average exchange rate of U.S.\$0.85 as at December 31, 2005.

Notes to the Consolidated Financial Statements

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, and short-term notes payable 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:

	Carrying Value 2006	Fair Value	Carrying Value 2005	Fair Value
(millions of dollars)				
Financial Assets				
Nuclear fixed asset removal and nuclear waste management funds	7,594	8,113	6,788	6,788
Long-term accounts receivable and other assets	69	69	61	61
Financial Liabilities				
Long-term debt due within one year	406	409	806	814
Long-term debt	2,953	3,082	3,089	3,267
Long-term accounts payable and accrued charges	150	150	183	183

Credit Risk

Credit risk is the financial risk of non-performance by contractual counterparties. Credit risk excludes any operational risk resulting from a third party failing to deliver a product or service as expected. The majority of OPG revenues are derived from sales through the IESO administered spot market. However, OPG also derives revenue from several other sources including the sale of energy products and financial risk management products to third parties.

Credit exposure to the IESO fluctuates based on spot prices and the volume of rate regulated and unregulated generation, and is reduced each month upon settlement of the accounts. Credit exposure to the IESO peaked at \$1,029 million during the year ended December 31, 2006 and at \$1,146 million during the year ended December 31, 2005.

13**Common Shares**

As at December 31, 2006 and 2005, 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.

14**Commitments and Contingencies****Litigation**

Various legal proceedings are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of its business activities.

In July 2004, OPG and two individual OPG employees were each charged with criminal negligence causing death and criminal negligence causing bodily harm in relation to a 2002 drowning accident at Barrett Chute. Further to a recent summary application by all three, OPG was acquitted of all charges on November 14, 2006. On December 18, 2006, the two employees were acquitted of all the remaining charges. The appeal period expired on January 18, 2007. Since no appeal was filed, the acquittals of OPG and its employees are considered final.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations total approximately \$50 million and claims by others are for unspecified amounts.

On August 9, 2006, a Notice of Action and Statement of Claim in the amount of \$500 million (the "Claim") was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited ("British Energy"), claiming that OPG is liable to them for breach of contract and negligence. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001. British Energy was an investor in Bruce Power L.P. In 2003, British Energy sold its interest in Bruce Power L.P. to a group of investors (the "Purchasers"). The Purchasers are claiming that British Energy is liable to them with respect to this purchase transaction. Their claim is currently the subject of an arbitration proceeding (the "Arbitration"). British Energy is therefore suing OPG in order to preserve any similar claim it may have against OPG pursuant to the 2001 lease transaction. British Energy has indicated that it does not require OPG to actively defend the Claim at this point in time.

as British Energy is defending the Arbitration commenced by the Purchasers. The Arbitration may narrow or eliminate the claims or damages British Energy has, so as to narrow or eliminate the need to continue the Claim against OPG. British Energy has reserved the right to require OPG to defend the Claim prior to the conclusion of the Arbitration should British Energy at some point believe there is some advantage of doing so.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG and could have a significant effect on OPG's financial position. Management has provided for contingencies that are determined to be likely and are reasonably measurable.

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, 2006, expenditures of \$4 million (2005 – \$4 million) were recorded against the provision. As at December 31, 2006, the remaining provision was \$52 million (December 31, 2005 – \$56 million).

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 and joint ventures 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.

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at December 31, 2006 are as follows:

(millions of dollars)	2007	2008	2009	2010	2011	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	670	514	202	153	167	351	2,057
Contributions under the ONFA ¹	454	679	350	350	350	1,053	3,236
Long-term debt repayment	400	400	350	970	375	670	3,165
Interest on long-term debt	181	158	135	103	55	80	712
Unconditional purchase obligations	25	20	17	15	12	194	283
Long-term accounts payable	28	9	–	–	–	–	37
Operating lease obligations	10	9	11	10	10	123	173
Operating licence	16	17	17	17	18	–	85
Pension contributions ²	268	–	–	–	–	–	268
Other	144	30	26	28	24	26	278
Significant commercial commitments:							
Niagara Tunnel	167	178	132	2	–	–	479
Lac Seul	24	–	–	–	–	–	24
Portlands Energy Centre	155	63	22	2	1	24	267
Total	2,542	2,077	1,262	1,650	1,012	2,521	11,064

¹ Contributions under the ONFA are subject to adjustment due to the 2006 Approved Reference Plan.

² The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuation as at January 1, 2005, as well as a voluntary contribution of approximately \$20 million. The contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, and the timing of funding valuations. Funding requirements after 2007 are excluded due to significant variability in the assumptions required to project the timing of future cash flows.

The Niagara Tunnel project will increase the amount of water flowing to existing turbines at OPG's Sir Adam Beck generating stations in Niagara, allowing the stations to utilize available water more effectively. On-site assembly of the tunnel boring machine was completed in September 2006 and boring of the tunnel commenced during the month. The intake configuration required the replacement of the existing accelerating wall and the installation of a cellular cofferdam, which were completed in 2006. Capital project expenditures for the year ended December 31, 2006 were \$161 million and life-to-date capital expenditures were approximately \$244 million. The project is debt financed through the OEFC.

Notes to the Consolidated Financial Statements

OPG is constructing a new 12.5 MW hydroelectric generating station on the English River. The new Lac Seul generating station will utilize a majority of the spill currently passing the existing Ear Falls generating station, thus increasing the overall efficiency, capacity and energy generated from this location. A design-build contract was awarded and construction started during the first quarter of 2006. In 2006, the water conveyance tunnel, the tailrace channel excavation, and the intake cofferdam were completed. The powerhouse civil foundation and envelope was completed in January 2007. Major sub-assemblies have been delivered to the site and pre-installation work has started. Capital project expenditures for the year ended December 31, 2006 were approximately \$24 million and life-to-date capital expenditures were approximately \$27 million. OPG has negotiated the project's debt financing with the OEFC.

OPG entered into a partnership with TransCanada Energy Ltd. ("TransCanada"), called Portlands Energy Centre L.P. ("PEC"), to pursue the development of a 550 MW gas-fired, combined cycle station on the site of the former R.L. Hearn generating station, near downtown Toronto. During the first quarter of 2006, the Province directed the OPA to negotiate an agreement with PEC for the purchase of electricity. PEC signed a 20-year Accelerated Clean Energy Supply ("ACES") contract with the OPA during the third quarter of 2006. PEC entered into a design-build contract for the construction of the facility, and construction started in 2006. A significant proportion of the capital cost relates to this contract. OPG's share of capital project expenditures for the year ended December 31, 2006 was approximately \$97 million. OPG has negotiated financing for its share of the project with the OEFC.

Other Commitments

In addition to the above commitments, the Company has the following commitments:

The Company maintains labour agreements with the Power Workers' Union and The Society of Energy Professionals; the agreements are effective until March 31, 2009 and December 31, 2010, respectively. As of December 31, 2006, OPG had approximately 11,500 regular employees and approximately 90 per cent of its regular labour force is covered by the collective bargaining agreements.

Contractual and commercial commitments above exclude certain purchase orders as they represent purchase authorizations rather than legally binding contracts and are subject to change without significant penalties.

Proxy Property Taxes

In November 2005, OPG received a letter from the Ministry of Finance indicating its intent to recommend to the Minister of Finance that an Ontario regulation covering proxy property taxes be updated retroactive to April 1, 1999 to reflect reassessments and appeal settlements of certain OPG properties since that date. OPG continues to discuss resolution to this issue with the Ministry of Finance as updates to the regulation may not occur for several years. OPG has not recorded any amounts relating to this anticipated regulation change.

15**Transition Rate Option Contracts**

Under a regulation known as Transition – Generation Corporation Designated Rate Options ("TRO"), OPG was required to provide transitional price relief since 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 was treated as a hedge of generation revenue. The maximum anticipated volume subject to the transitional price relief was approximately 5.4 TWh in the first year after market opening and 3.6 TWh in the second year. The maximum anticipated volume in each of the third and fourth years is 1.8 TWh. The maximum length of the program was four years, which expired April 30, 2006.

The change in the TRO contracts provision for the years ended December 31, 2006 and 2005 is as follows:

(millions of dollars)	2006	2005
Provision, beginning of year	12	48
Decrease of provision during the year	(12)	(36)
Provision, end of year	–	12

Notes to the Consolidated Financial Statements

16**Revenue Limit Rebate**

Eighty-five per cent of the generation output from OPG's unregulated generation assets, excluding the Lennox generating station and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets is also excluded from the output covered by the revenue limit. In addition, until the TRO contracts expired on April 30, 2006, volumes sold under such options were also excluded from the revenue limit rebate.

The revenue limit, which was originally established for a period of 13 months ending April 30, 2006, was subsequently extended for an additional three years. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh. On May 1, 2007, the revenue limit will return to 4.7¢/kWh and increase to 4.8¢/kWh effective May 1, 2008. In addition, beginning May 1, 2006, volumes sold under a Pilot Auction administered by the Ontario Power Authority ("OPA") are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these two revenue limits are returned to the IESO for the benefit of consumers.

The changes in the revenue limit rebate liability for the years ended December 31, 2006 and 2005 are as follows:

(millions of dollars)	2006	2005
Liability, beginning of the year	739	–
Increase to provision during the year	161	739
Payments made during the year	(860)	–
Liability, end of year	40	739

17**Market Power Mitigation Agreement Rebate**

Until April 1, 2005, OPG was 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 included both a rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, a majority of OPG's expected energy sales in Ontario were subject to an average annual revenue cap of 3.8¢/kWh. During the term of the Market Power Mitigation Agreement, OPG was required to pay a rebate to the Independent Electricity System Operator 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 was replaced effective April 1, 2005 by regulated prices for the output from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities operated by OPG, and a revenue limit that applies to OPG's unregulated generation assets.

In accordance with the Market Power Mitigation Agreement, the rebate was 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 average hourly spot price during the three months ended March 31, 2005, when the rebate mechanism ended, exceeded the 3.8¢/kWh revenue cap, OPG provided \$412 million in 2005 as a Market Power Mitigation Agreement rebate.

The change in the Market Power Mitigation Agreement rebate liability for the year ended December 31, 2005 is as follows:

(millions of dollars)	2005
Liability, beginning of year	439
Increase to provision during the year	412
Payments	(851)
Liability, end of year	–

With the introduction of rate regulation effective April 1, 2005, OPG revised its reportable business segments to separately reflect the regulated and unregulated aspects of its business. In the first quarter of 2006, OPG separated the Unregulated Generation business segment into two reportable segments identified as Unregulated – Fossil-Fuelled and Unregulated – Hydroelectric, as a result of changes in the management structure of these segments. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Regulated – Nuclear Segment

OPG's Regulated – Nuclear business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that OPG owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations.

OPG's Regulated – Nuclear business segment includes revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. The arrangement includes lease revenue, interest income and revenue from engineering analysis and design, technical and other services. The Regulated – Nuclear business segment also includes revenue earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control/reactive support. These earnings are included in the Regulated – Nuclear business segment since they were included in determining the regulated price for production from the nuclear facilities operated by OPG.

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.

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 payments of \$595 million 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 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.

As part of the agreement reached in October 2005 between the Province and Bruce Power, OPG received a Shareholder Declaration from the Province instructing OPG's Board of Directors to accept certain amendments to the lease agreement. These amendments included a change to the provisions regarding the transfer of Bruce Power's interest in the site and included a reduction of the annual lease payment for three of the four refurbished Bruce A units to \$5.5 million per unit (in 2002 dollars, escalated at CPI), that will affect the three Bruce A units to be refurbished, once the planned future refurbishments are completed. These changes to the lease agreement will affect OPG when Units 1 and 2 of the Bruce A nuclear generating station are returned to service, and when Unit 3 is refurbished at the end of its current operational life. Other changes to the existing arrangements were made to address Cameco Corporation's decision not to participate in the refurbishment of the Bruce A nuclear generating station.

Notes to the Consolidated Financial Statements

For 2004 through 2008, minimum payments under the lease are \$190 million annually, subject to limited exceptions. The lease revenue of \$251 million (2005 – \$244 million) was recorded in revenue. The remaining terms of the operating lease agreement will remain substantially unchanged until the planned future refurbishments are completed.

The net book value of fixed assets on lease to Bruce Power at December 31, 2006 was \$1,273 million (2005 – \$492 million). The net book value at December 31, 2006 includes the impact of the increase in the nuclear fixed asset removal and nuclear waste management liabilities relating to the Bruce units as a result of the new Reference Plan described in Note 9.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of OPG's baseload hydroelectric generating stations. The business segment is comprised of electricity generated by the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. The Regulated – Hydroelectric business segment also includes ancillary revenues related to these stations earned through offering available generating 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.

Unregulated – Hydroelectric Segment

The Unregulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from its hydroelectric generating stations that are not subject to rate regulation. The Unregulated – Hydroelectric business segment also includes ancillary revenues earned through offering available generating 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, and revenues from other services.

Unregulated – Fossil-Fuelled Segment

The Unregulated – Fossil-Fuelled business segment operates in Ontario, generating and selling electricity from its fossil-fuelled generating stations, which are not subject to rate regulation. The Unregulated – Fossil-Fuelled business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control/reactive support, automatic generation control, and revenues from other services.

Other

OPG earns revenue from its joint venture share of the Brighton Beach related to an energy conversion agreement between Brighton Beach and Coral. In addition, the Other category includes revenue from real estate rentals.

The revenue and expenses related to OPG's trading and other non-hedging activities are also included in the Other category. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in other revenue as gains or losses.

Operations, maintenance and administration ("OM&A") expenses of the generation business segments include an intersegment service fee for the use of certain property, plant and equipment of the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the year ended December 31, 2006, the service fee was \$25 million for Regulated – Nuclear, \$2 million for Regulated – Hydroelectric, \$3 million for Unregulated – Hydroelectric and \$9 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$39 million for the Other category. Results of the comparative periods have been reclassified to reflect the service fee.

Notes to the Consolidated Financial Statements

Segment Income (Loss) for the Year Ended December 31, 2006 (millions of dollars)	Regulated		Unregulated		Other	Total
	Nuclear	Hydro- electric	Hydro- electric	Fossil- Fuelled		
Revenue before revenue limit rebate	2,665	685	780	1,430	165	5,725
Revenue limit rebate	–	–	(44)	(117)	–	(161)
	2,665	685	736	1,313	165	5,564
Fuel expense	122	245	88	643	–	1,098
Gross margin	2,543	440	648	670	165	4,466
Operations, maintenance and administration	1,967	92	189	524	5	2,777
Depreciation and amortization	343	66	69	133	53	664
Accretion on fixed asset removal and nuclear waste management liabilities	490	–	–	9	–	499
Earnings on nuclear fixed asset removal and nuclear waste management funds	(371)	–	–	–	–	(371)
Property and capital taxes	44	18	15	19	10	106
Income (loss) before impairment of long-lived assets	70	264	375	(15)	97	791
Impairment of long-lived assets	–	–	–	22	–	22
Income (loss) before interest, income taxes and extraordinary item	70	264	375	(37)	97	769

Segment (Loss) Income for the Year Ended December 31, 2005 (millions of dollars)	Regulated		Unregulated		Other	Total
	Nuclear	Hydro- electric	Hydro- electric	Fossil- Fuelled		
Revenue before revenue limit and Market Power Mitigation Agreement rebates	2,607	857	1,000	2,399	86	6,949
Revenue limit rebate	–	–	(210)	(529)	–	(739)
Market Power Mitigation Agreement rebate	(160)	(65)	(58)	(129)	–	(412)
	2,447	792	732	1,741	86	5,798
Fuel expense	115	254	82	846	–	1,297
Gross margin	2,332	538	650	895	86	4,501
Operations, maintenance and administration	1,804	78	148	455	31	2,516
Depreciation and amortization	359	67	64	203	60	753
Accretion on fixed asset removal and nuclear waste management liabilities	467	–	–	9	–	476
Earnings on nuclear fixed asset removal and nuclear waste management funds	(381)	–	–	–	–	(381)
Property and capital taxes	30	18	15	39	5	107
Restructuring	–	–	–	4	6	10
Income (loss) before impairment of long-lived assets	53	375	423	185	(16)	1,020
Impairment of long-lived assets	63	–	–	202	–	265
(Loss) income before interest, income taxes and extraordinary item	(10)	375	423	(17)	(16)	755

Notes to the Consolidated Financial Statements

	Regulated		Unregulated			
(millions of dollars)	Nuclear	Hydro- electric	Hydro- electric	Fossil- Fuelled	Other	Total
Selected Balance Sheet Information						
As at December 31, 2006						
Segment fixed assets in service, net	4,213	3,907	3,012	408	544	12,084
Segment construction work in progress	165	252	78	49	133	677
Segment property, plant and equipment, net	4,378	4,159	3,090	457	677	12,761
Segment materials and supplies inventory, net:						
Short term	63	1	–	48	–	112
Long term	320	–	3	3	–	326
Segment fuel inventory	183	–	–	486	–	669
As at December 31, 2005						
Segment fixed assets in service, net	3,016	3,963	3,031	484	570	11,064
Segment construction work in progress	140	91	45	47	25	348
Segment property, plant and equipment, net	3,156	4,054	3,076	531	595	11,412
Segment materials and supplies inventory, net:						
Short term	72	–	–	43	–	115
Long term	268	–	4	1	–	273
Segment fuel inventory	158	–	–	423	–	581
Selected Cash Flow Information						
Year ended December 31, 2006						
Investment in fixed assets	173	171	81	71	141	637
Year ended December 31, 2005						
Investment in fixed assets	273	101	44	46	30	494

Notes to the Consolidated Financial Statements

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:

	Revenue	Expenses	Revenue	Expenses
(millions of dollars)	2006	2006	2005	2005
Hydro One				
Electricity sales	34	–	40	–
Services	–	13	–	12
Settlement Transactions	–	–	–	27
Province of Ontario				
GRC water rentals and land tax	–	132	–	132
Guarantee fee	–	8	–	8
Used Fuel Fund rate of return guarantee	–	96	–	–
Decommissioning Fund excess funding	–	(7)	–	7
OEFC				
GRC and proxy property tax	–	205	–	207
Interest income on receivable	–	(29)	–	(75)
Interest expense on long-term notes	–	203	–	211
Capital tax	–	51	–	51
Income taxes	–	86	–	192
Indemnity fees	–	2	–	5
IESO				
Electricity sales	5,029	146	6,517	329
Market Power Mitigation Agreement rebate	–	–	(412)	–
Revenue limit rebate	(161)	–	(739)	–
Ancillary services	132	–	68	–
Other	1	1	–	–
	5,035	907	5,474	1,106

During 2006, OPG's Board of Directors approved the payment of a dividend to its shareholder, the Province. The declared dividend of \$128 million represents 35 per cent of OPG's 2005 net income and was paid in November 2006.

At December 31, 2006, accounts receivable included \$8 million (2005 – \$14 million) due from Hydro One and \$71 million (2005 – \$324 million) due from the IESO. Accounts payable and accrued charges at December 31, 2006 included \$2 million (2005 – \$2 million) due to Hydro One.

Notes to the Consolidated Financial Statements

20**Joint Ventures**

Significant joint ventures include Brighton Beach and PEC, which are 50 per cent owned by OPG (2005 – 50 per cent).

The following condensed information from the consolidated statements of operations, cash flows and balance sheets detail the Company's share of its investment in joint ventures and partnerships that has been proportionately consolidated:

(millions of dollars)	2006	2005
Proportionate joint venture operations		
Operating revenue	39	46
Operating expenses	(19)	(36)
Net income	20	10
Proportionate joint venture cash flows		
Operating activities	17	21
Investing activities	(109)	(2)
Financing activities	(6)	(4)
Share of increase in cash	(98)	15
Proportionate joint venture balance sheets		
Current assets	25	26
Long-term assets	379	279
Current liabilities	(25)	(11)
Long-term liabilities	(191)	(199)
Share of net assets	188	95

21**Investment Company**

The Company applied AcG-18 for all investments owned by OPGV. OPGV is a wholly owned subsidiary of the Company and its results are consolidated into the Company's financial statements. Since OPGV is the only enterprise in the group that satisfies the criteria set out in AcG-18, all other investments made by OPG and its subsidiaries, partnerships or joint ventures continue to be carried at amortized cost. The carrying amount of OPGV's investments was \$32 million (2005 – \$29 million) and the amount was included as long-term accounts receivable and other assets on the consolidated balance sheets.

As a result of the application of this policy, the Company's net income and other assets for 2006 increased by \$2 million (2005 – decreased by \$11 million). The net realized gains and losses for OPGV was \$1 million (2005 – \$nil).

The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2006 were \$5 million and \$14 million respectively. The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2005 were \$2 million and \$13 million respectively.

Notes to the Consolidated Financial Statements

22**Research and Development**

For the year ended December 31, 2006, \$16 million (2005 – \$19 million) of research and development expenses were charged to operations.

23**Changes in Non-Cash Working Capital Balances**

(millions of dollars)	2006	2005
Accounts receivable	303	(191)
Fuel inventory	(88)	(12)
Materials and supplies	–	(23)
Market Power Mitigation Agreement rebate payable	–	412
Revenue limit rebate payable	161	739
Accounts payable and accrued charges	54	10
Income and capital taxes payable	47	69
	477	1,004

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 Canadian accounting principles. Management is responsible for the accuracy, integrity, and objectivity of the information contained in the financial statements.

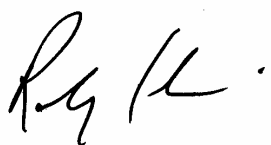
The financial statements include some amounts, such as provision for unsettled indemnities that are necessarily based on management's best estimates and have been made using careful judgement.

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 Finance and Audit Committee of the Board of Directors meets periodically with AgriCorp's management and internal and external auditors to review the quality of financial reporting and internal accounting controls and the nature, extent, and results of the audits. In addition, this Committee reviews and reports on AgriCorp's financial statements to the Board of Directors.

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 their examination and expresses their opinion on the financial statements of the company.



Randy Jackiw
Chief Executive Officer



Erich Beifuss
Chief Financial Officer



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

Auditor's Report

To AgriCorp

And to the Minister of Agriculture, Food and Rural Affairs

I have audited the balance sheet of AgriCorp as at March 31, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

Toronto, Ontario
June 6, 2007

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

B.P. 105, 15^e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopier 416-326-3812

AgriCorp

Balance Sheet
March 31, 2007

(thousands)

	2007	2006
Assets		
Cash	\$ 13,752	\$ 3,025
Accounts receivable (Note 4)	530,897	445,508
Investments (Note 5)	362,002	408,355
Capital assets (Note 6)	4,540	2,988
Funds under administration (Note 7)	397	220
	\$911,588	\$860,096
Liabilities & Fund Balances		
Bank indebtedness	\$ -	\$ 307
Accounts payable and accrued liabilities	38,218	54,173
Unearned premiums and revenue (Note 10)	17,507	22,535
Provision for unsettled indemnities (Note 12)	520,383	522,866
Funds under administration payable (Note 7)	397	220
	576,505	600,101
Fund Balances (Note 13)	335,083	259,995
	\$911,588	\$860,096

See accompanying notes to financial statements.

On behalf of the board:


Liam McCreery
Chair

Randy Jackiw
Chief Executive Officer

AgriCorp

Statement of Operations and Fund Balances

March 31, 2007

(thousands)

	2007	2006
Revenue		
Operating funding – Ontario and Canada (Note 9)	\$ 29,605	\$ 25,086
Premiums/contributions from producers	55,875	59,455
Program funding - Ontario and Canada (Note 3)	583,452	497,686
Sales, consulting and other services	6,794	9,709
Investment income	13,716	11,815
TOTAL REVENUE	689,442	603,751
Expenses		
Indemnities	564,214	512,438
Reinsurance (Note 11)	13,306	12,134
Administration	34,570	33,689
Depreciation	2,021	1,309
Bad debts	243	2,148
TOTAL EXPENSES	614,354	561,718
Excess of revenue over expenses	75,088	42,033
Fund balances, beginning of year (Note 13)	259,995	217,962
Fund balances, end of year (Note 13)	\$335,083	\$259,995

See accompanying notes to financial statements.

AgriCorp

Statement of Cash Flows

March 31, 2007

(thousands)

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities		
Excess of revenue over expenses	\$ 75,088	\$ 42,033
Items not affecting cash resources:		
Depreciation of capital assets	2,021	1,309
Net change in accounts receivable	(85,389)	(39,096)
Net change in accounts payable and accrued liabilities	(15,955)	(33,948)
Net change in unearned premiums and revenue	(5,028)	4,749
Net change in unsettled indemnities	(2,483)	204,596
Cash flows from (used in) operating activities	<u>(31,746)</u>	<u>179,643</u>
Cash Flows from Investing Activities		
Purchase of capital assets	(3,573)	(2,945)
Decrease (Increase) in investments	46,353	(170,127)
Cash flows from (used in) investing activities	<u>42,780</u>	<u>(173,072)</u>
Net increase in cash	11,034	6,571
Cash (Bank Indebtedness) at beginning of year	2,718	(3,853)
Cash at end of year	<u><u>\$ 13,752</u></u>	<u><u>\$ 2,718</u></u>

See accompanying notes to financial statements.

AgriCorp

Notes to Financial Statements
March 31, 2007

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 Canadian Agricultural Income Stabilization Program ("CAIS"), the Ontario Grain and Oilseed Program, in addition to a number of other programs that provide various forms of assistance to farmers.

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 insured growers with protection against yield reduction caused by natural perils.

The Canadian Income Stabilization Program was established under the Canada-Ontario Implementation 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 for this program from the Ontario Ministry of Agriculture, Food and Rural Affairs.

The Ontario Grain and Oilseed Program was established under agreement between the Minister of Agriculture, Food and Rural Affairs and AgriCorp to compensate Ontario grain and oilseed producers for losses experienced on their 2005 crops.

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 forwarding the fees net of an administrative charge to Ontario's accredited General Farm Organizations.

2. SIGNIFICANT ACCOUNTING POLICIES

(A) Basis Of Accounting

The financial statements of AgriCorp have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements are, in management's opinion, properly prepared within reasonable limits of materiality, statutory requirements and the framework of the accounting policies summarized below:

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 un-segregated activities.

AgriCorp

Notes to Financial Statements
March 31, 2007

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
Computer hardware	3 years
Computer software	2 years
Leasehold improvements	5 years

(C) Pension Plan

AgriCorp sponsors a contributory defined benefit registered pension plan for all full-time employees. The Corporation contributes to the plan based on employee contributions and a factor determined by the plan's independent actuary. The cost of pension benefits for the defined benefit plan is determined by an independent actuary using the projected benefit method prorated on service and management's best estimates of expected plan investment performance, salary escalation, and retirement ages of employees. Pension plan assets are valued using current fair values and any actuarial adjustments are amortized on a straight-line basis over the average remaining service life of the employee group. The most recent actuarial valuation was as of January 1, 2006. The next actuarial valuation is expected to be completed as of January 1, 2009.

(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. For some programs, interest earned on investments is applied to operating funding to offset program administration costs. Short-term investments are acquired primarily for the purpose of liquidity and are held for less than one year. Short-term investments are carried at cost, which approximates market value. Long-term investments are acquired primarily in the Production Insurance fund and are invested to earn interest for the fund. 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 claims that remained unsettled at year-end and were either quantified based on settlement amounts after year-end or management's best estimates of future amounts to be paid for a program year. Actual indemnity payments could differ from management's estimates.

(F) Revenue Recognition

Premium revenues are recognized in the year in which the related crops are harvested.

AgriCorp

Notes to Financial Statements
March 31, 2007

(G) Use of Estimates

The preparation of AgriCorp's 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 balance sheet date and the reported amounts of revenue and expenses and fund balances during the reporting period. Estimates and assumptions are made primarily in the determination of the balance for receivables from the funding partners for the programs and for the related provision for unsettled indemnities. Actual results could differ from such estimates.

3. CANADA-ONTARIO COST SHARING AGREEMENTS

(A) Production Insurance

The Canada-Ontario Implementation 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 Federal and Ontario government share the remainder of the insurance premium costs on the basis of 60% and 40% respectively.

(B) Income Stabilization

For CAIS, participants must enrol in the program and pay an administration fee and an enrolment fee based on the selected level of coverage and a reference margin based on the individual participant's production margin for specified prior years. A program benefit is paid to the participant based on their selected level of coverage when their current production margin falls below the set reference margin. The Federal and Ontario government share the program costs on the basis of 60% and 40% respectively.

(C) Canada-Ontario General Top-Up Program

The Canada-Ontario General Top-Up Program was established under the Canada-Ontario Implementation Agreement. Under the terms of the agreement, producers that participate in the Canadian Agricultural Income Stabilization Program (CAIS) and have received a payment under that program are eligible for a top-up payment that will be based on a fixed percentage of their 2003 and 2004 CAIS government benefits. The Canada-Ontario shared funding for the Program will not exceed \$88 million.

(D) Market Revenue Program

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 was intended to protect farmers against reduced income caused by low market prices for certain designated crops. In February 2005, the Ontario Government extended the Market Revenue Program to include the 2003 and 2004 crop years and announced the program will be terminated when the program funds have been depleted.

(E) Ontario Edible Horticulture Crop Payment

The Ontario Edible Horticulture Crop Payment Agreement came into effect February 21, 2006 and expired on March 31, 2007. Under the terms of the agreement, Ontario provided a maximum of \$35 million to compensate producers of edible horticulture crops for losses on their 2005 crops.

AgriCorp

Notes to Financial Statements

March 31, 2007

(F) Plum Pox Program

The Plum Pox Program was established pursuant to the Canada-Ontario Agreement on Responding to the Presence of the Plum Pox Virus in Ontario and came into effect on June 29, 2001. The Program is a multi-year plan to carry out the plum pox detection surveys and other activities to help contain or eradicate the plum pox virus in Ontario, and to assist commercial tender fruit growers and commercial nursery operators with the cost of tree removal, destruction, replacement and asset loss incurred when trees are removed as part of the plum pox control measures. Canada and Ontario have agreed to share overall program cost based on funds available for agricultural assistance at each level of government.

(G) Self-Directed Risk Management

The Self-Directed Risk Management Program (SDRM) was established under the Canada-Ontario Implementation Agreement. Under the terms of the agreement, a producer deposits into the Program account a percentage of their eligible net sales, and a matching contribution is also made into the account by the Federal and/or Ontario 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. For the 2003 to 2005 program years, the Federal and Ontario governments agreed to share program costs equally. For program years subsequent to 2005, the program cost is funded by Ontario.

(H) Ontario Grain and Oilseed Program

The Ontario Grain and Oilseed Program came into effect February 21, 2006 and expired March 31, 2007. Under the terms of the agreement, producers of grains and oilseeds may be eligible to receive compensation for losses on their 2005 crops up to a maximum program cost of \$80 million.

(I) CAIS Inventory Transition Initiative Program (CITI)

The CAIS Inventory Transition Initiative Program came into effect May 18, 2006 and expires March 31, 2008. The Federal government will pay 100% of the program costs, which for Ontario is forecasted at \$144 million.

(J) Ontario Inventory Transition Program (OITP)

The Ontario Inventory Transition Program (OITP) came into effect September 14, 2006 and expires December 31, 2007. The total cost for the program cannot exceed \$96 million for the 2003, 2004 and 2005 program years.

AgriCorp

Notes to Financial Statements
March 31, 2007

4. ACCOUNTS RECEIVABLE

Accounts receivable are comprised primarily of amounts due from the Federal and Ontario government for program payments. The allowance for uncollectable amounts relates primarily to amounts due from producers as a result of overpayments and recalculations of the benefit due to the producer.

(thousands)	2007	2006
Government funding - Canada	\$ 309,691	\$ 233,992
Government funding - Ontario	196,868	162,029
Producer receivables	24,054	48,670
Trade	2,592	2,011
Due from Minister of Finance (Note 8)	382	427
Accrued interest	205	1,026
Allowance for uncollectable amounts	(2,895)	(2,647)
	<u>\$ 530,897</u>	<u>\$ 445,508</u>

5. 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.

(A) Portfolio Profile

Investments are as follows:

(thousands)	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term	\$115,073	\$114,886	\$ 231,221	\$ 230,609
Long-term				
Government of Canada	43,324	43,199	29,175	29,045
Province of Ontario	79,472	78,296	47,012	46,371
Other provincial governments	48,317	47,409	63,098	61,743
Provincial utilities	32,271	32,858	31,285	32,374
Other financial institutions	43,545	42,618	6,564	6,703
Total long-term	<u>246,929</u>	<u>244,380</u>	<u>177,134</u>	<u>176,236</u>
Total Investments	<u>\$ 362,002</u>	<u>\$ 359,266</u>	<u>\$ 408,355</u>	<u>\$ 406,845</u>

AgriCorp

Notes to Financial Statements
March 31, 2007

(B) Investment Risk

The coupon rates for the long-term bond portfolio range from 4.00% to 6.25% with a weighted average yield of 4.36%. 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 production insurance claim levels differed significantly from expected claims and liquidation of long term investment was required to meet obligations. At March 31, 2007, a 1% move in interest rates could impact the market value by approximately \$9.2 million.

(C) Maturity Profile of the Investment Portfolio

(thousands)	2007	2006
<1 Year	\$ 115,073	\$ 231,221
1–3 Years	82,482	58,684
3–5 Years	75,700	61,688
>5 Years	88,747	56,762
Total	<u>\$ 362,002</u>	<u>\$ 408,355</u>

6. CAPITAL ASSETS

(thousands)	March 31, 2007			2006
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computer hardware	\$ 5,070	\$ 4,239	\$ 831	\$ 834
Computer software	5,440	3,181	2,259	1,063
Leasehold improvements	1,461	483	978	880
Furniture and fixtures	626	154	472	211
	<u>\$12,597</u>	<u>\$ 8,057</u>	<u>\$ 4,540</u>	<u>\$ 2,988</u>

7. FUNDS UNDER ADMINISTRATION

The Corporation provides cheque production and cash management services for agricultural programs under various agreements with the Ontario Ministry of Agriculture, Food, and Rural Affairs. The funds required to make payments under these programs are provided by Ontario and Canada. Associated program payments and expenses are not recorded in these Financial Statements.

AgriCorp

Notes to Financial Statements
March 31, 2007

7. FUNDS UNDER ADMINISTRATION (cont'd)

(thousands)	2007	2006
Funds Under Administration		
Cash	\$ 397	\$ 220
Funds Under Administration Payable		
Canada-Ontario Repositioning Program	\$ —	\$ 56
Advanced Ontario Agricultural Payment	119	—
Ontario Farm Business Registration Program	258	130
Ontario Farm Income Disaster Program	12	—
Other	8	34
	\$ 397	\$ 220

8. 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.

9. OPERATING FUNDING – ONTARIO AND CANADA

Canada and Ontario have agreed to share the costs of administering the Production Insurance Fund and CAIS 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. Since the Canada-Ontario Market Revenue Agreement has expired, Ontario provided the operating funding for the Program during the 2006/07 fiscal year.

10. UNEARNED PREMIUMS AND REVENUE

Unearned premiums represent premiums paid in advance to the Ontario Production Insurance Fund for winter wheat (\$4.9 million) and other crops (\$6.0 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 (\$4.5 million) and administrative costs that are to be recovered from CAIS participants (\$2.1 million) when future program payments are made.

AgriCorp

Notes to Financial Statements
March 31, 2007

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 operating results for the current period includes over (under) provision for unsettled indemnities for prior years. The major over (under) provision changes are as follows:

(thousands)	2007	2006
	Over (Under) Provision	Over (Under) Provision
Fund/Program		
Production Insurance Fund	\$ 1,820	\$ 300
Canadian Agricultural Income Stabilization Program	61,000	10,000
OGOP	2,994	-
SDRM	2,037	(1,045)

Agricorp

Notes to Financial Statements
March 31, 2007

13. SEGMENTED INFORMATION (2007)

(thousands)

	General Fund	Production Insurance Fund	CAIS	Ontario Grain & Oil Seed Program	Canada - Ontario General Top-Up Program	Self Directed Risk Mgmt Fund	Plum Pox Fund	Market Revenue Program	Ontario Edible Hort. Payment	CITI	OITP	Total 2007
Balance Sheet												
Cash	\$ 330	\$ 1,317	\$ 10,925	\$ 18	\$ 463	\$ 178	\$ -	\$ -	\$ 8	\$ (213)	\$ 726	\$ 13,752
Accounts receivable	9,938	4,068	410,711	-	14,295	10,516	1,865	424	202	46,884	31,994	530,897
Investments	2,991	328,818	-	-	5,856	2,492	-	-	-	13,901	7,944	362,002
Capital assets	4,540	-	-	-	-	-	-	-	-	-	-	4,540
Funds under administration	397	-	-	-	-	-	-	-	-	-	-	397
Total Assets	\$ 18,196	\$ 334,203	\$ 421,636	\$ 18	\$ 20,614	\$ 13,186	\$ 1,865	\$ 424	\$ 210	\$ 60,572	\$ 40,664	\$ 911,588
Bank indebtedness												
Accounts payable and accrued liabilities	\$ 5,434	\$ -	\$ 23,996	\$ 18	\$ 3,616	\$ 833	\$ 481	\$ 169	\$ 210	\$ 2,259	\$ 1,202	\$ 38,218
Unearned premiums and revenue	4,540	10,878	2,089	-	-	-	-	-	-	-	-	17,507
Provision for unsettled indemnities	-	1,517	390,001	-	16,998	12,353	1,384	355	-	58,313	39,462	520,383
Funds under administration payable	397	-	-	-	-	-	-	-	-	-	-	397
Total Program Liabilities	10,371	12,395	416,086	18	20,614	13,186	1,865	524	210	60,572	40,664	576,505
Fund Balances	7,825	321,808	5,550	-	-	-	-	(100)	-	-	-	335,083
Total Liabilities and Fund Balances	\$ 18,196	\$ 334,203	\$ 421,636	\$ 18	\$ 20,614	\$ 13,186	\$ 1,865	\$ 424	\$ 210	\$ 60,572	\$ 40,664	\$ 911,588

Agricorp

Notes to Financial Statements
March 31, 2007

13. SEGMENTED INFORMATION (2006)

(thousands)

	General Fund	Production Insurance Fund	CAIS	Ontario Grain & Oil Seed Program	Canada - Ontario General Top-Up Program	Self Directed Risk Mgmt Fund	Plum Pox Fund	Market Revenue Program	Ontario Edible Hort. Payment	CITI	OITP	Total 2006
Balance Sheet												
Cash	\$ 358	\$ 490	\$ 1,682	\$ 27	\$ 144	\$ 322	\$ -	\$ -	\$ 2	\$ -	\$ -	\$ 3,025
Accounts receivable	6,428	3,994	383,923	981	10,436	27,041	7,252	476	4,977	-	-	445,508
Investments	3,981	267,473	-	78,973	24,947	2,983	-	-	29,998	-	-	408,355
Capital assets	2,988	-	-	-	-	-	-	-	-	-	-	2,988
Funds under administration	220	-	-	-	-	-	-	-	-	-	-	220
Total Assets	\$ 13,975	\$ 271,957	\$ 385,605	\$ 79,981	\$ 35,527	\$ 30,346	\$ 7,252	\$ 476	\$ 34,977	\$ -	\$ -	\$ 860,096
Bank indebtedness	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 307	\$ -	\$ -	\$ -	\$ -	\$ 307
Accounts payable and accrued liabilities	3,077	180	43,127	-	1,308	1,256	5,124	101	-	-	-	54,173
Unearned premiums and revenue	3,068	16,165	3,302	-	-	-	-	-	-	-	-	22,535
Provision for unsettled indemnities	-	4,132	338,280	79,981	34,219	29,090	1,821	366	34,977	-	-	522,866
Funds under administration payable	220	-	-	-	-	-	-	-	-	-	-	220
Total Program Liabilities	6,365	20,477	384,709	79,981	35,527	30,346	7,252	467	34,977	-	-	600,101
Fund Balances	7,610	251,480	896	-	-	-	-	9	-	-	-	259,995
Total Liabilities and Fund Balances	\$ 13,975	\$ 271,957	\$ 385,605	\$ 79,981	\$ 35,527	\$ 30,346	\$ 7,252	\$ 476	\$ 34,977	\$ -	\$ -	\$ 860,096

Agricorp

Notes to Financial Statements
March 31, 2007

13. SEGMENTED INFORMATION (2007)

(thousands)	General Fund	Production Insurance Fund	CAIS	Ontario Grain & Oil Seed Program	Canada - Ontario General Top-Up Program	Self Directed Risk Mgmt Fund	Plum Pox Fund	Market Revenue Program	Ontario Edible Hort. Payment	CITI	OITP	Total 2007
Statement Of Operations And Fund Balances												
Revenue												
Operating funding	\$ 29,605	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,605
Premiums/contributions from producers	-	41,194	10,686	-	-	3,995	-	-	-	-	-	55,875
Program funding	-	63,064	277,145	(2,994)	1,700	3,995	934	(126)	(122)	144,000	95,856	583,452
Sales, consulting and other services	6,794	-	-	-	-	-	-	-	-	-	-	6,794
Investment income	407	13,293	-	-	-	-	-	16	-	-	-	13,716
Total Revenues	36,806	117,551	287,831	(2,994)	1,700	7,990	934	(110)	(122)	144,000	95,856	689,442
Expenses												
Indemnities	-	33,673	283,177	(2,994)	1,700	7,990	934	-	(122)	144,000	95,856	564,214
Re-insurance	-	13,306	-	-	-	-	-	-	-	-	-	13,306
Administration	34,570	-	-	-	-	-	-	-	-	-	-	34,570
Depreciation of capital assets	2,021	-	-	-	-	-	-	-	-	-	-	2,021
Bad debts	-	244	-	-	-	-	-	(1)	-	-	-	243
Total Expense	36,591	47,223	283,177	(2,994)	1,700	7,990	934	(1)	(122)	144,000	95,856	614,354
Excess (deficiency) of revenue over expenses	215	70,328	4,654	-	-	-	-	(109)	-	-	-	75,088
Fund Balances, beginning of year	7,610	251,480	896	-	-	-	-	9	-	-	-	259,995
Fund Balances, end of year	\$ 7,825	\$ 321,808	\$ 5,550	\$ -	\$ -	\$ -	\$ -	\$ (100)	\$ -	\$ -	\$ -	\$ 335,083

Agricorp

Notes to Financial Statements
March 31, 2007

13. SEGMENTED INFORMATION (2006)

(thousands)	General Fund	Production Insurance Fund	CAIS	Ontario Grain & Oil Seed Program	Canada - Ontario General Top-Up Program	Self Directed Risk Mgmt Fund	Plum Pox Fund	Market Revenue Program	Ontario Edible Hort. Payment	CITI	OITP	Total 2006
Statement Of Operations And Fund Balances												
Revenue												
Operating funding	\$ 25,086	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,086
Premiums/contributions from producers	-	44,562	896	-	-	13,997	-	-	-	-	-	59,455
Program funding	-	64,506	258,499	79,981	34,218	13,997	11,632	(124)	34,977	-	-	497,686
Sales, consulting and other services	9,709	-	-	-	-	-	-	-	-	-	-	9,709
Investment income	196	11,499	-	-	-	-	-	120	-	-	-	11,815
Total Revenues	34,991	120,567	259,395	79,981	34,218	27,994	11,632	(4)	34,977			603,751
Expenses												
Indemnities	-	66,386	257,250	79,981	34,218	27,994	11,632	-	34,977	-	-	512,438
Re-insurance	-	12,134	-	-	-	-	-	-	-	-	-	12,134
Administration	33,689	-	-	-	-	-	-	-	-	-	-	33,689
Depreciation of capital assets	1,309	-	-	-	-	-	-	-	-	-	-	1,309
Bad debts	-	912	1,249	-	-	-	-	(13)	-	-	-	2,148
Total Expense	34,998	79,432	258,499	79,981	34,218	27,994	11,632	(13)	34,977			561,718
Excess (deficiency) of revenue over expenses	(7)	41,135	896	-	-	-	-	9	-	-	-	42,033
Fund Balances, beginning of year	7,617	210,345	-	-	-	-	-	-	-	-	-	217,962
Fund Balances, end of year	\$ 7,610	\$ 251,480	\$ 896	\$ -	\$ -	\$ -	\$ -	\$ 9	\$ -	\$ -	\$ -	\$ 259,995

AgriCorp

Notes to Financial Statements

March 31, 2007

14. PENSION PLAN

The Corporation has a mandatory contributory defined benefit plan for its full-time employees. The changes for AgriCorp's defined benefit plan during the year are as follows:

(thousands)	2007	2006
Accrued benefit obligation		
Balance at beginning of year	\$ 8,152	\$ 5,487
Current service cost	1,215	967
Interest cost	556	406
Employee contributions	844	707
Benefits paid	(202)	(178)
Actuarial loss (gain)	-	763
Balance at end of year	\$ 10,565	\$ 8,152
Plan assets		
Fair value at beginning of year	\$ 6,698	\$ 4,827
Actual return (loss) on plan assets	883	510
Employer contributions	1,020	832
Employee contributions	844	707
Benefits paid	(202)	(178)
Fair value at end of year	\$ 9,243	\$ 6,698
Funded status		
Plan surplus (deficit)	\$ (1,322)	\$ (1,454)
Unamortized Actuarial (gain)/loss	1,065	1,462
Unamortized transitional (obligation) asset	(117)	(130)
Accrued benefit asset (obligation)	\$ (374)	\$ (122)

The accrued benefit obligation for the pension plan is included in accounts payable and accrued liabilities.

AgriCorp

Notes to Financial Statements
March 31, 2007

The significant actuarial assumptions adopted in measuring AgriCorp's accrued benefit obligations are as follows:

	2007	2006
Discount rate	5.5%	5.5%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of compensation increase	4.0%	4.0%

AgriCorp's net benefit plan expense is as follows:

(thousands)	2007	2006
Current service cost	\$ 1,215	\$ 967
Interest cost	556	406
Expected return on plan assets	(527)	(385)
Amortization of transitional (obligation) asset	(13)	(13)
Amortization of unrecognised (gain) loss	41	21
Net benefit plan expense	\$ 1,272	\$ 996

An external investment advisor manages the investments held by the pension plan. Plan assets are invested in three balanced funds (94%) and one global equity fund (6%).

AgriCorp

Notes to Financial Statements
March 31, 2007

15. COMMITMENTS AND CONTINGENCIES***Lease commitments***

AgriCorp leases its office premises. The minimum aggregate rentals for the unexpired terms of these leases are:

(thousands)	
2008	\$ 1,288
2009	1,431
2010	1,431
2011	1,431
	\$ 5,581

Contingencies

The corporation provides for the estimated indemnities for the various programs based on crop years for production insurance and taxation years for CAIS and most other programs. The primary information for the processing of the claims for the 2006 CAIS program (and other similar programs) is based on information that is not due to AgriCorp until June 30, 2007. Consequently, AgriCorp estimates the amount that is expected to be payable for the year based on statistical data, prior year information, and farm production prices. The actual amount payable for these indemnities could vary substantially from the amount recorded in the financial statements.

16. RELATED PARTY TRANSACTIONS

The Corporation has entered into several agreements to acquire services from the Ontario Ministry of Agriculture, Food and Rural Affairs. The cost, at fair market value, for the administrative, legal and audit services amounted to \$956,000. In addition, the Corporation rents their head office location from the Ontario Realty Corporation for a total cost for the year of \$1,213,000.

AgriCorp

Notes to Financial Statements
March 31, 2007

17. BOARD REMUNERATION AND SALARY DISCLOSURE

Total remuneration to members of the Board of Directors was \$26,460 during the year ending March 31, 2007 (2006 – \$23,762).

The *Public Sector Salary Disclosure Act, 1996*, requires the Corporation to disclose employees paid an annual salary in excess of \$100,000. For the 2006 calendar year, the amounts paid to such individuals is as follows:

Name	Position	Salary	Taxable Benefits
Brown, Greg	Executive Director, Business Development	\$ 108,983	\$ 14,679
Gallagher, Jocelyn	Director, Human Resources	110,895	424
Ip, Stephen	Director, Information Technology	107,844	6,423
Jackiw, Randy	Chief Executive Officer	163,357	9,089
McMorris, Michael	Director, Operations	110,629	430
Stroeter, Reinhold	Director, Corporate Services	123,334	6,477

18. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the financial statement presentation adopted in the current year.

The Agricultural Research Institute of Ontario

Management's Responsibility for Financial Reporting

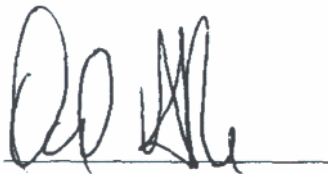
The accompanying financial statements of the Agricultural Research Institute of Ontario (ARIO) have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the accuracy, integrity, and objectivity of the information contained in the financial statements.

The preparation of financial statements necessarily involves the use of estimates based on management's best judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. These financial statements have been prepared within reasonable limits of materiality with information available up to and including May 16, 2007.

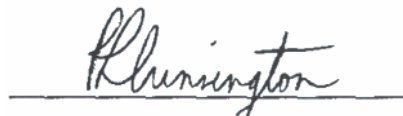
In discharging its responsibility for the integrity of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained.

The financial statements have been examined by RLB LLP, independent external auditors appointed by the Ontario Ministry of Agriculture, Food and Rural Affairs on behalf of ARIO. The external auditors' responsibility is to express an opinion on whether the financial statements are presented fairly in accordance with generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and opinion.

On behalf of management:



David Antle
Director of Research



Rob Cunningham, C.A.
Comptroller



AUDITORS' REPORT

To the Members of: Agricultural Research Institute of Ontario

We have audited the statement of financial position of Agricultural Research Institute of Ontario as at March 31, 2007 and the statement of revenues and expenditures for the year then ended. These financial statements are the responsibility of the Institute'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 Institute as at March 31, 2007 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

RLB LLP

Guelph, Ontario
May 16, 2007

Chartered Accountants
Licensed Public Accountants

STATEMENT 1

**AGRICULTURAL RESEARCH INSTITUTE OF ONTARIO
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2007**

A S S E T S

	2007 (schedule 1)	2006
Cash	\$ 794,104	\$ 93,669
Temporary investments	9,663,880	10,880,681
Accounts receivable	529,097	430,459
Capital assets (note 3)	<u>60,857,867</u>	<u>9,793</u>
	<u>\$ 71,844,948</u>	<u>\$ 11,414,602</u>

L I A B I L I T I E S

Accounts payable and accruals	\$ 1,034,453	\$ 535,887
Holdbacks payable	188,269	92,410
Unclaimed expenditures	4,880,084	2,495,239
Deferred capital contributions (note 4)	<u>46,768,994</u>	<u>0</u>
	<u>52,871,800</u>	<u>3,123,536</u>

N E T A S S E T S

Fund balances	<u>18,973,148</u>	<u>8,291,066</u>
	<u>\$ 71,844,948</u>	<u>\$ 11,414,602</u>

see accompanying notes

STATEMENT 2

**AGRICULTURAL RESEARCH INSTITUTE OF ONTARIO
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2007**

	2007 (schedule 2)	2006
REVENUES		
Grants - Provincial (note 7)	\$ 560,953	\$ 1,975,143
Grants - Provincial - Minor Capital (note 7)	4,000,000	0
Grants - Federal	284,851	204,800
Grants - other	104,375	100,000
Royalties	923,658	900,684
Investment income	468,650	293,650
Leases - private industry	540,432	0
Amortization of deferred capital contribution	148,133	0
	<u>7,031,052</u>	<u>3,474,277</u>
EXPENDITURES		
Research project\program - Provincial	2,036,513	1,793,870
Research project\program - Federal	615,752	155,578
Other expenses	623,619	640,522
Leases - private industry	540,432	0
Payments in lieu of taxes	58,050	0
Minor capital	4,008,589	0
Amortization of capital assets	148,133	0
Write down of investments	12,117	75,924
	<u>8,043,205</u>	<u>2,665,894</u>
NET (EXPENDITURES OVER REVENUES)		
REVENUES OVER EXPENDITURES for the year	(1,012,153)	808,383
FUND BALANCES, BEGINNING OF YEAR	8,291,066	7,255,339
NET AMOUNT TRANSFERRED (TO) FROM UNCLAIMED EXPENDITURES	(2,384,845)	227,344
CONTRIBUTED ASSETS (note 5)	<u>14,079,080</u>	<u>0</u>
FUND BALANCES, end of year	<u>\$18,973,148</u>	<u>\$ 8,291,066</u>

see accompanying notes

**AGRICULTURAL RESEARCH INSTITUTE OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

1. NATURE OF BUSINESS

The Agricultural Research Institute of Ontario (ARIO) is a non-profit corporate body reporting directly to the Ministry of Agriculture, Food and Rural Affairs. It was created by the ARIO Act (1962) with specific responsibilities over the co-ordination and direction of agricultural research programs in Ontario. These programs relate to a broad range of commodities and disciplines, covering all aspects of the agri-food system. In addition, ARIO manages the Vegetation Management Alternatives Program research fund on behalf of the Ministry of Natural Resources, and all funding is provided by the Ministry of Natural Resources.

Funding for programs supported by ARIO is available from three sources. The Ontario Government, through the Ministry of Agriculture, Food and Rural Affairs, is the primary source of funding. The Ontario Government also provides funding for the competitive research programs. The secondary source of funding is the Federal Government, mainly through Agriculture and Agri-Food Canada (AAFC). Under the ARIO Act, the Institute may accept grants and donations for research. Other funds usually come from commercial sources (such as agri-business, marketing boards, and producer associations) and can be either designated for specific projects or non-designated. In addition, with the approval of the Minister of Agriculture, Food and Rural Affairs, ARIO is able to hold patents and earn royalties on research developments.

All receipts are held in trust by the Director of Research and are allocated in accordance with the terms of the funds.

The research funds are managed by the secretariat to ARIO as follows:

- Agricultural Research Institute of Ontario (ARIO)
- Alternative Renewable Fuels (ARF)
- Vegetation Management Alternatives Program (VMAP)
- New Directions Research Program
- Food Safety Research Program
- Life Science and Agri-Food Innovation Fund (LAIF)
- Nutrient Management Joint Research Program (NMJRP)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) INVESTMENTS

All investments are carried at the lower of cost plus accrued interest or fair market value and are recorded on the trade date basis.

(b) UNCLAIMED EXPENDITURES

Unclaimed expenditures are defined as the total approved budget for competitive research projects less expenses incurred to date.

(c) CAPITAL ASSETS

Capital assets are amortized using the following annual rate and method:

Buildings	- 40 years straight line basis

(d) DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions are amortized at the same rate as the buildings to which they relate.

**AGRICULTURAL RESEARCH INSTITUTE OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) INCOME TAXES

ARIO is not subject to income taxes.

(f) RESTRICTIONS ON THE EXPENDITURE OF FUNDS

The purpose, funding, terms and conditions and duration of each research trust fund are stipulated in the relevant Order-in-Council, memorandum of understanding or Ministry correspondence.

(g) FINANCIAL INSTRUMENTS

Fair value of financial assets and financial liabilities

The carrying values of cash, accounts receivable, prepaid expenses, accounts payable, unclaimed expenditures and holdbacks approximate their fair value due to the relatively short periods to maturity of these items.

(h) 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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(i) DEFERRAL METHOD

Agricultural Research Institute of Ontario follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue of the appropriate fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

3. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net 2007	Net 2006
Land:				
Cambridge railway line	\$ 9,793	\$ 0	\$ 9,793	\$ 9,793
Colleges	3,099,400	0	3,099,400	0
Research Stations	10,979,680	0	10,979,680	0
	<u>14,088,873</u>	<u>0</u>	<u>14,088,873</u>	<u>9,793</u>
Buildings:				
Colleges	27,423,615	72,668	27,350,947	0
Research Stations	19,493,512	75,465	19,418,047	0
	<u>46,917,127</u>	<u>148,133</u>	<u>46,768,994</u>	<u>0</u>
	<u>\$ 61,006,000</u>	<u>\$ 148,133</u>	<u>\$ 60,857,867</u>	<u>\$ 9,793</u>

As at March 6, 2007, the titles for capital assets (land and buildings) with a carrying value of approximately \$60.9 million were transferred to ARIO from the Government of Ontario. Carrying value is being used as the transfer value since the transfer took place between non-arms's length parties, is non-monetary in nature and does not have commercial substance. As an agency of the Government of Ontario, ARIO reports these capital assets (and other assets and liabilities) in consolidation with the Ministry of Agriculture, Food and Rural Affairs on an annual basis.

**AGRICULTURAL RESEARCH INSTITUTE OF ONTARIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

4. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the net book value of the buildings transferred to ARIO from the Government of Ontario.

5. CONTRIBUTED ASSETS

Contributed assets represents the cost of the land transferred to ARIO from the Government of Ontario.

6. ARIO RESEARCH FUND

	Designated Funds	Seed Royalty	Technology Royalty	Unpledged Equity	Total 2007	Total 2006
Grant income	\$ 4,375	\$ 0	\$ 0	\$ 262,048	\$ 266,423	\$ 91,350
Royalties	0	590,450	333,208	0	923,658	900,684
Investment income	<u>4,942</u>	<u>28,675</u>	<u>24,841</u>	<u>3,415</u>	<u>61,873</u>	<u>59,943</u>
	9,317	619,125	358,049	265,463	1,251,954	1,051,977
Expenses	26,312	267,575	67,955	287,875	649,717	521,686
Investment write-down	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,117</u>	<u>12,117</u>	<u>75,924</u>
Net (deficit) surplus for the year	(16,995)	351,550	290,094	(34,529)	590,120	454,367
Fund balance, beginning of year	89,989	813,722	800,572	94,993	1,799,276	1,340,202
Transfer to LAIF	0	(375,000)	(375,000)	0	(750,000)	0
Transfer from unclaimed expenditures	<u>662</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>662</u>	<u>4,707</u>
Fund balance, end of year	<u>\$ 73,656</u>	<u>\$ 790,272</u>	<u>\$ 715,666</u>	<u>\$ 60,464</u>	<u>\$ 1,640,058</u>	<u>\$ 1,799,276</u>

7. GRANTS RECEIVED FROM THE PROVINCIAL GOVERNMENT

	2007	2006
The following grants have been received from the Ministry of Agriculture, Food and Rural Affairs (OMAFRA):		
Minor capital	\$ 4,000,000	\$ 0
New Directions Research Program	0	1,350,000
Food Safety Research Program	0	500,000
Nutrient Management Joint Research Program	240,855	0
Payments in lieu	<u>58,050</u>	<u>0</u>
	4,298,905	1,850,000
The following grant has been funded by the Ministry of Research and Innovation (MRI):		
Ontario Research Fund - indirect costs (OFRIC)	<u>262,048</u>	<u>125,143</u>
	<u>\$ 4,560,953</u>	<u>\$ 1,975,143</u>

8. STATEMENT OF CASH FLOWS

A statement of cash flows has not been presented as it would provide no additional meaningful information.

9. COMPARATIVE FIGURES

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

**Agricultural Research Institute of Ontario
Research Trust Funds
Schedule of Financial Position
As at March 31, 2007**

	ARIO (note 3) \$	Infrastructure (note 3) \$	ARF \$	VMAP \$	New Directions \$	Food Safety \$	LAIF \$	NMJRP \$	Eliminations \$	March 31, 2007 Total (statement 1) \$
Assets										
Cash	794,104									794,104
Temporary investments	9,663,880									9,663,880
Due from ARIO		8,510	368,377	700,569	6,014,557	786,089	743,576	29,519	(8,651,197)	0
Accounts receivable	122,224		122,187	4,963	42,610	5,570	110,646	120,897		529,097
Capital assets (note 3)	9,793	60,848,074								60,857,867
	10,590,001	60,856,584	490,564	705,532	6,057,167	791,659	854,222	150,416	(8,651,197)	71,844,948
Liabilities										
Due to other research trust funds	8,651,197								(8,651,197)	0
Accounts payable and accruals	260,953		125,001		200,000	125,001	175,000	148,498		1,034,453
Holdbacks payable			13,641		127,727	46,901				188,269
Unclaimed expenditures	37,793		520,348	60,000	2,068,201	354,324	1,023,750	815,668		4,880,084
Deferred capital contributions (note 4)		46,768,994								46,768,994
	8,949,943	46,768,994	658,990	60,000	2,395,928	526,226	1,198,750	964,166	(8,651,197)	52,871,800
Fund balance	1,640,058	14,087,590	(168,426)	645,532	3,661,239	265,433	(344,528)	(813,750)		18,973,148
	10,590,001	60,856,584	490,564	705,532	6,057,167	791,659	854,222	150,416	(8,651,197)	71,844,948

see accompanying notes

**Agricultural Research Institute of Ontario
Research Trust Funds
Schedule of Revenues and Expenditures
As at March 31, 2007**

	ARIO (note 6)	Infrastructure	ARF	VMAP	New Directions	Food Safety	LAIF	NMJRP	March 31, 2007 Total (statement 2)
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue									
Grants - Provincial	262,048	58,050						240,855	560,953
Grants - Provincial - Minor Capital		4,000,000							4,000,000
Grants - Federal			129,288				155,563		284,851
Grants - Other	4,375		100,000						104,375
Royalties	923,658								923,658
Investment income	61,873	17,099	15,985	30,642	279,749	41,397	21,069	836	468,650
Leases - private industry		540,432							540,432
Amortization of deferred capital contribution		148,133							148,133
	1,251,954	4,763,714	245,273	30,642	279,749	41,397	176,632	241,691	7,031,052
Expenditures									
Research project/program - Provincial	6,226							239,774	2,036,513
Research project/program - Federal	19,872		348,470	1,214	1,243,629	545,670	247,410		615,752
Other expenses	623,619								623,619
Leases - private industry		540,432							540,432
Payments in lieu of taxes		58,050							58,050
Minor capital		4,008,589							4,008,589
Amortization of capital assets		148,133							148,133
Write down of investment	12,117								12,117
	661,834	4,755,204	348,470	1,214	1,243,629	545,670	247,410	239,774	8,043,205
Net revenue (expenses)	590,120	8,510	(103,197)	29,428	(963,880)	(504,273)	(70,778)	1,917	(1,012,153)
Fund balance, beginning of year	1,799,276		405,911	616,104	4,884,113	585,662			8,291,066
Net amount transferred from (to) unclaimed expenditures	662		(471,140)		(258,994)	184,044	(1,023,750)	(815,667)	(2,384,845)
Contributed assets (note 5)		14,079,080							14,079,080
Inter fund transfer	(750,000)						750,000		0
Fund balance, end of year	1,640,058	14,087,590	(168,426)	645,532	3,661,239	265,433	(344,528)	(813,750)	18,973,148

see accompanying notes



May 11, 2007

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, 2007, 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,

Terrence Sullivan, Ph.D.
President and Chief Executive Officer

Elham Roushani, CA
Vice President & Chief Financial Officer



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

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, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-327-9862

Toronto, Ontario
May 11, 2007

B.P. 105, 15^e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-327-9862

CANCER CARE ONTARIOStatement of Financial Position
(In thousands of dollars)

March 31, 2007, with comparative figures for 2006

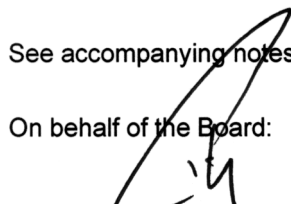
	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 130,813	\$ 85,330
Receivables (note 2)	23,875	3,641
	<u>154,688</u>	<u>88,971</u>
Due from Community Foundation (note 2)	2,236	2,945
Long-term investments (note 3)	26,451	52,460
Capital assets (note 4)	59,824	60,801
	<u>\$ 243,199</u>	<u>\$ 205,177</u>

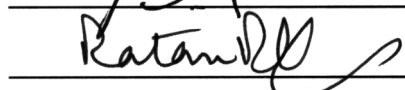
Liabilities, Deferred Contributions and Fund Balances

Current liabilities:		
Accounts payable and accrued liabilities	\$ 92,944	\$ 71,661
Deferred contributions:		
Deferred operating grants (note 5(a))	33,708	22,656
Deferred contributions related to capital assets (note 5(b))	67,873	66,796
	<u>101,581</u>	<u>89,452</u>
Post-retirement benefits other than pension plan (note 6(b))	3,283	3,364
Fund balances:		
Endowment	2,317	2,640
Internally and externally restricted	30,527	25,920
Unrestricted	12,547	12,140
	<u>45,391</u>	<u>40,700</u>
Commitments (note 13)		
Contingency (note 14)		
Guarantees (note 16)		
	<u>\$ 243,199</u>	<u>\$ 205,177</u>

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, 2007, with comparative figures for 2006

	Restricted		General		Total	
	2007	2006	2007	2006	2007	2006
Revenue:						
Ministry of Health and Long-Term Care	\$ —	\$ —	\$ 533,620	\$ 460,090	\$ 533,620	\$ 460,090
Ministry of Health Promotion	—	—	1,865	—	1,865	—
Investment income (note 8)	3,815	3,103	1,782	1,645	5,597	4,748
Donations, bequests and grants	8,063	9,253	—	225	8,063	9,478
Amortization of deferred contributions related to capital assets (note 5(b))	939	1,004	17,965	16,770	18,904	17,774
Other (note 9)	—	—	7,393	4,369	7,393	4,369
Gain on disposal of capital assets	—	—	9	12	9	12
	12,817	13,360	562,634	483,111	575,451	496,471
Expenses (income):						
Salaries	1,574	1,494	18,624	16,904	20,198	18,398
Benefits	373	422	4,254	4,217	4,627	4,639
Integrated Cancer Programs Services	1,486	8,532	252,409	247,081	253,895	255,613
Other hospital cancer programs	—	—	4,806	1,967	4,806	1,967
Drugs	—	—	136,475	112,458	136,475	112,458
Consulting and Software - Wait Times Information Strategy (note 10)	—	—	34,732	10,157	34,732	10,157
Other operating (note 11)	3,315	2,686	33,150	29,570	36,465	32,256
Medical services	563	3,484	31,937	23,412	32,500	26,896
Surgical services - hospitals	—	—	26,232	20,304	26,232	20,304
Amortization of capital assets	939	1,004	17,965	16,770	18,904	17,774
Pension (note 6(a))	—	—	1,792	1,677	1,792	1,677
Post-retirement benefits other than pension plan (note 6(b))	—	—	134	(2,257)	134	(2,257)
	8,250	17,622	562,510	482,260	570,760	499,882
Excess (deficiency) of revenue over expenses	\$ 4,567	\$ (4,262)	\$ 124	\$ 851	\$ 4,691	\$ (3,411)

See accompanying notes to financial statements.

CANCER CARE ONTARIO

Statement of Changes in Fund Balances
(In thousands of dollars)

Year ended March 31, 2007, with comparative figures for 2006

	Restricted		General		2007	2006
	Endowment	Other	Invested in capital assets	Unrestricted	Total	Total
Fund balances, beginning of year	\$ 2,640	\$ 25,920	\$ –	\$ 12,140	\$ 40,700	\$ 44,111
Excess (deficiency) of revenue over expenses	(323)	4,890	9	115	4,691	(3,411)
Interfund transfers (note 12)	–	(283)	–	283	–	–
Invested in capital assets (note 7)	–	–	(9)	9	–	–
Fund balances, end of year	\$ 2,317	\$ 30,527	\$ –	\$ 12,547	\$ 45,391	\$ 40,700

See accompanying notes to financial statements.

CANCER CARE ONTARIO

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 4,691	\$ (3,411)
Items not involving cash:		
Amortization of capital assets	18,904	17,774
Gain on disposal of capital assets	(9)	(12)
Amortization of deferred contributions related to capital assets	(18,904)	(17,774)
Increase (decrease) in obligation related to post-retirement benefits other than pension plan	134	(2,257)
Post-retirement benefits other than pension plan paid	(215)	(192)
Change in non-cash operating working capital	12,101	33,983
	16,702	28,111
Investing activities:		
Long-term investments, net	26,009	(2,824)
Purchase of capital assets:		
Funded by contributions for capital assets	(17,927)	(16,507)
Proceeds on disposal of capital assets	9	12
Due from Community Foundation	709	536
Deferred contributions related to capital assets	19,981	12,557
	28,781	(6,226)
Increase in cash and cash equivalents	45,483	21,885
Cash and cash equivalents, beginning of year	85,330	63,445
Cash and cash equivalents, end of year	\$ 130,813	\$ 85,330

See accompanying notes to financial statements.

CANCER CARE ONTARIO

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2007

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 the Legislature of the Province of Ontario in 1943 and the name of the Organization was changed in 1997 to Cancer Care Ontario ("CCO"). The Organization is a registered charity under the Income Tax Act (Canada).

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 mission includes an 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, 2007

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 ("MOHLTC") and the Ministry of Health Promotion's 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, unless specifically disendowed by the donor.

(b) Revenue recognition:

Restricted contributions related to MOHLTC and Ministry of Health Promotion 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 is recognized as revenue of the Endowment Fund.

Unrestricted contributions are recognized as revenue of the General Fund when the amount is reasonably estimated and collection is probable.

(c) Cash and cash equivalents:

The Organization considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2007

1. Significant accounting policies (continued):

(d) Investments:

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 was expensed as employment services are rendered.

The transitional obligation arising from the adoption of this accounting policy is being amortized over the expected remaining life of eligible retirees.

(g) Remuneration of the Board of Directors:

Members of the Board of Directors are volunteers who serve without remuneration.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2007

1. Significant accounting policies (continued):

(h) 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. Receivables:

	2007	2006
Current:		
Accounts receivable	\$ 5,100	\$ 1,988
Due from MOHLTC	14,440	795
Due from Community Foundations	4,133	539
Other	202	319
	23,875	3,641
Long-term:		
Due from Community Foundation	2,236	2,945
	\$ 26,111	\$ 6,586

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 terms for payment.

3. Long-term investments:

The carrying value and market value of the Organization's long-term investments are as follows:

2007	Carrying value	Market value	Effective yield	Maturity
Cash	\$ 4	\$ 4	n/a	n/a
Equities	26,447	28,384	n/a	n/a
	\$ 26,451	\$ 28,388		

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2007

3. Long-term investments (continued):

2006	Carrying value	Market value	Effective yield	Maturity
Treasury bills, guaranteed investment certificates and cash	\$ 2,924	\$ 2,924	3.7% - 3.8%	Under 1 year
Bonds	24,718	24,699	3.2% - 9.0%	0 - 49 years
Equities	24,818	26,014	n/a	n/a
	\$ 52,460	\$ 53,637		

The Organization is exposed to financial risks as follows:

Investments are subject to the risk that values will fluctuate due to the changes in market interest rates.

Investments are subject to the risk that values will fluctuate due to changes in foreign exchange rates.

Returns on investments are subject to risk factors specific to general economic conditions. The market value represents that maximum exposure to market/credit risk. This risk is mitigated by investing in a portfolio that is widely diversified by industry.

4. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Office furniture, equipment and leasehold improvements	\$ 14,752	\$ 13,926	\$ 826	\$ 1,246
Therapeutic and other technical equipment	211,328	152,330	58,998	59,555
	\$ 226,080	\$ 166,256	\$ 59,824	\$ 60,801

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2007

5. Deferred contributions:

(a) Deferred operating grants:

Deferred operating grants represent unspent resources related to MOHLTC and Ministry of Health Promotion funded programs. Unspent amounts are held for use in subsequent periods or settlement by the respective ministry. Changes in the deferred operating grant balance are as follows:

	2007	2006
Balance, beginning of year	\$ 22,656	\$ 3,943
Amounts received related to subsequent periods	21,563	20,279
Amount recognized as revenue	(10,323)	(1,566)
Amount returned to MOHLTC	(188)	—
Balance, end of year	\$ 33,708	\$ 22,656

(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:

	2007	2006
Balance, beginning of year	\$ 66,796	\$ 72,013
Amounts received related to capital assets	19,981	12,557
Amount recognized as revenue	(18,904)	(17,774)
Balance, end of year	\$ 67,873	\$ 66,796

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2007

5. Deferred contributions (continued):

The balance of unamortized capital contributions related to capital assets consists of the following:

	2007	2006
Unamortized capital contributions used to purchase capital assets	\$ 59,824	\$ 60,801
Unspent contributions	8,049	5,995
Balance, end of year	\$ 67,873	\$ 66,796

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 HOOPP made during the year by the Organization on behalf of its employees amounted to \$1,792 (2006 - \$1,677) and are included in the pension expense in the statement of operations.

(b) Post-retirement benefits other than pension plan:

The Organization offers non-pension, post-retirement benefits to its retired employees as at December 31, 2003, including extended health care and drugs. Benefits paid during the year under this unfunded plan were \$216 (2006 - \$192). Effective January 1, 2006, the Organization no longer offers non-pension, post-retirement benefits to its active employees.

During the year, the Organization increased its accrued benefit obligation by \$896 based on the most recent actuarial valuation for the post-retirement benefits other than pension plan dated April 4, 2007. The next valuation will take place in April 2008.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2007

6. Pension and post-retirement benefits other than pension plan (continued):

Information about the Organization's post-retirement benefits other than pension plan is as follows:

	2007	2006
Accrued benefit obligation	\$ (3,870)	\$ (2,974)
Unamortized actuarial gain	(353)	(1,401)
Unamortized net transitional obligation	940	1,011
Net accrued benefit liability	\$ (3,283)	\$ (3,364)

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:

	2007	2006
Discount rate	5%	5%
Hospital and drug cost trend rate	11% in 2007 to 5% in 2013 and after	11% in 2006 to 5% in 2012 and after
Other medical costs trend rate	4% per annum	4% per annum
Normal retirement age	65	65

7. Invested in capital assets:

	2007	2006
Capital assets	\$ 59,824	\$ 60,801
Amounts financed by deferred capital contributions	(59,824)	(60,801)
	\$ —	\$ —

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2007

7. Invested in capital assets (continued):

Change in net assets invested in capital assets is calculated as follows:

	2007	2006
Excess (deficiency) of expenses over revenue:		
Amortization of deferred contributions related to capital assets	\$ 18,904	\$ 17,774
Amortization of capital assets	(18,904)	(17,774)
Gain on disposal of capital assets	9	12
	\$ 9	\$ 12
Net change in invested capital assets:		
Purchase of capital assets	\$ 17,927	\$ 16,507
Deferred contributions related to capital assets	(17,927)	(16,507)
Proceeds on disposal	(9)	(12)
	\$ (9)	\$ (12)

8. Investment income:

Net investment income earned on the Endowment Fund resources in the amount of \$46 (2006 - \$49) is included in the Restricted Fund.

9. Other revenue:

	2007	2006
General Fund:		
Miscellaneous	\$ 4,034	\$ 2,851
Salary recovery	1,500	1,518
Cardiac Care network	1,859	—
	\$ 7,393	\$ 4,369

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2007

10. Consulting and Software - Wait Times Information Strategy:

At the direction of the MOHLTC, the Organization was engaged to develop and implement the Ontario Wait Times Information Strategy (the "Strategy"), including obtaining data on wait times for selected major health care services at participating Ontario hospitals. The Organization owns the Wait Times Information System and the Enterprise Mater Patient Index, two information technology components of the Strategy, until March 31, 2008, at which time the MOHLTC is expected to make a decision as to their future custody.

The MOHLTC provided funding dedicated to the Strategy. The costs related to the Strategy totalled \$40,299 (2006 - \$11,107) and are included in various categories in the Statement of Operations, but primarily in Consulting and Software - Wait Time Information Strategy. Total expenses related to the Strategy since its inception in the 2005/06 fiscal year are \$51,406. Total funding supporting the Strategy since its inception is \$62,506, including \$59,046 from the MOHLTC, and \$3,460 from the Cardiac Care Network and hospitals participating in the Strategy.

11. Other operating expenses:

	2007	2006
Restricted Fund:		
Purchased services	\$ 2,191	\$ 1,665
Consulting	297	534
Other	604	295
Travel	155	116
Equipment	62	71
Building	6	5
	<u>\$ 3,315</u>	<u>\$ 2,686</u>
General Fund:		
Purchased services	\$ 10,845	\$ 10,255
Consulting	8,895	9,317
Equipment	5,160	3,996
Building	3,941	1,808
Other	1,696	1,749
Travel	1,173	875
Patient services	800	800
Education and research programs and publications	640	770
	<u>\$ 33,150</u>	<u>\$ 29,570</u>

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2007

12. Interfund transfers:

	2007	2006
Transfer (to) from the General Fund (from) to the Restricted Fund	\$ (283)	\$ 5

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.

13. Commitments:

The Organization leases space, computer and office equipment. Under the terms of the leases, future payments are estimated as follows:

2008	\$ 2,470
2009	2,432
2010	2,057
2011	1,916
2012	1,928
	<u>\$ 10,803</u>

14. 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 nil distributions receivable from HIROC as of March 31, 2007.

CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2007

15. Financial instruments:

The carrying amounts of cash and cash equivalents, 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 Foundation approximates its fair value.

The fair values of long-term investments are disclosed in note 3.

16. 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, 2007

16. 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.

17. Comparative figures:

Certain comparative figures in the statement of operations have been reclassified to conform with the financial statement presentation adopted in the current year. The reclassification relates to Consulting and Software - Wait Times Information Strategy (note 10) and Other operating expenses (note 11).

THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

The Centennial Centre of Science and Technology Financial Statements for the year ended March 31, 2007 were not available at the time of printing. When available, they will be included in Volume 2 posted to the website: www.fin.gov.on.ca/english/ .

**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, 2007 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 18, 2007.

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,

A handwritten signature in black ink, reading 'Marguerite Jackson'.

Marguerite Jackson
Chief Executive Officer

A handwritten signature in black ink, reading 'Robin Dafoe'.

Robin Dafoe
Director, Corporate Services and
Public Affairs

Toronto, Canada
May 18, 2007



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 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, 2007 and the statements of operations and accumulated surplus, net financial assets/(debt) 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for governments.

Horwath Orenstein LLP

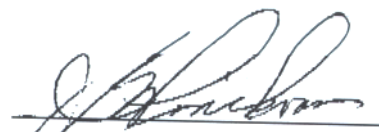
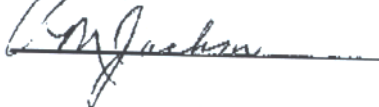
Toronto, Ontario
May 18, 2007

Chartered Accountants
Licensed Public Accountants

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE
Statement of Financial Position
March 31, 2007

	2007	2006
FINANCIAL ASSETS		
Cash	\$ 11,413,145	\$ 8,766,863
Board restricted fund (Note 5)	2,766,657	1,930,000
Accounts receivable	276,937	273,459
	14,456,739	10,970,322
LIABILITIES		
Accounts payable and accrued liabilities	3,725,991	3,430,808
Deferred revenue	9,639,714	7,317,899
	13,365,705	10,748,707
NET FINANCIAL ASSETS	1,091,034	221,615
NON-FINANCIAL ASSETS		
Prepaid expenses (Note 6)	1,120,471	1,003,757
Tangible capital assets (Note 7)	555,152	704,628
	1,675,623	1,708,385
ACCUMULATED SURPLUS	\$ 2,766,657	\$ 1,930,000

ON BEHALF OF THE BOARD

Chair

Chief Executive Officer

See the accompanying notes

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2007

	2007 <i>Budget</i> <i>(unaudited)</i>	2007 <i>Actual</i>	2006 <i>Actual</i>
REVENUE			
Ministry of Education			
Base allocation payments (Note 3)	\$ 39,790,000	\$ 32,922,663	\$ 27,999,479
Other revenue	-	865,025	528,539
	39,790,000	33,787,688	28,528,018
EXPENSES (Note 4)			
Service and rental	22,341,640	19,676,742	15,101,017
Salaries and wages	10,851,001	9,712,269	9,344,386
Transportation and communication	5,209,304	2,661,488	1,566,778
Supplies and equipment	1,388,055	900,532	585,837
	39,790,000	32,951,031	26,598,018
ANNUAL SURPLUS	-	836,657	1,930,000
ACCUMULATED SURPLUS - BEGINNING OF YEAR	1,930,000	1,930,000	-
ACCUMULATED SURPLUS - END OF YEAR	\$ 1,930,000	\$ 2,766,657	\$ 1,930,000

See the accompanying notes

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE

Statement of Change in Net Financial Assets/(Debt)

Year Ended March 31, 2007

	2007 <i>Budget</i> <i>(unaudited)</i>	2007 <i>Actual</i>	2006 <i>Actual</i>
ANNUAL SURPLUS	\$ -	\$ 836,657	\$ 1,930,000
Acquisition of tangible capital assets	-	(133,128)	(479,618)
Amortization of tangible capital assets	161,000	282,270	143,385
Write-down of tangible capital asset	-	333	-
	161,000	149,475	(336,233)
Acquisition of prepaid expenses	-	(1,120,471)	(1,003,758)
Use of prepaid expenses	-	1,003,758	287,970
	-	(116,713)	(715,788)
INCREASE IN NET FINANCIAL ASSETS	161,000	869,419	877,979
NET FINANCIAL ASSETS/ (DEBT) - BEGINNING OF YEAR	221,615	221,615	(656,364)
NET FINANCIAL ASSETS - END OF YEAR	\$ 382,615	\$ 1,091,034	\$ 221,615

See the accompanying notes

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE
Statement of Cash Flow
Year Ended March 31, 2007

	2007	2006
NET INFLOW/(OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Annual Surplus	\$ 836,657	\$ 1,930,000
Items not affecting cash		
Amortization of tangible capital assets	282,270	143,385
Write-down of tangible capital asset	333	-
	1,119,260	2,073,385
Changes in non-cash items		
Accounts receivable	(3,477)	(210,383)
Accounts payable and accrued liabilities	295,183	(1,712,394)
Deferred revenue	2,321,815	5,526,330
Prepaid expenses (Note 6)	(116,714)	(715,787)
	3,616,067	4,961,151
CAPITAL		
Acquisition of tangible capital assets	(133,128)	(479,618)
	(133,128)	(479,618)
INVESTING		
Additions to board restricted fund	(836,657)	(1,930,000)
	(836,657)	(1,930,000)
INCREASE IN CASH	2,646,282	2,551,533
CASH - BEGINNING OF YEAR	8,766,863	6,215,330
CASH - END OF YEAR	\$ 11,413,145	\$ 8,766,863

See the accompanying notes

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE
Notes to Financial Statements
Year Ended March 31, 2007

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 for governments, as established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants ("CICA") and, where applicable, the recommendations of the Accounting Standards Board of the CICA, reflect the accounting policies set out below.

Revenue Recognition

- a) The Agency is funded by the Ministry of Education in accordance with established budget arrangements. These transfer payments are recognized in the financial statements in the year in which the payment is authorized and the events giving rise to the transfer occur, performance criteria are met, and reasonable estimates of the amount can be made.
- b) Other revenue is recognized at the time the service is rendered.

Deferred Revenue

Certain amounts, including transfer payments from the Ministry of Education, are received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs or in the completion of specific work. In addition, certain amounts received, are used to pay expenditures for which the related service is yet to be performed, or are in excess of the expenditures actually incurred. These amounts are recorded as deferred revenue at period end.

(continues)

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE

Notes to Financial Statements

Year Ended March 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Tangible 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.

The Agency considers the carrying value of long-lived assets when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the Agency expects an asset to generate cash flows less than the asset's carrying value, at the lowest level of identifiable cash flows, the Agency recognizes a loss for the difference between the asset's carrying value and its fair value.

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. Such estimates include providing for amortization of capital assets. Actual results could differ from these estimates.

3. MINISTRY OF EDUCATION FUNDING

The Agency received base allocation payments in accordance with the year's approved budget. Actual expenditures incurred in the year are less than the budgeted amounts. The difference between base allocation payments received and actual expenditures incurred represents deferred revenue. A breakdown of revenue reported on the statement of operations is noted below.

	2007	2006
Gross base allocation payments	\$ 35,244,478	\$ 33,525,809
Allocation to deferred revenue	(2,321,815)	(5,526,330)
Ministry of Education - Base allocation payments	\$ 32,922,663	\$ 27,999,479

4. EXPENSES

There has been an increase in expenses compared to the previous year as a result of the Ontario Secondary School Literacy Test ("OSSLT") scoring being changed from fall 2005 to spring 2006.

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE

Notes to Financial Statements

Year Ended March 31, 2007

5. BOARD RESTRICTED FUND

A Board Restricted Fund was established by a Board of Directors' resolution for the purpose of examining assessment processes and researching emerging methodologies in large scale assessment in order to maintain Ontario's high quality assessment programs as best of class. The fund is currently invested in a Royal Bank of Canada current account. The Agency has the authority to retain any revenue that is not provincial funding according to the EQAO Act, the Agency Establishment and Accountability Directive and the Financial Administration Act.

	2007	2006
Balance, beginning of year	\$ 1,930,000	\$ -
Appropriation of other income	755,117	1,930,000
Interest income earned on funds	81,540	-
Balance, end of year	\$ 2,766,657	\$ 1,930,000

6. PREPAID EXPENSES

These are expenses paid in cash and recorded as assets before they are used or consumed. The Agency has incurred the majority of its prepaid expenses for the following reasons:

- a) A portion of the amounts paid to secondees for services which will be provided after year end
- b) The Agency's contract with the Toronto Congress Centre ("TCC") requires the Agency to pay a deposit for their use of the facility after year end for scoring

	2007	2006
Prepaid secondees	\$ 618,433	\$ 534,024
Deposit to TCC	400,000	400,000
Other prepaids	102,038	69,733
	\$ 1,120,471	\$ 1,003,757

EDUCATION QUALITY AND ACCOUNTABILITY OFFICE

Notes to Financial Statements

Year Ended March 31, 2007

7. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated amortization	2007 Net book value	2006 Net book value
Computer equipment	\$ 902,220	\$ 408,049	\$ 494,171	\$ 609,130
Furniture and fixtures	178,419	117,438	60,981	95,498
	\$ 1,080,639	\$ 525,487	\$ 555,152	\$ 704,628

Amortization of tangible capital assets recorded in the current year amounts to \$282,270 (2006 - \$143,385).

8. LEASE COMMITMENTS

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:

2008	\$ 1,090,500
2009	1,067,000
2010	1,086,500
2011	1,107,000
2012	<u>948,500</u>
	<u>\$ 5,299,500</u>

9. FINANCIAL INSTRUMENTS

The Agency's financial instruments consist of cash, board restricted fund, accounts receivable and accounts payable and accrued liabilities. The fair value of these financial instruments approximate their carrying values due to their short term nature.

It is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments.

10. COMPARATIVE FIGURES

The comparative figures have been reclassified to conform to the current year's presentation. During the 2007 fiscal year, the Agency received direction from the Ministry of Education in its Memorandum of Understanding to follow PSAB accounting. Presentation changes are a result of the change in presentation format to comply with PSAB.

GoTransit

June 8, 2007

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.

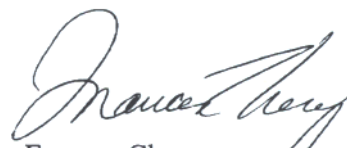
The GO Transit Board of Directors, through the Audit Committee, assures that management fulfills its responsibilities for financial information and internal control. This Committee reviews the financial statements and the external auditors' report.

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 principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

For the fiscal year ending March 31, 2007, 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 LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Members of
Greater Toronto Transit Authority

We have audited the statement of financial position of **Greater Toronto Transit Authority** as at March 31, 2007 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. 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Toronto, Canada
May 18, 2007

Grant Thornton LLP
Chartered Accountants
Licensed Public 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

Canadian Member of Grant Thornton International

Greater Toronto Transit Authority**Statement of Operations**

(Dollars in thousands)

Year Ended March 31

	2007	2006
Revenues		
Operating revenue	\$ 244,584	\$ 226,515
Investment income	2,512	2,406
Contribution from the Province of Ontario	<u>28,205</u>	<u>29,508</u>
	<u>275,301</u>	<u>258,429</u>
Expenses		
Administrative services	8,674	8,589
Equipment maintenance	38,824	36,842
Facilities and track	40,188	38,322
Labour and benefits	93,344	86,144
Operations	99,679	93,935
Amortization of capital assets	93,582	81,555
Amortization of intangible assets	<u>327</u>	<u>327</u>
	<u>374,618</u>	<u>345,714</u>
Excess of expenses over revenues	<u>(99,317)</u>	<u>(87,285)</u>
Contributions for capital expenditures		
Contribution from the Province of Ontario	326,192	205,631
Contribution from Municipalities	86,297	48,464
Contribution from the Government of Canada	<u>73,928</u>	<u>24,803</u>
	<u>486,417</u>	<u>278,898</u>
Excess of revenues over expenses before capital expenditures	\$ <u>387,100</u>	\$ <u>191,613</u>

See accompanying notes to the financial statements.

Greater Toronto Transit Authority

Statement of Changes in Net Assets

(Dollars in thousands)

Year Ended March 31, 2007

	Invested in capital assets	Invested in long term lease	Net assets held in reserves (Note 9)	Deficiency	Total 2007	Total 2006
Balance, beginning of year	\$ 1,272,114	\$ 30,823	\$ 26,332	\$ (27,340)	\$ 1,301,929	\$ 1,110,316
Excess (deficiency) of revenues over expenses prior to capital asset additions	(93,582)	(327)	-	481,009	387,100	191,613
Investment in capital assets	486,417	-	-	(486,417)	-	-
Disposal of capital assets	(184)	-	-	184	-	-
Balance, end of year	\$ 1,664,765	\$ 30,496	\$ 26,332	\$ (32,564)	\$ 1,689,029	\$ 1,301,929

See accompanying notes to the financial statements.

Greater Toronto Transit Authority**Statement of Financial Position**

(Dollars in thousands)

March 31

2007

2006

Assets**Current**

Cash and cash equivalents	\$ 19,538	\$ 42,936
Short term investment	25,668	18,777
Receivables	15,073	8,021
Contributions due from Province of Ontario	32,354	3,839
Contributions due from Municipalities	44,552	12,700
Contributions due from Government of Canada	55,346	28,390
Spare parts and supplies	1,982	2,124
Prepaid expenses	9,245	2,848
	<u>203,758</u>	<u>119,635</u>
Funds being held for Province of Ontario (Note 5)	46,667	-
Capital assets (Note 3)	1,664,765	1,272,113
Long term lease (Note 4)	30,496	30,823
	<u>\$ 1,945,686</u>	<u>\$ 1,422,571</u>

Liabilities**Current**

Payables and accruals	\$ 153,744	\$ 72,658
Unearned revenue in respect of tickets sold and not used	6,960	5,780
Due to the Province of Ontario	2,306	-
	<u>163,010</u>	<u>78,438</u>
Advance from Province of Ontario (Note 5)	46,667	-
Pension plan top-up benefits payable (Note 7)	16,748	15,618
Other employee future benefits payable (Note 8)	30,232	26,586
	<u>256,657</u>	<u>120,642</u>

Net Assets

Net assets invested in capital assets	1,664,765	1,272,114
Net assets invested in intangible assets	30,496	30,823
Net assets held in reserves (Note 9)	26,332	26,332
Deficiency of net assets	(32,564)	(27,340)
	<u>1,689,029</u>	<u>1,301,929</u>
	<u>\$ 1,945,686</u>	<u>\$ 1,422,571</u>

Commitments (Note 10)

Contingencies (Note 11)

On behalf of the Board



Director



Director

See accompanying notes to the financial statements.

Greater Toronto Transit Authority

Statement of Cash Flows

(Dollars in thousands)

Year Ended March 31

2007

2006

Increase (decrease) in cash and cash equivalents

Operating activities

Excess of revenues over expenses	\$ 387,100	\$ 191,613
Amortization of capital assets and intangible assets	93,909	81,882
(Gain) loss on disposal of capital assets	(793)	37
Employee future benefits, net of payments	4,777	5,034
Change in non-cash working capital (Note 12)	<u>(16,058)</u>	<u>(17,204)</u>
	<u>468,935</u>	<u>261,362</u>

Investing activities

Purchase of capital assets	(486,417)	(278,897)
Proceeds from sale of capital assets	975	331
Proceeds (net of purchases) of short term investments	<u>(6,891)</u>	<u>(3,879)</u>
	<u>(492,333)</u>	<u>(282,445)</u>

Net decrease in cash and cash equivalents (23,398) (21,083)

Cash and cash equivalents, beginning of year 42,936 64,019

Cash and cash equivalents, end of year \$ 19,538 \$ 42,936

See accompanying notes to the financial statements.

Greater Toronto Transit Authority

Notes to the Financial Statements

(Dollars in thousands)

March 31, 2007

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"). The Authority is exempt from income taxes under Section 149(1) (d) of the Income Tax Act (Canada). 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 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 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, 2007

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
Enterprise software	- 7 years
Grade separations	- 50 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.

Greater Toronto Transit Authority

Notes to the Financial Statements

(Dollars in thousands)

March 31, 2007

2. Summary of significant accounting policies (continued)

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.

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 Authority's 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 Authority's 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, 2007

3. Capital assets		<u>2007</u>		<u>2006</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 218,926	\$ -	\$ 218,926	\$ 212,487
Buildings	304,733	180,553	124,180	126,749
Leasehold improvements	27,624	17,209	10,415	9,584
Locomotives and other railway rolling stock	518,185	141,823	376,362	277,271
Improvement to railway right- of-way plant	571,473	346,276	225,197	145,411
Track work and installation	171,669	59,889	111,780	46,560
Construction-in-progress	353,229	-	353,229	237,708
Buses	174,622	52,236	122,386	113,963
Parking lots	143,050	58,718	84,332	80,069
Computer equipment and software	34,454	17,884	16,570	8,282
Other	<u>74,546</u>	<u>53,158</u>	<u>21,388</u>	<u>14,029</u>
	\$ <u>2,592,511</u>	\$ <u>927,746</u>	\$ <u>1,664,765</u>	\$ <u>1,272,113</u>

The Authority capitalizes engineering payroll costs where time has been spent on particular capital projects. The amount capitalized for the year ended March 31, 2007 was \$7,172 (2006 - \$5,539).

4. Long term lease		<u>2007</u>		<u>2006</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Leasehold, Union Station	\$ <u>32,703</u>	\$ <u>2,207</u>	\$ <u>30,496</u>	\$ <u>30,823</u>

5. Funds being held for Province of Ontario

During the year the Authority received \$46,667 of funds from the Province of Ontario for their contribution towards the Toronto Transit Commission ("TTC") participation in the GTA Farecard project. TTC has not yet met the requirements to receive this funding and consequently the cash held by the Authority and the obligation to the Province have been segregated on the statement of financial position.

Greater Toronto Transit Authority

Notes to the Financial Statements

(Dollars in thousands)

March 31, 2007

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, 2007 was \$4,931 (2006 - \$4,262).

7. Pension plan Top-up benefits payable

With repatriation of the Authority 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 that the Authority is responsible for the pension obligation and accordingly the Authority completed an actuarial valuation as of April 1, 2004 and the next required valuation will be as of April 1, 2007. The pension expense recognized during the year was \$1,730 (2006 - \$1,533).

For the purpose of accounting for top up 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).

Information about the Authority's pension plan top-up as at March 31 is as follows:

	<u>2007</u>	<u>2006</u>
Accrued benefit obligation	\$ 22,301	\$ 16,670
Fair value of plan assets	<u>449</u>	<u>-</u>
Funded status - plan deficit	21,852	16,670
Unamortized net actuarial loss	<u>(5,104)</u>	<u>(1,052)</u>
Accrued benefit liability	\$ <u>16,748</u>	\$ <u>15,618</u>

Greater Toronto Transit Authority

Notes to the Financial Statements

(Dollars in thousands)

March 31, 2007

7. Pension plan Top-up benefits payable (continued)

Plan assets by asset category are as follows:

	<u>2007</u>	<u>2006</u>
Cash invested	33 %	- %
Cash on deposit with CRA	<u>67 %</u>	<u>- %</u>
	<u>100 %</u>	<u>- %</u>

Other information about the Authority's benefit plan is as follows:

	<u>2007</u>	<u>2006</u>
Employer contributions	\$ 600	\$ -
Employee contributions	\$ -	\$ -
Benefits paid	\$ 152	\$ -

The significant actuarial assumptions adopted in measuring the Authority's pension plan Top-up benefit obligations are as follows:

Discount rate	- 5.25% (2006 – 5.5%)
Rate of compensation increase	- 3% (2006 - 3%)
Inflation	- 2.5% (2006 – 2.5%)

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.

The measurement date of the plan assets and accrued benefit obligation is March 31 of each year. The most recent actuarial valuation of the other employee future benefits for funding purposes was as of March 31, 2005, and the next required valuation will be as of March 31, 2008. The post-retirement non-pension benefits recognized during the year was \$4,767 (2006 - \$4,229).

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).

Greater Toronto Transit Authority

Notes to the Financial Statements

(Dollars in thousands)

March 31, 2007

8. Other employee future benefits (continued)

Information about the Authority's post-retirement non-pension benefits as at March 31 is as follows:

	<u>2007</u>	<u>2006</u>
Accrued benefit obligation	\$ 42,928	\$ 40,018
Fair value of plan assets	<u>-</u>	<u>-</u>
Funded status - plan deficit	42,928	40,018
Unamortized net actuarial loss	<u>(12,696)</u>	<u>(13,432)</u>
Accrued benefit liability	<u>\$ 30,232</u>	<u>26,586</u>

Other information about the Authority's benefit plan is as follows:

	<u>2007</u>	<u>2006</u>
Employer contributions	\$ 1,121	\$ 727
Employee contributions	\$ -	\$ -
Benefits paid	\$ 1,121	\$ 727

The significant actuarial assumptions adopted in measuring the Authority's for Post-retirement non-pension benefit obligations are as follows:

Discount Rate for Post-retirement non-pension benefit – 5.25% (2006 – 5.25%)
 Discount Rate for WSIB liabilities and retiree severance benefits – 5.0% (2006 – 5.0%)
 Expected average remaining service life – 13 years (2006 – 13 years)
 Rate of compensation increase – 2% per annum (2006 – 2%)
 Inflation – 2% per annum (2006 – 2%)
 Health care benefits increase – 10.5% in 2007 decreasing by 1% to an ultimate rate of 4.5% per annum
 Dental care benefits increase – 4.5% per annum

Greater Toronto Transit Authority

Notes to the Financial Statements

(Dollars in thousands)

March 31, 2007

9. Net assets held in reserve

	<u>MCOR</u>	<u>Employment Obligation</u>	<u>Self Insured Retention</u>	<u>Stabilization</u>	<u>Total Reserves</u>
Balance, beginning of year	\$ 21,051	\$ 889	\$ 2,013	\$ 2,379	\$ 26,332
Expenditures	-	-	-	-	-
Balance, end of year	\$ <u>21,051</u>	\$ <u>889</u>	\$ <u>2,013</u>	\$ <u>2,379</u>	\$ <u>26,332</u>

10. Commitments

a) The minimum lease payments for premises in each of the next five years are as follows:

2008	\$ 2,330
2009	2,047
2010	458
2011	158
2012	158
Subsequent	<u>302</u>
	\$ <u>5,453</u>

b) The Authority has also committed approximately \$683,096 for various capital asset additions over the next fiscal year.

c) The Authority has a lease with TATO for 243 rail cars and 42 locomotives for total lease payments of one dollar per year terminating on May 30, 2007. Discussions are currently underway to extend the lease for an additional 5 years.

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 ("TATO") 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 \$90,000 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 30, 2008.

Greater Toronto Transit Authority

Notes to the Financial Statements

(Dollars in thousands)

March 31, 2007

11. Contingencies

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.

12. Change in working capital	<u>2007</u>	<u>2006</u>
Receivables	\$ (7,052)	\$ (1,892)
Contributions due from Province	(28,515)	4,661
Contributions due from Municipalities	(31,852)	(3,006)
Contributions due from Government of Canada	(26,956)	(20,586)
Spare parts and supplies	142	150
Prepaid	(6,397)	(1,657)
Payables and accruals	81,086	16,019
Unearned revenue	1,180	(414)
Due to Province of Ontario	<u>2,306</u>	<u>(10,479)</u>
	\$ <u>(16,058)</u>	\$ <u>(17,204)</u>

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 of Ontario, 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, 2007, the Authority had two fixed fee agreements in place to purchase 9,540,000 litres of diesel fuel at an average price of \$0.5679 per litre and 16,536,000 litres of diesel fuel at an average price of \$0.6168 per litre. The excess fuel purchased beyond the committed amount is at market prices.

Greater Toronto Transit Authority

Notes to the Financial Statements

(Dollars in thousands)

March 31, 2007

14. Greater Toronto Transportation Authority

The Province of Ontario, in April 2006, introduced Bill 104 which is an Act to establish the Greater Toronto Transportation Authority. This Act envisions the potential dissolution of the Greater Toronto Transit Authority and the transfer of GO Transit's assets and operations to the new Authority. The Act was approved in 2006, but the dissolution of GO Transit is envisioned as a longer term, future action.

15. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

Management Report

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Independent Electricity System Operator 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 Independent Electricity System Operator 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 6, 2007.

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 Auditors' Report, which follows, outlines the scope of their examination and their opinion.

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

On behalf of management,



Paul Murphy
President and Chief Executive Officer
Toronto, Canada
February 6, 2007



Gary Sherkey
Vice President – Corporate Services
Chief Financial Officer and Treasurer
Toronto, Canada
February 6, 2007

Auditors' Report

February 6, 2007

To the Board of Directors of the Independent Electricity System Operator (IESO):

We have audited the statement of financial position of the IESO as of December 31, 2006 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, 2006 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

IESO 2006 ANNUAL REPORT

Statement of Operations and Accumulated Surplus

(in thousands of Canadian dollars)	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005
	\$	\$
REVENUES		
System fees (Note 6)	132,015	143,273
Other revenue	7,622	4,969
TOTAL REVENUES	139,637	148,242
EXPENSES		
Labour	76,096	65,098
Computer services, support & equipment	9,728	10,413
Contract services & consultants	7,018	8,058
Telecommunications	2,706	2,761
Other costs	5,047	5,656
Amortization	32,353	47,392
TOTAL EXPENSES	132,948	139,378
Income Before Interest and Investment Income	6,689	8,864
Interest and investment income	1,731	1,659
Interest expense & financing charges	(7,959)	(9,330)
NET INCOME FOR THE YEAR	461	1,193
ACCUMULATED SURPLUS - BEGINNING OF YEAR	7,500	21,307
Transfer to Ontario Power Authority (Note 9)	-	(15,000)
ACCUMULATED SURPLUS - END OF YEAR (Note 6)	7,961	7,500

See accompanying notes to Financial Statements.

Statement of Financial Position

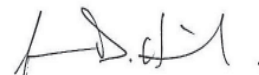
(in thousands of Canadian dollars)	As at December 31, 2006	As at December 31, 2005
	\$	\$
ASSETS		
Current assets		
Cash & cash equivalents	3,565	9,631
Temporary investments	-	5,980
Prepaid expenses & receivables	24,639	22,621
	28,204	38,232
Property & Equipment (Note 3)		
In service	113,051	127,886
Construction-in-progress	4,787	4,027
	117,838	131,913
Other Assets		
Long-term investments (Note 4)	12,585	9,912
Prepaid pension cost (Note 8)	12,471	21,856
Deferred costs - smart metering initiative	1,636	-
	26,692	31,768
TOTAL ASSETS	172,734	201,913
LIABILITIES		
Current Liabilities		
Accounts payable & accrued liabilities (Note 5)	21,073	19,894
Accrued interest on long-term debt	1,030	1,030
Short-term debt (Note 7)	15,000	-
Rebates to market participants (Note 6)	12,699	13,560
	49,802	34,484
Long-term Debt (Note 7)	78,200	128,200
Accrual for Employee Future Benefits Other than Pensions (Note 8)	36,771	31,729
TOTAL LIABILITIES	164,773	194,413
ACCUMULATED SURPLUS (Note 6)	7,961	7,500
TOTAL LIABILITIES & ACCUMULATED SURPLUS	172,734	201,913

See accompanying notes to Financial Statements.

On behalf of the Board:



Glenna Carr
Chair
Toronto, Canada
February 6, 2007



James Hinds
Chair, Audit Committee
Toronto, Canada
February 6, 2007

IESO 2006 ANNUAL REPORT

Statement of Cash Flows

(in thousands of Canadian dollars)	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005
	\$	\$
OPERATING ACTIVITIES		
Net income for the year	461	1,193
Adjustments for non-cash items:		
Amortization	32,353	47,392
Prepaid pension cost	17,746	8,406
Other employee future benefits cost	6,426	4,470
	56,986	61,461
Changes in non-cash balances related to operations:		
Increase in accounts payable and accrued liabilities	663	337
Increase/(decrease) in rebates to market participants	(861)	13,560
Increase in prepaid expenses and receivables	(2,018)	(2,433)
	(2,216)	11,464
Other:		
Contribution to pension fund	(8,361)	(8,165)
Payment of employee future benefits	(1,384)	(1,312)
	(9,745)	(9,477)
Cash provided from operating activities	45,025	63,448
INVESTING ACTIVITIES		
Net sale of temporary investments	5,980	39,861
Purchase of long-term investments	(2,673)	(1,896)
Investment in deferred costs- smart metering initiative	(1,636)	-
Investment in property & equipment	(17,762)	(9,084)
Cash provided from/(used in) investing activities	(16,091)	28,881
FINANCING ACTIVITIES		
Net retirement of debt (Note 7)	(35,000)	(75,000)
Transfer to Ontario Power Authority (Note 9)	-	(15,000)
Cash used in financing activities	(35,000)	(90,000)
NET CHANGE IN CASH & CASH EQUIVALENTS	(6,066)	2,329
CASH & CASH EQUIVALENTS - BEGINNING OF YEAR	9,631	7,302
CASH & CASH EQUIVALENTS - END OF YEAR	3,565	9,631

See accompanying notes to Financial Statements.

Supplementary Information:

(in thousands of Canadian dollars)

Interest Paid	7,781	9,698

Notes to Financial Statements

1. NATURE OF OPERATIONS

Independent Electricity System Operator (IESO) 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 (OEB). 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 license;
- 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 information to the Ontario Power Authority (OPA) and the public 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 objects were amended by Ontario Regulation 452/06 under the *Electricity Act* made on August 24, 2006. The regulation came into force on September 22, 2006. The additional objects are as follows:

- to plan, manage and implement the smart metering initiative or any aspect of the initiative;
- to oversee, administer and deliver the smart metering initiative or any aspect of the initiative; and
- to establish and enforce standards and criteria relating to the reliability of transmission systems.

The IESO is required to submit its proposed expenditures, revenue requirements, and fees for the coming year to the OEB for review. The submission may be made only with the approval of the Minister of Energy (Minister).

On February 14, 2006 the OEB approved the IESO's requested expenditures, revenue requirements and fees for fiscal 2006.

For its 2007 application, the IESO obtained permission of the Minister to submit its proposed 2007 expenditures, revenue requirements, and fees to the OEB on October 17, 2006. The IESO filed its submission for review with the OEB on October 30, 2006. The OEB approved the IESO's proposed usage fee for 2007 of \$0.815/MWh on an interim basis, effective January 1, 2007, pending completion of its review of the IESO's requested 2007 expenditures, revenue requirements and fees.

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. Rebates are recognized in the year in which the approved regulatory deferral account, before such rebates, exceeds regulated limits.

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 services the IESO performs and charges on a recovery basis, 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 acquired, are:

<u>Class</u>	<u>Estimated Average Service Life</u>
Facilities	40
Market Systems and Applications	4 to 8
Infrastructure and Other Assets	4 to 8

Gains and losses on sales of property and equipment and losses on premature retirements are charged to operations. Removal costs are charged to operations 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 2006.

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 cumulative 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 11 years (2005: 11 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, 2006			As at December 31, 2005
(in thousands of Canadian dollars)	Cost	Accumulated Amortization	Net Book Value	Net Book Value*
	\$	\$	\$	\$
Property and equipment in service				
Facilities	49,540	9,342	40,198	40,818
Market Systems and Applications	218,884	159,581	59,303	78,396
Infrastructure and Other Assets	83,773	70,223	13,550	8,672
	352,197	239,146	113,051	127,886
Construction-in-progress	4,787	-	4,787	4,027
	356,984	239,146	117,838	131,913

* Certain 2005 comparative figures above have been reclassified to conform to 2006 presentation.

In 2006 the impact of adjustments to management's estimates of remaining asset service lives was a decrease in amortization expense of \$4,933,698. In 2005 no adjustments were made to management's estimates of remaining asset service lives.

Interest capitalized to construction-in-progress during 2006 was \$24,757 (2005 - \$nil).

4. LONG TERM INVESTMENTS

Long term investments represent a balanced portfolio of pooled funds. The market value of these investments was \$14,450,453 as at December 31, 2006 (2005 - \$11,365,515).

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of Canadian dollars)	As at December 31, 2006	As at December 31, 2005
	\$	\$
Relating to property and equipment	3,786	3,270
Relating to operations	17,287	16,624
	21,073	19,894

6. ACCUMULATED SURPLUS AND REBATES TO MARKET PARTICIPANTS

During 2006 the IESO recognized rebates to market participants of system fees of \$12,699,435 representing amounts accumulated in the IESO's approved regulatory deferral account in excess of \$5.0 million (2005 - \$13,560,242). As at December 31 the components of the IESO's Accumulated Surplus were as follows:

IESO 2006 ANNUAL REPORT

(in thousands of Canadian dollars)	As at December 31, 2006	As at December 31, 2005
	\$	\$
Approved regulatory deferral account	5,000	5,000
Accumulated market penalties and fines	2,961	2,500
	7,961	7,500

7. DEBT

(in thousands of Canadian dollars)	As at December 31, 2006	As at December 31, 2005
	\$	\$
Notes payable to:		
Ontario Electricity Financial Corporation (OEFC)	78,200	78,200
The Province of Ontario	-	50,000
Long-term debt	78,200	128,200
Short-term debt (credit facility)	15,000	-
	93,200	128,200

Note payable to OEFC

The long-term note payable to Ontario Electricity Financial 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

On March 31, 2006 the IESO repaid the principal balance outstanding to Province of Ontario of \$50.0 million.

Credit facility

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 \$60.0 million; this amount was increased on March 30, 2006 from \$10.0 million. As at December 31, 2006, \$15.0 million was drawn on the credit facility by way of issuance of Bankers' Acceptances at an interest rate of 4.65%. Advances under this facility are available in Canadian dollars by way of a prime rate loan or the issuance of Bankers' Acceptances at market rates plus a stamping fee of 30 basis points per annum. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum.

8. 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.

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)	2006 Pension Benefits \$	2005 Pension Benefits \$	2006 Other Benefits \$	2005 Other Benefits \$
Accrued benefit obligation	388,585	363,776	59,714	55,342
Fair value of plan assets	296,144	282,313	-	-
Funded status	(92,441)	(81,463)	(59,714)	(55,342)
Employer contribution after measurement date	2,055	23	357	305
Unamortized past service costs	4,417	5,115	428	549
Unamortized net actuarial loss	98,440	98,181	22,158	22,759
Prepaid (accrued) benefit cost recognized in the statements of financial position	12,471	21,856	(36,771)	(31,729)

Prepaid benefit cost is shown net of valuation allowance of \$nil (2005: \$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:

	2006	2005
Equity securities	59.0%	59.1%
Debt securities	40.8%	38.5%
Cash equivalents	0.2%	2.4%
	100.0%	100.0%

IESO 2006 ANNUAL REPORT

Summary of principal assumptions used to calculate benefit obligations

	2006 Pension Benefits	2005 Pension Benefits	2006 Other Benefits	2005 Other Benefits
Discount rate at end of the period	5.0%	5.1%	5.0%	5.1%
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%

The assumed hospital and drug cost increase is 9.0% per annum initially. The rate is assumed to begin decreasing gradually commencing October 1, 2007 to a rate of 5.0% in the year 2014 and remain at that level thereafter. Dental costs are assumed to increase by 6.0% per annum initially and to begin decreasing commencing October 1, 2007 to a rate of 4.5% in the year 2009 and remain at that level thereafter.

Summary of benefit costs and plan contributions

(in thousands of Canadian dollars)	2006 Pension Benefits \$	2005 Pension Benefits \$	2006 Other Benefits \$	2005 Other Benefits \$
Benefit cost	17,746	8,406	6,426	4,470
Employer contributions	6,329	8,149	1,331	1,290
Plan participants' contributions	2,014	1,962	-	-
Benefits paid	11,450	9,598	1,331	1,290

The most recent actuarial valuation of the registered pension plan for funding purposes was at January 1, 2005, and the date of the next required valuation is January 1, 2008.

Summary of principal assumptions used to calculate benefit costs

	2006 Pension Benefits	2005 Pension Benefits	2006 Other Benefits	2005 Other Benefits
Discount rate at the beginning of the period	5.1%	6.25%	5.1%	6.25%
Expected return on plan assets	7.0%	7.0%	-	-
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%
Rate of indexing of pension benefits	2.5%	2.5%	-	-

9. TRANSFER TO ONTARIO POWER AUTHORITY

On February 18, 2005, the Government of Ontario issued Ontario Regulation 47/05 to transfer \$15.0 million of the IESO's accumulated surplus to the Ontario Power Authority. Accordingly, in 2005, the IESO

transferred \$15.0 million to the Ontario Power Authority.

10. SEGMENTED INFORMATION

IESO consists of a single business engaged in the operation of the wholesale electricity system in Ontario.

11. COMMITMENTS

Operating commitments

The obligations of the IESO with respect to non-cancellable operating leases over the next five years are as follows:

(in thousands of Canadian dollars)	\$
2007	2,144
2008	2,519
2009	1,881
2010	1,624
2011	1,237



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. 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 are 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 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. The Auditor's Report outlines the scope of the Auditor General's examination and opinion.

Robert Ward
President & CEO
June 29, 2007

Michelle A. Séguin
Vice President, Corporate Services
June 29, 2007



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

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, 2007 and the statements of operations and accumulated surplus (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Legal Aid 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 Legal Aid Ontario as at March 31, 2007 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, 2007

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Legal Aid Ontario Balance Sheet

March 31

2007	2006
(\$000's)	(\$000's)

ASSETS**Current**

Cash and cash equivalents (Note 2)	\$ 16,317	\$ 5,903
Cash and cash equivalents - contingency reserve (Notes 2 and 9)	-	395
Accounts receivable (Note 3)	17,755	18,460
Prepaid expenses	898	1,217
Short term investments (Note 4)	22,362	7,777
Short term investments - contingency reserve (Notes 4 and 9)	2,635	9,243

Long term client accounts receivable (Note 3)

Capital assets (Note 5)

\$ 59,967	\$ 42,995
29,598	28,989
11,167	14,294

LIABILITIES AND NET ASSETS**Current**

Accounts payable and accrued liabilities (Note 6)	\$ 79,038	\$ 72,506
Accrued pension benefit (Note 12)	916	416
Deferred capital contributions (Note 7)	1,219	2,011

Net Assets

Accumulated surplus (deficit) (Note 1(c))	\$ 6,976	\$ (3,573)
Invested in capital assets (Note 8)	9,948	12,283
Contingency reserve (Notes 4 and 9)	2,635	2,635

On behalf of the Board:



Chair

On behalf of the Audit and Finance Committee:



Chair

Legal Aid Ontario Statement of Operations and Accumulated Surplus (Deficit)

For the year ended March 31

	2007 (\$000's)	2006 (\$000's)
REVENUE		
Province of Ontario (Note 1(a))	\$ 269,106	\$ 260,527
The Law Foundation of Ontario	51,532	30,715
Client contributions	11,657	15,672
Judgments, costs and settlements	407	283
Investment and other income	1,358	2,124
	<u>\$ 334,060</u>	<u>\$ 309,321</u>
EXPENSES		
Core Business		
Certificate Program		
Criminal	\$ 96,827	\$ 104,105
Family	49,778	62,164
Immigration and refugee	16,472	23,546
Other civil	6,084	7,920
Settlement conferences	130	128
	<u>169,291</u>	<u>197,863</u>
Area office services	23,927	22,871
Family law offices	2,304	2,158
Refugee law office	872	745
	<u>196,394</u>	<u>223,637</u>
Duty Counsel Program		
Duty counsel fees and disbursements	33,750	33,823
Expanded duty counsel	598	534
	<u>34,348</u>	<u>34,357</u>
Clinic Program and special services		
Clinic law services (Note 10)	57,203	57,760
Nishnawbe-Aski allocation	1,610	1,579
Student legal aid societies	2,920	2,818
	<u>61,733</u>	<u>62,157</u>
Service Innovation Projects		
Client Access Services	1,630	1,736
Other	1,109	613
	<u>2,739</u>	<u>2,349</u>

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 (Deficit)** **(Continued)**

For the year ended March 31	2007 (\$000's)	2006 (\$000's)
EXPENSES (continued)		
Service Provider Support		
Research facility	<u>2,054</u>	2,114
Administrative		
Provincial office	24,930	23,211
Amortization expense	<u>3,648</u>	3,840
	<u>28,578</u>	27,051
	<u>\$ 325,846</u>	<u>\$ 351,665</u>
Excess (deficiency) of revenue over expenses for the year	8,214	(42,344)
Accumulated surplus (deficit), beginning of year	(3,573)	31,794
Invested in capital assets	2,335	1,872
Transferred from contingency reserve (Note 9)	<u>—</u>	<u>5,105</u>
Accumulated surplus (deficit), end of year	<u>\$ 6,976</u>	<u>\$ (3,573)</u>

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

2007 2006
(\$000's) (\$000's)

Cash provided by (used in)**OPERATING ACTIVITIES**

Excess (deficiency) of revenue over expenses for the year	\$ 8,214	\$ (42,344)
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:		
Amortization	3,648	3,840
Amortization of bond premium	(81)	(1,033)
Amortization of deferred contributions	(792)	(1,278)
Market value adjustment of short term investments	(246)	219
Loss on sale of investments	222	389
Employer pension contributions	(1,676)	(1,550)
Pension expense	2,176	1,606
Changes in non-cash working capital balances		
Accounts receivable and long-term client		
Accounts receivable	96	(4,403)
Prepaid expenses	319	(175)
Accounts payable and accrued liabilities	6,532	11,888
Accrued interest on investments	(282)	644
	\$ 18,130	\$ (32,197)

INVESTING ACTIVITIES

Purchase of capital assets	\$ (521)	\$ (690)
Purchase of investments	(36,534)	(219,190)
Redemption of investments	28,944	255,131
	\$ (8,111)	\$ 35,251

Net increase in cash and cash equivalents during the year

10,019 3,054

Cash and cash equivalents, beginning of year

6,298 3,244

Cash and cash equivalents, end of year

\$ 16,317 \$ 6,298

Represented by

Cash and cash equivalents	\$ 16,317	\$ 5,903
Cash and cash equivalents – contingency reserve	-	395
	\$ 16,317	\$ 6,298

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, 2007

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 (Canada)*.

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 (deficit) represents the excess (deficiency) 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.

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 surrounding the amounts to be billed, client contributions are recognized as revenue when the Corporation accrues a lawyer's invoice on behalf of a client. Judgments, costs and settlements recognized as revenue when awarded.

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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value with original maturities of three months or less.

Legal Aid Ontario

Summary of Significant Accounting Policies

March 31, 2007

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. Investment income is recorded on an accrual basis. 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 /ease

DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions, related to the funding received from the Province of Ontario for the acquisition of capital assets, represents the unamortized portion of contributions used for the acquisition of capital assets. Amortization of the deferred capital 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 actuarially 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 9 years.

USE OF ESTIMATES

The preparation of financial statements 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. Due to the nature of long-term client accounts receivable, the fair value is not practical to determine with sufficient reliability.

Legal Aid Ontario

Notes to Financial Statements

March 31, 2007

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 expired April 1, 2004. The Corporation and the Attorney General of Ontario are currently drafting the next MOU.

(a) Contributions received from the Province of Ontario were allocated as follows:

	2007 (\$000's)	2006 (\$000's)
Contributions	\$ 268,314	\$ 259,249
Amortization of deferred contributions (Note 7)	792	1,278
	\$ 269,106	\$ 260,527

(b) Included in contributions from the Province of Ontario for the year ended March 31, 2007 is an amount of \$50.7 million (2006 - \$50.7 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

The Corporation has an available line of credit in the amount of \$5 million which remained unused as of March 31, 2007. The credit facility bears interest at prime rate and is unsecured.

Legal Aid Ontario

Notes to Financial Statements

(Continued)

March 31, 2007

3. Accounts Receivable

	2007 (\$000's)	2006 (\$000's)
Client accounts receivable	\$ 77,388	\$ 74,234
Less: Allowance for doubtful accounts	(38,140)	(34,113)
Client accounts receivable (net)	39,248	40,121
Less: Long-term portion of client accounts receivable	(29,598)	(28,989)
Client accounts receivable - current	9,650	11,132
Due from Law Foundation	4,879	3,776
Other receivables	3,226	3,552
Current accounts receivable	\$ 17,755	\$ 18,460

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.

4. Investments

	2007 (\$000's)		2006 (\$000's)	
	Cost	Market	Cost	Market
Canada Bonds	\$ -	\$ -	\$ 7,342	\$ 7,342
Interest rates from 3.25% to 5.10% maturing from September 2007 to June 2010				
Provincial Bonds	-	-	5,692	5,709
Interest rates from 3.15% to 6.25%, maturing from May 2009 to December 2011				
Corporate bonds	-	-	3,906	3,932
Interest rates from 3.32% to 7.00% maturing from June 2008 to March 2013				
Guaranteed investment certificates	24,635	24,635		
Interest rate of 4.05%, maturing from October to December 2007				
Accrued interest	362	362	80	80
Less: Contingency reserve - short term (Note 9)	\$ 24,997	\$ 24,997	\$ 17,020	\$ 17,063
	\$ (2,635)	\$ (2,635)	\$ (9,243)	\$ (9,274)
	\$ 22,362	\$ 22,362	\$ 7,777	\$ 7,789

Legal Aid Ontario Notes to Financial Statements (Continued)

March 31, 2007

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, 2007 are in compliance with the statutory requirements. The Corporation earned total investment income of \$0.4 million in 2007 (2006 - \$0.9 million).

5. Capital Assets

	2007 (\$000's)		2006 (\$000's)	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and office equipment	\$ 3,198	\$ 2,938	\$ 3,177	\$ 2,705
Computer hardware and software	17,519	16,743	17,104	15,983
Custom-designed software	817	817	817	817
Enterprise-wide software	15,628	5,978	15,628	3,746
Leasehold improvements	5,056	4,575	4,971	4,152
	<u>\$ 42,218</u>	<u>\$ 31,051</u>	<u>\$ 41,697</u>	<u>\$ 27,403</u>
Net book value		<u>\$ 11,167</u>		<u>\$ 14,294</u>

6. Accounts Payable and Accrued Liabilities

	2007 (\$000's)	2006 (\$000's)
Legal accounts – billings received but not paid	\$ 19,755	\$ 9,755
- work performed but not yet billed	54,376	56,266
Rent inducements	54	66
Trade and other payables	4,077	5,700
Vacation pay	776	719
	<u>\$ 79,038</u>	<u>\$ 72,506</u>

At year end, management estimates the liability for work performed by private lawyers that has not yet been billed to the Corporation to be approximately \$54.4 million (2006 - \$56.3 million). The methodology used to estimate this liability is based on actual service dates.

Due to the uncertainty involved in the estimation process, there will be a difference between the estimated and actual liability for legal accounts. Any adjustment of the estimated liability will 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 (deficit)".

Legal Aid Ontario Notes to Financial Statements (Continued)

March 31, 2007

7. Deferred Capital Contributions

Changes in capital contributions relating to Province of Ontario funded projects are as follows:

	2007 (\$000's)	2006 (\$000's)
Balance, beginning of year	\$ 2,011	\$ 3,289
Amortization of deferred contributions (Note 1(a))	(792)	(1,278)
	<u>\$ 1,219</u>	<u>\$ 2,011</u>

8. Changes in Net Assets Invested in Capital Assets

	2007 (\$000's)	2006 (\$000's)
Balance, beginning of year		
Amortization	\$ 12,283	\$ 14,155
Amortization of deferred contributions	(3,648)	(3,840)
Purchase of capital assets	792	1,278
	<u>521</u>	<u>690</u>
Represented by	<u>\$ 9,948</u>	<u>\$ 12,283</u>
Capital assets (Note 5)		
Deferred capital contributions (Note 7)	\$ 11,167	14,294
	<u>(1,219)</u>	<u>(2,011)</u>
	<u>9,948</u>	<u>\$ 12,283</u>

Legal Aid Ontario Notes to Financial Statements (Continued)

March 31, 2007

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, 1998* requires 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 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 relating to the cost of the August 2002 tariff increase incurred in 2006/2007 was nil (2006 - \$5.105 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.

	2007 (\$000's)	2006 (\$000's)
Balance, beginning of year	\$ 2,635	\$ 7,740
Transfer from contingency reserve to accumulated surplus	-	(5,105)
Balance, end of year	<u>\$ 2,635</u>	<u>\$ 2,635</u>
Represented by	2007 (\$000's)	2006 (\$000's)
Cash and cash equivalents	\$ -	\$ 395
Due to accumulated surplus	-	(7,003)
Investments – short term (Note 4)	<u>2,635</u>	<u>9,243</u>
	<u>\$ 2,635</u>	<u>\$ 2,635</u>

Legal Aid Ontario Notes to Financial Statements (Continued)

March 31, 2007

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 is required to provide audited financial statements to the Corporation for the funding period.

The total grant to community clinics consists of:

	2007 (\$000's)	2006 (\$000's)
Payments to and on behalf of clinics	\$ 55,479	\$ 56,076
Administrative costs	1,724	1,684
	57,203	\$ 57,760

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, 2007 management estimates that a potential \$48.0 million (2006 - \$44.0 million) could still be incurred on certificates issued on or before March 31, 2007 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)
2008	\$ 4,383	\$ 3,391	\$ 7,774
2009	2,865	2,031	4,896
2010	1,883	1,217	3,100
2011	1,527	1,033	2,560
2012	702	457	1,159
Thereafter	1,151	637	1,788
	\$ 12,511	\$ 8,766	\$ 21,277

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2007

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 594 (2006 - 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 \$1.620 million (2006 - \$1.550 million).

Defined Benefit Component

The defined benefit component of the plan covers 11 (2006 - 11) 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 2008 on the value at January of 2008. The Corporation makes pension contributions to this component of the plan in amounts recommended by the actuary.

For the year ended March 31, 2007, an actuarial valuation for accounting purposes was performed using the following assumptions:

Discount rate	5.3%
Salary increases	4.0%
Expected rate of return on assets	6.0%

Legal Aid Ontario
Notes to Financial Statements
(Continued)

March 31, 2007

12. Pensions (continued)

The actuarial valuation for accounting purposes for the year ending March 31, 2007 indicated an actuarial surplus of \$0.069 million (2006 - deficit of \$0.049 million), resulting from accrued benefit obligation of approximately \$2.860 million (2006 - \$2.675 million) and fair value of plan assets available to provide for these benefits of approximately \$2.929 million (2006 - \$2.626 million). The pension expense for the year was \$0.057 million (2006 - \$0.008 million) and the pension accrued benefit asset as at March 31, 2007 was \$0.049 million (2006 - \$0.002 million). During the year, employees and the Corporation contributed \$0.024 million (2006 - \$0.031 million) and \$0.057 million (2006 - \$0.035 million) respectively. The Corporation paid benefits of \$0.037 million (2006 - \$0.043 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, 2007.

For the year ended March 31, 2007, an actuarial valuation for accounting purposes was performed using the following assumptions:

Discount rate	4.75%
Inflation	3.0%

The actuarial valuation for accounting purposes for the year ending March 31, 2007 indicated the Corporation's pension expense on this benefit for the year was \$0.499 million (2006 - \$0.102 million); the pension accrued benefit obligation as at March 31, 2007 was \$1.004 million (2006 - \$0.969 million); and the accrued benefit liability as at March 31, 2007 was \$0.965 million (2006 - \$0.418 million). During the year, the employee and the Corporation made no payments to the plan (2006 - \$ nil).

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Management Report

The accompanying financial statements are the responsibility of the management of Metropolitan Toronto Convention Centre Corporation. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting policies. The statements include certain amount 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.

Management 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 Corporation's assets are properly accounted for and adequately safeguarded.

The financial statements have been audited by KPMG LLP, a firm of independent external auditors appointed by the Board of Director, whose report follows.



Imtiaz Dhanjee
Vice President Finance
July 19, 2007

**METROPOLITAN TORONTO
CONVENTION CENTRE
CORPORATION
AUDITORS' REPORT**

To the Board of Directors of Metropolitan Toronto
Convention Centre Corporation and the Minister
of Tourism and Recreation

We have audited the balance sheet of Metropolitan Toronto Convention Centre Corporation as at March 31, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a single horizontal line that starts under the "K" and ends under the "P", extending across the width of the signature.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

May 18, 2007

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Balance Sheet

March 31, 2007, with comparative figures for 2006

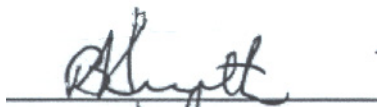
	2007	2006
Assets		
Current assets:		
Cash	\$ 5,229,951	\$ 3,278,283
Cash committed for capital projects	2,083,000	920,000
Customer deposits	7,635,614	7,676,176
Accounts receivable	2,839,806	2,710,164
Inventories	438,020	384,388
Prepaid expenses	196,228	355,802
	<u>18,422,619</u>	<u>15,324,813</u>
Capital assets (note 2)	126,411,602	128,199,433
Employee future benefits (note 5)	418,300	886,700
	<u>\$ 145,252,521</u>	<u>\$ 144,410,946</u>

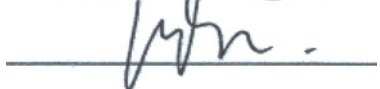
Liabilities and Deficiency

Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,623,777	\$ 4,674,789
Deferred revenue	7,635,614	7,676,176
	<u>12,259,391</u>	<u>12,350,965</u>
Deficiency	(9,857,575)	(10,790,724)
Contributed surplus (note 3)	142,850,705	142,850,705
Commitments (note 4)		
	<u>\$ 145,252,521</u>	<u>\$ 144,410,946</u>

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, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Food and beverage	\$ 26,781,800	\$ 21,693,990
Facility rentals	14,574,178	12,945,053
Parking	6,536,359	6,090,533
Other	10,072,922	7,970,636
	<u>\$ 57,965,259</u>	<u>\$ 48,700,212</u>
Gross operating profit	\$ 33,909,485	\$ 28,429,964
Operating expenses	20,034,340	18,229,018
Net operating income	13,875,145	10,200,946
Amortization, net of reallocation to operating expenses for parking garage of \$ 113,453 (2006 - \$152,792)	4,791,996	4,584,972
Net income	<u>\$ 9,083,149</u>	<u>\$ 5,615,974</u>

Statement of Deficiency

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
Deficiency, beginning of year	\$ (10,790,724)	\$ (11,006,698)
Net income	9,083,149	5,615,974
Distribution payment to Ontario Financing Authority	(8,150,000)	(5,400,000)
Deficiency, end of year	<u>\$ (9,857,575)</u>	<u>\$ (10,790,724)</u>

See accompanying notes to financial statements.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Statement of Cash Flows

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Net income	\$ 9,083,149	\$ 5,615,974
Amortization which does not involve cash	4,905,449	4,737,764
	13,988,598	10,353,738
Change in non-cash operating working capital:		
Accounts receivable	(129,642)	(600,217)
Inventories	(53,632)	(66,255)
Prepaid expenses	159,574	199,837
Employee future benefits	468,400	253,900
Accounts payable and accrued liabilities	(51,012)	261,399
	14,382,286	10,402,402
Financing:		
Distribution payment to Ontario Financing Authority	(8,150,000)	(5,400,000)
Investments:		
Additions to capital assets	(3,117,618)	(3,710,188)
Increase in cash	3,114,668	1,292,214
Cash, beginning of year	4,198,283	2,906,069
Cash, end of year	\$ 7,312,951	\$ 4,198,283

See accompanying notes to financial statements.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements

Year ended March 31, 2007

The Metropolitan Toronto Convention Centre Corporation (the "Corporation") is a government business enterprise of the Ministry of Tourism 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, 2007

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, 2007

2. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Building	\$ 217,798,003	\$ 43,609,841	\$ 174,188,162	\$ 179,650,615
Furniture, fixtures and computer equipment	30,500,575	28,867,979	1,632,596	5,300,831
Leasehold improvements	20,428,605	14,883,442	5,545,163	851,689
	268,727,183	87,361,262	181,365,921	185,803,135
Less government grants	85,914,604	30,960,285	54,954,319	57,603,702
	\$ 182,812,579	\$ 56,400,977	\$ 126,411,602	\$ 128,199,433

3. Contributed surplus:

	2007	2006
Contributed surplus, beginning and end of year	\$ 142,850,705	\$ 142,850,705

The contributed surplus balance was created as a result of the Ontario Financing Authority ("OFA") issuing a release to the Corporation as at March 30, 2003 from all of its obligations under the temporary expansion financing.

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 has approved a distribution payment of \$7,500,000 (2006 - \$5,650,000) to the OFA.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2007

3. Contributed surplus (continued):

The distribution payment to OFA of \$8,150,000 (2006 - \$5,400,000) relating to 2007 was remitted as follows:

\$7,500,000 on March 28, 2007

\$650,000 on April 28, 2006 relating to fiscal 2006

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:

2008	\$	5,862,536
2009		5,874,688
2010		5,759,040
2011		5,444,040
2012		5,392,460
Thereafter - 25 years		109,449,298
	\$	137,782,062

5. Employee future benefits:

The Corporation maintains a defined benefit pension plan. 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 best average pensionable 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, 2007

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 post-employment plans and retirement compensation agreement coincides with the Corporation's fiscal year, and the defined benefit plan measurement date is December 31. The most recent actuarial valuations of the benefit plans for funding purposes (and the next required valuations) are 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, 2007 (March 31, 2008).

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.

As shown in the following table, the Corporation has a deficit of \$3,168,500 (2006 - \$2,182,500) for its employee future benefit plans. The funding deficit is offset by unamortized net actuarial losses of \$3,584,600 (2006 - \$3,069,200) and results in an employee future benefit asset of \$418,300 (2006 - \$886,700) recorded in the financial statements. Currently, there are 188 employees enrolled in the defined benefit plan and 108 employees enrolled in the defined contribution plan.

During 2005, the Corporation had closed the Defined Benefit Plan. All new eligible plan members must join the Defined Contribution Plan. The defined contribution portion of the plan is fully funded as of March 31, 2007.

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2007

5. Employee future benefits (continued):

Information about the Corporation's pension plan and employee benefit arrangements are detailed in the table below:

	2007		2006	
	Pension plan	Employee benefits	Pension plan	Employee benefits
Plan assets:				
Market value, beginning of year	\$ 11,188,700	\$ 589,100	\$ 10,159,000	\$ 580,700
Actual return (loss) on plan assets	994,100	48,400	491,200	38,000
Employer contributions	701,300	71,900	695,700	38,600
Employee contributions	236,900	—	230,000	—
Benefits paid	(216,400)	(69,400)	(346,900)	(68,200)
Market value, end of year	\$ 12,904,600	\$ 640,000	\$ 11,229,000	\$ 589,100
Plan obligation:				
Accrued benefit obligation, beginning of year	\$ 12,859,400	\$ 1,100,900	\$ 9,968,200	\$ 896,500
Current service cost	964,600	58,300	776,600	52,700
Employee Contribution	236,900	—	230,000	—
Interest cost	767,400	60,900	675,100	56,000
Benefits paid	(216,400)	(69,400)	(346,900)	(68,200)
Actuarial losses	801,600	148,900	1,596,700	157,200
Plan amendments	—	—	—	6,700
Accrued benefit obligation, end of year	\$ 15,413,500	\$ 1,299,600	\$ 12,899,700	\$ 1,100,900
Plan surplus (deficit):				
Market value less accrued benefit obligation, end of year	\$ (2,508,900)	\$ (659,600)	\$ (1,670,700)	\$ (511,800)
Unamortized past service cost	—	2,200	—	—
Unamortized net actuarial loss	3,212,000	372,600	2,792,700	276,500
Accrued benefit asset (liability)	\$ 703,100	\$ (284,800)	\$ 1,122,000	\$ (235,300)
Benefit plan expense:				
Current service cost, net of employee contributions	\$ 964,600	\$ 58,300	\$ 776,600	\$ 52,700
Interest cost	767,400	60,900	675,100	56,000
Actual loss (return) on plan assets	(994,100)	(48,400)	(491,200)	(38,000)
Actuarial losses	801,600	148,900	1,596,700	157,200
Net amortization	(419,300)	(98,300)	(1,671,900)	(125,000)
Net defined benefit plan expense	1,120,200	121,400	885,300	102,900
Defined contribution plan cost	224,100	—	216,500	—
Net benefit plan expense	\$ 1,344,300	\$ 121,400	\$ 1,101,800	\$ 102,900

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2007

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:

	2007	2006
Canadian equity securities	23.3%	23.3%
Global equity securities	32.2%	32.2%
Fixed income securities	44.5%	44.5%

The significant assumptions used in accounting for the plans are as follows (weighted average):

	Pension benefit plan		Other benefit plan	
	2007	2006	2007	2006
Accrued benefit obligation:				
Discount rate	5.25%	5.50%	5.25%	5.50%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Benefit costs for the years:				
Discount rate	5.50%	6.25%	5.50%	6.25%
Expected long-term rate of return on plan assets	7.00%	7.00%	3.50%	3.50%
Rate of compensation increase	3.50%	4.00%	4.00%	4.00%

Assumed health care cost trend rates at December 31:

	2007	2006
Initial health care cost trend rate	12.0%	10.0%
Cost trend rate declines to	5.0%	5.0%
Year that the rate reaches the rate it is assumed to remain at	2014	2011

METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2007

6. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.



Responsibility for Financial Reporting

The accompanying financial statements of the Northern Ontario Heritage Fund Corporation (NOHFC) 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 15, 2007.

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.

The Board, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, comprised of members who are not employees/officers of the NOHFC, generally meets periodically with management 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 Auditors' 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 other scope of the Auditor's examination and opinion.

A handwritten signature in black ink, appearing to read "Aime J. Dimatteo".

Aime J. Dimatteo
Executive Director
NOHFC

A handwritten signature in black ink, appearing to read "Melanie Splinter".

Melanie Splinter
Manager, Financial Services
NOHFC



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

Northern Ontario Heritage Fund Corporation

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, 2007 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, 2007 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 15, 2007

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Balance Sheet
As at March 31, 2007

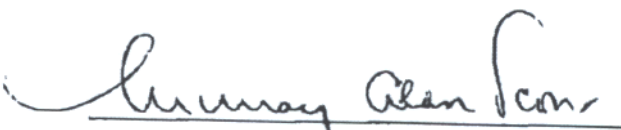
	2007 (\$000s)	2006 (\$000s) (as restated - note 4)
Assets		
Cash and cash equivalents (Note 3)	211,618	196,317
Accrued interest	4,066	1,902
Loans receivable (Note 4)	34,098	29,221
	<u>249,782</u>	<u>227,440</u>
Patten Post Diversification Fund under administration (Note 5)	3,860	4,996
Duke Energy Fund under administration (Note 6)	613	1,138
	<u>254,255</u>	<u>233,574</u>
Liabilities		
Patten Post Diversification Fund under administration (Note 5)	3,860	4,996
Duke Energy Fund under administration (Note 6)	613	1,138
	<u>4,473</u>	<u>6,134</u>
Commitments (Note 9)		
Net investment by the Province of Ontario	<u>249,782</u>	<u>227,440</u>
	<u>254,255</u>	<u>233,574</u>

See accompanying notes to financial statements.

On behalf of the Board:



 Vice 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, 2007

	2007 (\$000s)	2006 (\$000s) (as restated - note 4)
Revenue		
Province of Ontario grant		
Operating	60,000	60,000
Administration (Note 8)	955	1,520
Interest on cash and cash equivalents	9,440	6,441
Interest on loans receivable	659	746
	<u>71,054</u>	<u>68,707</u>
Expenses		
Grants	43,654	66,216
Forgivable loans	-	1,421
Credit and investment losses, net of recoveries (Note 7)	2,556	(214)
Administration (Note 8)	2,502	1,940
	<u>48,712</u>	<u>69,363</u>
Excess of revenue over expenses (expenses over revenue)	22,342	(656)
Net investment by the Province of Ontario, beginning of year, as previously reported	232,024	231,614
Prior period adjustment (Note 4)	(4,584)	(3,518)
Net investment by the Province of Ontario, beginning of year, as restated	<u>227,440</u>	<u>228,096</u>
Net investment by the Province of Ontario, end of year	<u>249,782</u>	<u>227,440</u>

See accompanying notes to financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION**Statement of Cash Flows****For the Year Ended March 31, 2007**

	2007 (\$000s)	2006 (\$000s)
Lending, investing and financial assistance activities		
Loan disbursements	(8,320)	(8,766)
Loan repayments and recoveries	2,334	5,671
Grants and forgivable loans	(44,678)	(67,173)
Interest received on loans receivable	119	26
	<u>(50,545)</u>	<u>(70,242)</u>
Financing activities		
Cash contributions from the Province for:		
Lending and financial assistance activities	60,000	60,000
Administration	955	1,520
	<u>60,955</u>	<u>61,520</u>
Operating activities		
Interest received on cash and cash equivalents	7,395	6,931
Administration costs	(2,504)	(1,940)
	<u>4,891</u>	<u>4,991</u>
Increase (decrease) in cash and cash equivalents	15,301	(3,731)
Cash and cash equivalents, beginning of year	<u>196,317</u>	<u>200,048</u>
Cash and cash equivalents, end of year	<u><u>211,618</u></u>	<u><u>196,317</u></u>

NORTHERN ONTARIO HERITAGE FUND CORPORATION**Notes to Financial Statements
March 31, 2007**

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, 2007**

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) Grants and Forgivable Loans

Generally, loans are forgiven on condition that the borrower has met certain requirements after the loan is disbursed. The Corporation expenses grants and forgivable loans when disbursed, as historically the proponents have met all conditions. Recoveries of monies for which the conditions are not met are recognized in the year received.

(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.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements
March 31, 2007

3. CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and cash equivalents consist of:

	2007 (\$000s)	2006 (\$000s)
Cash	30,351	15,331
Short-term investments	181,267	180,986
	<u>211,618</u>	<u>196,317</u>

Short-term investments consist of treasury bills (maturing within 365 days) which yielded 4.31% on average (2006 – 3.56%) and have a market value that approximates carrying value. All treasury bills are redeemable on demand.

4. LOANS RECEIVABLE

	2007 (\$000s)	2006 (\$000s)
Current	4,054	3,370
Long-term	45,841	40,860
Provision for credit losses	(12,514)	(9,958)
Loan discount	(3,283)	(5,051)
	<u>34,098</u>	<u>29,221</u>

Provision for credit losses consists of:

	2007 (\$000s)	2006 (\$000s)
Specific	6,886	8,552
General	5,628	1,406
	<u>12,514</u>	<u>9,958</u>

Generally, loans bear fixed interest rates ranging from 0% to 9.25% and are fully repayable within 20 years from the date disbursed.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

March 31, 2007

4. LOANS RECEIVABLE (CONTINUED)

The changes in the loan discount balances are as follows:

	2007 (\$000s)	2006 (\$000s)
Balance, beginning of year, as previously reported	467	1,755
Prior period adjustment	4,584	3,518
Balance, beginning of year, as restated	5,051	5,273
Add: Amount of loan discount (credited) charged to grants expense	(1,347)	462
Less: Amount amortized to interest on loans receivable	(421)	(684)
Balance, end of year	3,283	5,051

The unamortized loan discount was adjusted for a change to increase the loan discount amount for a prior period.

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:

	2007 (\$000s)	2006 (\$000s)
Investment income	183	168
Disbursements to communities	(1,319)	(2,115)
Net results for the year	(1,136)	(1,947)
Fund balance, beginning of year	4,996	6,943
Fund balance, end of year	3,860	4,996

The Fund balance is represented by:

Cash (Cheques issued in excess of funds on deposit)	(2,646)	(1,327)
Treasury bills maturing in 90 days or less	6,506	6,323
	3,860	4,996

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements March 31, 2007

6. DUKE ENERGY FUND UNDER ADMINISTRATION

The Corporation is responsible for the administration of a Fund whose proceeds were received from Union Gas Limited, a Duke Energy Company, on July 15, 2005. The objective of the Fund is to benefit Northern Ontario through funding for job-training projects proposed by educational institutions located in Northern Ontario under NOHFC's Emerging Technologies-Public Sector program. The Corporation is responsible for processing applications for funding based on advice from Duke Energy Company and according to established funding criteria until the balance in the fund is disbursed.

The activity of the Fund was as follows:

	2007 (\$000s)	2006 (\$000s)
Contributions to the fund	-	1,315
Disbursements to communities	(563)	(190)
Investment income	38	13
Net results for the year	<u>(525)</u>	<u>1,138</u>
 Fund balance, beginning of year	 <u>1,138</u>	 <u>-</u>
Fund balance, end of year	<u><u>613</u></u>	<u><u>1,138</u></u>

The Fund balance is represented by:

Cash	562	1,125
Treasury bills maturing in 90 days or less	51	13
	<u><u>613</u></u>	<u><u>1,138</u></u>

7. 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:

	2007 (\$000s)	2006 (\$000s)
Recoveries	-	-
Increase (decrease) in provision for doubtful loans	2,556	(214)
Net expense (recovery)	<u><u>2,556</u></u>	<u><u>(214)</u></u>

NORTHERN ONTARIO HERITAGE FUND CORPORATION**Notes to Financial Statements
March 31, 2007****8. ADMINISTRATION AND RELATED PARTY TRANSACTIONS**

Generally, 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:

	2007 (\$000s)	2006 (\$000s)
Salaries and benefits	1,103	888
Transportation and communications	256	232
Services	164	629
Management fees	632	-
Marketing	308	150
Supplies and equipment	39	41
	2,502	1,940
Less: expenses borne by the Province	955	1,520
Expenses borne by the Corporation	1,547	420

In the current year, the Corporation paid management fees of \$632,000 to a private sector asset management company to manage some of the Corporation's loan portfolios. These fees were not paid directly by the Corporation in the prior year and have thus not been reflected in the comparative figures.

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 the Ministry of Government Services and are not included in these financial statements.

9. COMMITMENTS

Funds committed but not disbursed as at March 31 are approximately \$132,318,000 (2006: \$106,078,000).

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash and cash equivalents, accrued interest and loans receivable. The fair value of the cash and cash equivalents and accrued interest approximate carrying amounts due to the short-term nature of these items. 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.



Box 200, Station Q
Toronto, ON Canada M4T 2T1
Tel : 416.484.2626
Fax : 416.484.2828

C.P. 200, succursale Q
Toronto ON Canada M4T 2T1
Téléphone: 416.484.2626
Télécopieur: 416.484.2828

Lisa de Wilde
Chief Executive Officer
Directrice générale

ldewilde@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, 2007.

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 Board of Directors.

The OECA's Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Board 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 are reviewed with management, Internal Audit and the Office of the Auditor General of Ontario before approval by the Board of Directors.

The Office of the Auditor General of Ontario conducts an annual audit in accordance with section 11 of the Ontario Educational Communications Authority Act. The auditors's report outlines the scope of the auditor's examination and opinion.

A handwritten signature in blue ink, appearing to read "L. de Wilde", is positioned above the printed name and title.

Lisa de Wilde
Chief Executive Officer



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

Auditor's Report

To The Ontario Educational Communications Authority
and the Minister of Education

I have audited the statement of financial position of The Ontario Educational Communications Authority as at March 31, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink, appearing to read 'G. Peall'.

Toronto, Ontario
June 6, 2007

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

Statement of Financial Position
as at March 31, 2007

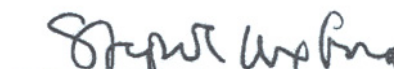
Assets	2007 (\$000s)	2006 (\$000s)
Current Assets		
Cash and short-term investments (note 3)	25,530	16,474
Accounts receivable (note 4)	3,365	3,120
Prepaid expenses	514	871
Inventories	<u>152</u>	<u>415</u>
	29,561	20,880
Broadcast rights and production costs (note 8)	26,250	26,743
Accrued pension asset (note 5)	1,462	2,233
Investments held for Capital Renewal (note 6)	4,575	3,525
Net Capital Assets (note 7)	<u>17,414</u>	<u>16,264</u>
Total Assets	<u>79,262</u>	<u>69,645</u>
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	16,812	8,135
Deferred revenue (note 9)	8,767	12,600
Lease obligations (note 10)	<u>62</u>	<u>23</u>
	<u>25,641</u>	<u>20,758</u>
Non-Current Liabilities		
Lease obligations (note 10)	85	29
Employee future benefits (note 5)	5,833	4,455
Deferred capital contributions (note 11)	<u>13,092</u>	<u>14,441</u>
	<u>19,010</u>	<u>18,925</u>
Equity		
Invested in broadcast rights and production costs	25,146	25,578
Invested in capital assets	8,750	5,296
Restricted – Accrued pension asset	1,462	2,233
Unrestricted	<u>(747)</u>	<u>(3,145)</u>
	<u>34,611</u>	<u>29,962</u>
Total Liabilities and Equity	<u>79,262</u>	<u>69,645</u>
Commitments and Contingencies (notes 15 and 18)		

See accompanying Notes to Financial Statements.

On behalf of the Board:



Chair



Director

THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

Statement of Operations and Equity
for the year ended March 31, 2007

	2007 (\$000s)	2006 (\$000s)
Revenues		
Government operating grants (note 12)	58,438	50,296
Other earned revenue (note 14)	15,524	15,600
Government and corporate project funding (note 13)	8,380	8,002
Amortization of deferred capital contributions (note 11)	<u>2,399</u>	<u>2,760</u>
	<u>84,741</u>	<u>76,658</u>
Expenses		
TVO programming services	23,249	22,828
TFO programming services	16,659	16,239
Technical and production support services	14,444	15,363
Independent Learning Centre	9,309	8,830
Management and general expenses	6,348	5,105
Cost of other earned revenue (note 14)	3,689	4,820
Amortization of capital assets	3,831	4,150
Employee future benefits (note 5)	<u>2,563</u>	<u>2,409</u>
	<u>80,092</u>	<u>79,744</u>
Excess/(Deficiency) of revenues over expenses	4,649	(3,086)
Equity, beginning of year	<u>29,962</u>	<u>33,048</u>
Equity, end of year	<u>34,611</u>	<u>29,962</u>

See accompanying Notes to Financial Statements

THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

Statement of Changes in Equity
for the year ended March 31, 2007

	2007 (\$000s)				2006 (\$000s)	
	Invested in Broadcast Rights and Production Costs	Invested in Capital Assets	Restricted Accrued Pension Asset	Unrestricted	Total	Total
Balance, beginning of year	25,578	5,296	2,233	(3,145)	29,962	33,048
Excess/(deficiency) of revenues over expenses	(15,413)	(1,311)	(1,141)	22,514	4,649	(3,086)
Contribution to the pension plans	-	-	370	(370)	-	-
Invested in Capital assets	-	4,765	-	(4,765)	-	-
Invested in broadcast rights and production costs	<u>14,981</u>	<u>-</u>	<u>-</u>	<u>(14,981)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>25,146</u>	<u>8,750</u>	<u>1,462</u>	<u>(747)</u>	<u>34,611</u>	<u>29,962</u>

See accompanying Notes to Financial Statements

THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

Statement of Cash Flows
for the year ended March 31, 2007

	2007 (\$000s)	2006 (\$000s)
OPERATING ACTIVITIES		
Excess /(deficiency) of revenues over expenses	4,649	(3,086)
Add/(deduct) non-cash items:		
Amortization of capital assets	3,831	4,150
Amortization of deferred capital contributions	(2,399)	(2,469)
Amortization of broadcast rights and production costs	15,474	15,727
Pension expense	771	518
Post retirement benefits	1,378	1,035
Gain on disposal of capital assets	(121)	(59)
Net changes in non-cash working capital:		
Accounts receivable	(245)	(480)
Inventories	263	61
Prepaid expenses	357	203
Deferred revenue	8,677	3,172
Accounts payable and accrued liabilities	<u>(3,833)</u>	<u>603</u>
Cash provided by operating activities	<u>28,802</u>	<u>19,375</u>
INVESTING AND FINANCING ACTIVITIES		
Broadcast rights additions	(14,981)	(15,015)
Capital asset additions	(5,026)	(1,060)
Current year's deferred capital contributions	-	464
Proceeds from disposal of capital assets	166	94
Lease obligations	<u>95</u>	<u>(21)</u>
Cash used in investing and financing activities	<u>(19,746)</u>	<u>(15,538)</u>
Net increase in cash position during the year	9,056	3,837
Cash and short-term investments, beginning of year	<u>16,474</u>	<u>12,637</u>
Cash and short-term investments, end of year	<u>25,530</u>	<u>16,474</u>

See accompanying Notes to Financial Statements

THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

Notes to Financial Statements
March 31, 2007**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. 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.
2. Grants and revenues received in the year for special purposes are deferred until the related expenses have been incurred.

3. 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.
4. 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 costs and any 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) Broadcast Rights and Production Costs

Broadcast rights and production costs are accounted for as follows:

Current events and network promotion programs produced by the Authority are expensed in the year the costs are incurred.

All other programs produced by the Authority and programs licensed under co-production, pre-buy and acquisition contracts are recorded at cost less accumulated amortization. Amortization is calculated on a straight line basis over four years.

(g) 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 any province of Canada, Canada, the United Kingdom, and 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 \$25,530,000 (2006 - \$16,474,000) included \$25,575,000 (2006 - \$16,420,000) of investments maturing within 90 days, yielding 4.2% (2006 – 2.9%) on average during the year, with a market value that approximates carrying value.

4. ACCOUNTS RECEIVABLE

	2007 (\$000s)	2006 (\$000s)
Project funding	1,573	1,356
Trade	1,444	1,038
Other	<u>348</u>	<u>726</u>
	<u>3,365</u>	<u>3,120</u>

5. EMPLOYEE FUTURE BENEFITS

The pension and other post-employment benefit plans have the following components:

Registered pension plans:

Main Pension Plan - Most employees of the Authority are members of this plan, which consists of three elements – a non-contributory, defined benefits, best average earnings and years of service element; a contributory, defined contribution element; and a non-contributory, defined contribution element.

Executive Pension Plan – Certain executives are members of this non-contributory, defined benefits, best average earnings and years of service plan.

Supplementary retirement plan: This unregistered, non-contributory, defined benefits plan funds the portion of pension entitlements in excess of the maximum allowed for registered pension plans under the federal Income Tax Act.

The pensions payable under the defined benefit plans are adjusted for inflation based on the consumer price index up to a maximum of 3% per year.

Post-employment benefits plan: The Authority offers post-employment benefits such as health care, dental care, and life insurance on a shared cost basis.

The most recent actuarial valuation of the defined benefit pension plans and the post-employment benefits plan was as of January 1, 2007, and the next valuation is due as of January 1, 2010.

The Authority offered eligible members the opportunity to participate in an early retirement window during the 2006 calendar year.

	Registered Pension Plans		Supplementary Retirement Plan		Post-employment Benefit Plan	
	2007	2006	2007	2006	2007	2006
	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)
Plan surplus/(deficit) as of January 1:						
Market value of plan assets	97,527	90,472	-	-	-	-
Accrued benefit obligation	(92,340)	(91,437)	(76)	(39)	(10,968)	(9,970)
	5,187	(965)	(76)	(39)	(10,968)	(9,970)
Balance of unamortized amounts as of January 1:						
Net transition (asset)/obligation	(6,967)	(7,855)	-	-	1,854	2,085
Past service cost	877	988	7	11	-	-
Actuarial (gains)/losses	2,375	9,783	(4)	(1)	3,256	3,407
	(3,715)	2,916	3	10	5,110	5,492
Contributions – January 1 to March 31	103	403	-	-	25	23
Use of surplus – January 1 to March 31	(113)	(121)	-	-	-	-
Accrued benefit asset/(liability)	1,462	2,233	(73)	(29)	(5,833)	(4,455)
	Registered Pension Plans		Supplementary Retirement Plan		Post-employment Benefit Plan	
	2007	2006	2007	2006	2007	2006
	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)
Disclosed in the Statement of Financial Position as:						
Accrued pension asset	1,462	2,233				
Accounts payable and accrued liabilities			(73)	(29)		
Employee future benefits					(5,833)	(4,455)
Expenses for the year:						
Defined benefit plan	656	711	44	176	1,378	1,035
Defined contribution plan	485	487	-	-	-	-
	1,141	1,198	44	176	1,378	1,035
Contributions to the pension and benefit plans	370	680	-	-	97	91
Pension benefits paid	3,180	2,983	-	-	-	-
Termination benefits paid	1,934	1,521	159	183	-	-

The significant assumptions adopted in measuring the accrued benefit obligations and pension expenses are as follows:

	Registered Pension Plans		Supplementary Retirement Plan		Post-employment Benefit Plan	
	2007	2006	2007	2006	2007	2006
Discount rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Investment return	6.50%	7.50%	N/A	N/A	N/A	N/A
Pension indexation	2.50%	2.50%	2.50%	2.50%	-	-
Salary rate increase	3.50%	4.00%	3.50%	4.00%	N/A	N/A
Health cost rate increase	N/A	N/A	N/A	N/A	9.00%	10.00%
Dental cost rate increase	N/A	N/A	N/A	N/A	4.50%	4.50%
Average remaining service lifetime	9-12	9-12	5	5	16	16

Defined benefit plan assets as at January 1 measurement date consist of:

Asset category	Percentage of Plan Assets	
	2007	2006
Equity securities	62%	63%
Debt securities	38%	37%

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 4.2% (2006 – 2.9%) during the fiscal year. The changes in the fund were as follows:

	2007 (\$000s)	2006 (\$000s)
Balance, beginning of year	3,525	3,293
Allocation of grants - Ministry of Education (note 12)	901	901
Interest earned	149	86
Drawing for capital acquisitions	<u>-</u>	<u>(755)</u>
	<u>4,575</u>	<u>3,525</u>

7. NET CAPITAL ASSETS

Capital assets consist of the following:

	<u>Cost</u>	<u>2007 (\$000s) Accumulated Amortization</u>	<u>Net Book Value</u>	<u>2006 (\$000s) Net Book Value</u>
Land	186	-	186	215
Buildings	4,812	3,520	1,292	1,452
Transmitters	27,995	24,957	3,038	3,668
Transmitter monitoring equipment	1,109	1,000	109	150
In house technical equipment	26,834	22,562	4,272	5,184
Leasehold improvements	10,738	6,486	4,252	2,319
Computer equipment	7,191	5,202	1,989	2,216
Office furniture and fixtures	3,999	2,052	1,947	880
Office equipment	1,192	1,070	122	108
Vehicles	621	425	196	72
Construction in progress	11	-	11	-
	<u>84,688</u>	<u>67,274</u>	<u>17,414</u>	<u>16,264</u>

8. BROADCAST RIGHTS AND PRODUCTION COSTS

Broadcast rights and production costs consist of the following:

	<u>Cost</u>	<u>2007 (\$000s) Accumulated Amortization</u>	<u>Net Book Value</u>	<u>2006 (\$000s) Net Book Value</u>
Broadcast rights and completed productions	45,297	22,980	22,317	23,421
Work in progress	<u>3,933</u>	-	<u>3,933</u>	<u>3,322</u>
	<u>49,230</u>	<u>22,980</u>	<u>26,250</u>	<u>26,743</u>

Amortization expense for the year was \$15,474,000 (2006 - \$15,727,000) and is included in TVO and TFO programming services expense.

9. DEFERRED REVENUE

	2007 (\$000s)	2006 (\$000s)
Government grants (note 12)	6,085	6,796
Government (provincial & federal) project funding (note 13)	-	4,570
Corporate project funding (note 13)	645	1,004
Other	<u>2,037</u>	<u>230</u>
	<u>8,767</u>	<u>12,600</u>

Expenditures related to the above deferrals have been budgeted for 2008 fiscal year.

10. LEASE OBLIGATIONS

Lease obligations represent the balance of the commitments made under capital leases. The changes in the lease obligations balance are as follows:

	2007 (\$000s)	2006 (\$000s)
Lease obligations, beginning of year	52	73
Add: Capital leases additions	142	-
Less: Payments made on existing capital leases	<u>(47)</u>	<u>(21)</u>
Lease obligations, end of year	<u>147</u>	<u>52</u>
Current lease obligations	62	23
Non-current lease obligations	<u>85</u>	<u>29</u>
	<u>147</u>	<u>52</u>

11. 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:

	2007 (\$000s)	2006 (\$000s)
Deferred capital contributions, beginning of year	14,441	16,214
Add: Allocation of grants – Ministry of Education (note 12)	901	901
Interest earned	<u>149</u>	<u>86</u>
	15,491	17,201
Less: Drawing for capital acquisitions	-	(291)
Amortization of capital contributions	<u>(2,399)</u>	<u>(2,469)</u>
Deferred capital contributions, end of year	<u>13,092</u>	<u>14,441</u>

12. GOVERNMENT OPERATING GRANTS

	2007 (\$000s)	2006 (\$000s)
Provincial		
Ministry of Education		
- 2007 Base grant	45,040	45,040
- 2008 Prepayment	7,507	5,338
Less: Amount allocated for capital renewal (note 6)	(901)	(901)
Funding deferred to future year (note 9)	(5,005)	(5,338)
2008 funding attributed to OFECA (note 21)	<u>(2,502)</u>	<u>-</u>
	<u>44,139</u>	<u>44,139</u>
Ministry of Education		
- Transition funding *	7,500	-
Funding deferred to future year (note 9)	<u>(545)</u>	<u>-</u>
	<u>6,955</u>	<u>-</u>
Ministry of Education		
- Independent Learning Centre grant	6,421	6,421
Funding deferred from prior year	1,458	1,194
Funding deferred to future year (note 9)	<u>(535)</u>	<u>(1,458)</u>
	<u>7,344</u>	<u>6,157</u>
Total government operating grants	<u>58,438</u>	<u>50,296</u>

* The government provided the Authority with \$7.5 million of transition funds in 2007 and committed to an additional \$7.5 million in 2008 to assist the Authority in implementing a new strategic plan.

13. GOVERNMENT AND CORPORATE PROJECT FUNDING

	2007 (\$000s)	2006 (\$000s)
Provincial project funding		
Ministry of Education		
- Early Reading and Early Math	-	600
- Other project funding	1,074	883
Other provincial project funding	116	195
Funding deferred from prior year (note 9)	4,561	6,864
Funding deferred to future year (note 9)	-	(4,561)
2008 funding attributed to OFECA (note 21)	<u>(1,548)</u>	<u>-</u>
	<u>4,203</u>	<u>3,981</u>
Federal project funding		
Heritage Canada	2,550	2,763
Other	149	85
Funding deferred from prior year	9	-
Funding deferred to future year	<u>-</u>	<u>(9)</u>
	<u>2,708</u>	<u>2,839</u>
Corporate project funding		
Funding received during the year	1,383	1,032
Funding deferred from prior year (note 9)	1,004	1,154
Funding deferred to future year (note 9)	(645)	(1,004)
2008 funding attributed to OFECA (note 21)	<u>(273)</u>	<u>-</u>
	<u>1,469</u>	<u>1,182</u>
Total government and corporate project funding	<u>8,380</u>	<u>8,002</u>

14. OTHER EARNED REVENUE AND COST

	2007 (\$000s)		2006 (\$000s)		
	<u>Revenue</u>	<u>Cost</u>	<u>Net Revenue</u>	<u>Revenue</u>	<u>Net Revenue</u>
TVO Revenues					
Sales and Licensing	992	1,012	(20)	1,106	(192)
Membership and corporate donations	<u>5,394</u>	<u>2,643</u>	<u>2,751</u>	<u>7,324</u>	<u>3,844</u>
Total TVO Revenues	6,386	3,655	2,731	8,430	3,652
 TFO subscriber revenues	2,949	34	2,915	2,275	2,233
ILC revenues	2,387	-	2,387	2,423	2,423
Others	<u>3,802</u>	<u>-</u>	<u>3,802</u>	<u>2,472</u>	<u>2,472</u>
	<u>15,524</u>	<u>3,689</u>	<u>11,835</u>	<u>15,600</u>	<u>10,780</u>

15. 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)
2008	2,357
2009	2,273
2010	2,018
2011	1,749
2012	1,549
2013 and beyond	<u>26,132</u>
Total future lease payments	<u>36,078</u>

The lease of head office space has been renewed to August 31, 2027.

16. 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 fundraising activities. Due to the difficulty of determining their fair value, contributed materials and services are not recognized in the financial statements.

17. THE INDEPENDENT LEARNING CENTRE

Under the terms of an agreement with the Ministry of Education and the Ministry of Training, Colleges and Universities, the Independent Learning Centre (ILC) was transferred to the Authority in 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 until the related expenses have been incurred.

	2007 \$000s)	2006 \$000s)
Activities were funded by:		
Ministry of Education ILC grant (note 12)	6,421	6,421
Funding deferred from prior year	1,458	1,194
Funding deferred to future year	<u>(535)</u>	<u>(1,458)</u>
ILC grant recognized	7,344	6,157
ILC earned revenues (note 14)	<u>2,387</u>	<u>2,423</u>
Total ILC grant and earned revenues	<u>9,731</u>	<u>8,580</u>

Expenditures related to the above deferrals have been budgeted for the 2008 fiscal year.

18. 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. Management does not expect that the outcome of the claims against the Authority will have a material and adverse effect on its results and does not believe any provisions for losses are necessary at this time. 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.

19. FINANCIAL INSTRUMENTS

The Authority's financial instruments consist of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and lease obligations. Unless otherwise noted, it is management's opinion that the Authority is not exposed to significant interest rate, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximated their carrying values.

20. 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.

The Board of Directors of the Foundation approved a resolution in December 2006 to dissolve or cease its operations after all the assets of the Foundation are transferred into the ownership of the Authority. The total assets transferred in 2007 comprised of cash and short term investment of \$3,585,000.

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, 2007 were as follows:

Financial Position as at March 31st

	Unrestricted Fund (\$000s)	Matching Gift Fund (\$000s)	2007 Total (\$000s)	2006 Total (\$000s)
Assets				
Cash and short term investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,487</u>
Liabilities and Equity				
Accrued liabilities	-	-	-	-
Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,487</u>
Total liabilities and equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,487</u>

Results of operations for the year ended March 31st

	Unrestricted Fund (\$000s)	<u>Restricted Funds</u>		2007 Total (\$000s)	2006 Total (\$000s)
		Matching Gift Fund (\$000s)	Other Restricted (\$000s)		
Revenues					
Donations	13	-	-	13	165
Interest income	<u>85</u>	<u>-</u>	<u>-</u>	<u>85</u>	<u>79</u>
	98	-	-	98	244
Contribution to the Authority	<u>979</u>	<u>2,606</u>	<u>-</u>	<u>3,585</u>	<u>193</u>
Excess of revenues over contribution to Authority	(881)	(2,606)	-	(3,487)	51
Equity, beginning of year	<u>881</u>	<u>2,606</u>	<u>-</u>	<u>3,487</u>	<u>3,436</u>
Equity, end of year	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>3,487</u>

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 \$23,000 during the year ended March 31, 2007 (2006 - \$145,000).

21. SUBSEQUENT EVENTS

Establishment of OFECA:

The government established the Ontario French-language Educational Communications Authority (OFECA) effective April 1, 2007 through an Order in Council. The OFECA has its own board of directors comprised initially of the francophone members of the board of directors of the Authority and will assume responsibility for the operations of the French-language division of the Authority.

As a result of the transfer of its French-language operations to OFECA, the Ministry of Education has informed the Authority that its base grant will be reduced by \$15 million to \$30 million. In addition, the Authority will no longer receive \$2.6 million in grants from the federal government and \$3.3 million in other TFO revenues.

OFECA is required to offer employment to all employees who currently report directly to TFO and will assume responsibility for the accrued vacation, pension entitlements and other entitlements of those who accept. Including savings in wages, salaries, and benefits, the Authority expects the transfer of the TFO division to OFECA to reduce its annual expenses by approximately \$16.5 million initially with further savings to be achieved through restructuring its operations.

The process related to sharing of assets between the Authority and OFECA is currently being developed. The full impact of the transfer will be reflected in the 2008 financial statements. Accounts payable and accrued liabilities included \$6.1 million that are to be transferred to or used on behalf of OFECA in 2008.

Additional OECA Funding for Digital Conversion:

The Authority expects to receive \$10.4 million from the government over the next three years, 2008 - \$7.3 million, 2009 - \$1.5 million, 2010 - \$1.6 million, to help the Authority cover the cost of converting its production from analogue to digital format.

Ontario Electricity Financial Corporation

Responsibility for Financial Reporting

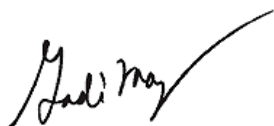
The accompanying financial statements of the Ontario Electricity Financial Corporation have been prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants and are the responsibility of Management. The preparation of 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 June 1, 2007.

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 Ontario Internal Audit Division 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:

A handwritten signature in black ink, appearing to read 'Gadi Mayman', with a long, sweeping flourish extending from the end.

Gadi Mayman
Chief Executive Officer and Vice-Chair



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

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, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
June 1, 2007, except as to Note 6
which is as of June 11, 2007

A handwritten signature in black ink, appearing to read 'Jim McCarter', is written over a horizontal line.

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Ontario Electricity Financial Corporation

Statement of Financial Position (as at March 31, 2007)

(\$ Millions)

	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	\$ 3	\$ 49
Accounts receivable	328	287
Interest receivable	15	10
Current portion of notes receivable (Note 6)	400	700
	746	1,046
Payments-in-lieu of tax receivable (Note 11)	267	298
Due from Province of Ontario (Notes 5, 11)	418	351
Notes and loans receivable (Note 6)	11,660	11,734
Deferred debt costs	195	232
	<u>\$ 13,286</u>	<u>\$ 13,661</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 150	\$ 238
Interest payable	558	526
Short-term notes payable (Note 7)	1,583	1,479
Current portion of long-term debt (Note 7)	1,849	3,114
	4,140	5,357
Long-term debt (Note 7)	24,458	23,440
Power purchase contracts (Note 9)	2,977	3,389
Nuclear funding liability (Note 10)	—	768
	31,575	32,954
Contingencies and guarantees (Note 13)		
UNFUNDED LIABILITY (Notes 1, 3, 11)	\$(18,289)	\$(19,293)
	<u>\$ 13,286</u>	<u>\$ 13,661</u>

Approved on behalf of the Board of Directors:



Colin Andersen
Chair
See accompanying Notes to Financial Statements.



Gadi Mayman
Chief Executive Officer and Vice-Chair

Ontario Electricity Financial Corporation

Statement of Revenue, Expense and Unfunded Liability

For the year ended March 31, 2007

(\$ Millions)

	2007	2006
REVENUE		
Debt retirement charge (Notes 1, 11)	\$ 991	\$ 1,021
Payments-in-lieu of tax (Notes 1, 11)	757	949
Interest	725	737
Power sales (Note 9)	863	785
Net reduction of power purchase contracts (Note 9)	412	396
Electricity sector dedicated income (Note 5)	67	—
Recovery of prior year expenditures — ECPPF (Note 12)	—	56
Other	6	10
Total revenue	3,821	3,954
EXPENSE		
Interest — short-term debt	\$ 88	\$ 35
— long-term debt	1,720	1,767
Interest on nuclear funding liability (Note 10)	25	69
Amortization of deferred charges	59	60
Power purchases (Note 9)	863	809
Debt guarantee fee	140	138
Operating	32	6
Total expense	2,927	2,884
Excess of revenue over expense	894	1,070
Unfunded liability, beginning of year	19,293	20,363
Elimination of a working capital adjustment payable to OPG (Note 11)	110	--
Adjusted unfunded liability, beginning of year	19,183	20,363
Unfunded Liability, end of year	\$ 18,289	\$ 19,293

See accompanying Notes to Financial Statements.

Ontario Electricity Financial Corporation

Statement of Cash Flow

For the year ended March 31, 2007

(\$ Millions)

	2007	2006
CASH FLOWS USED IN OPERATING ACTIVITIES		
Excess of revenue over expense	\$ 894	\$ 1,070
Adjustments for:		
Net reduction of power purchase contracts (Note 9)	(412)	(396)
Amortization of deferred charges	59	60
Payments-in-lieu of tax receivable	31	(206)
Payment of ECPPF surplus to consumers	—	(505)
Other items	(58)	105
Cash provided from operations	514	128
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt issues	\$ 2,838	\$ 1,701
Less long-term debt retired	3,114	1,556
Long-term debt issued (retired), net	(276)	145
Short-term debt issued, net	104	333
Payment towards nuclear funding liability (Note 10)	(768)	(640)
Notes receivable (advance) repayment	380	(55)
Cash required by financing activities	(560)	(217)
Increase (decrease) in cash and cash equivalents	(46)	(89)
Cash and cash equivalents, beginning of year	49	138
Cash and cash equivalents, end of year	\$ 3	\$ 49
Interest on debt paid during the year and included in excess of revenue over expense	\$ 1,776	\$ 1,812

See accompanying Notes to Financial Statements.

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*, from dedicated electricity revenues in the form of payments-in-lieu of corporate income, capital and property taxes made by the successor entities and municipal electric utilities. OEFC also receives a Debt Retirement Charge (DRC) to be paid by electricity consumers at a rate of 0.7 cents/kWh for most Ontario consumers until the residual stranded debt is retired. The Ontario Financing Authority, the 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

Because 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.

Deferred Debt Costs

Deferred debt costs includes the unamortized amounts related to any 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, in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, 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. At that time, the Ministry of Finance estimated that the bulk of the liability would be eliminated over 12 years as existing electricity contracts expire.

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 cumulative 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. Under these arrangements, the Province can recoup all costs associated with its investments in electricity subsidiaries on a cumulative basis before any income can be recognized by OEFC. In the year ended March 31, 2007, OPG and Hydro One earned an aggregate amount of \$914 million, \$394 million in excess of the Province's annual financing cost of \$520 million. OEFC has reflected \$67 million as income for the year (March 2006 — Nil) as the accumulated shortfall of the Province at March 2006 amounted to \$327 million.

6) Notes and Loans Receivable

(\$ millions)					
	Maturity Date	Interest Rate	Interest Payable	March 31, 2007	March 31, 2006
Province of Ontario	2039–2041	5.85	Monthly	\$8,885	\$8,885
OPG	2007–2017	4.81 to 6.65	Semi-annually	3,015	3,395
IESO	2009	7.9	Semi-annually	78	78
				11,978	12,358
Less: Current portion of notes receivable				400	700
				11,578	11,658
Add: Loans receivable from non-utility generators (NUGs) (See Note 9)				82	76
				\$ 11,660	\$ 11,734

The OEFC has agreed with OPG and the IESO not to sell notes owing from these successor entities without their prior approval.

During fiscal 2006–07, OPG repaid \$700 million in notes maturing in the year.

OEFC has agreed to provide OPG financing for new generation project development in the form of 10-year notes on commercial terms and conditions. These agreements provide for up to \$1 billion in loans for the Niagara Tunnel project, up to \$400 million for OPG's interest in the Portlands Energy Centre and up to \$50 million for the Lac Seul project.

Under these agreements, OEFC advanced OPG \$160 million in October 2006 and \$50 million in January 2007 for the Niagara Tunnel project. Similarly, in December 2006, OEFC provided OPG with loans of \$90 million for the Portlands Energy Centre and \$20 million for the Lac Seul project.

On June 11, 2007, the Minister of Finance signed a directive committing OEFC to lend to OPG for general corporate requirements in a principal amount of up to \$500 million during the period up to March 31, 2008 and to lend to OPG to finance existing maturities in a principal amount of up to \$950 million during the period up to December 31, 2009. Maturities for these loans would be up to ten years.

Below is a summary by year of maturity of OPG's debt to OEFC:

(\$ millions)	
Fiscal Year	Amount
2007-08	\$400
2008-09	375
2009-10	707
2010-11	625
2011-12	188
2012-13	400
2016-17	320
Total	\$3,015

7) Debt

Debt at March 31, 2007, is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

(\$ millions)	Canadian	U.S.	Other	2007	2006
Currency	Dollars	Dollars	Foreign	Total	Total
Maturing in:					
1 year	\$2,111	\$1,321	—	\$3,432	\$4,593
2 years	3,496	387	—	3,883	1,842
3 years	2,180	—	139	2,319	3,883
4 years	1,050	—	53	1,103	2,269
5 years	500	—	47	547	1,103
1-5 years	9,337	1,708	239	11,284	13,690
6-10 years	6,298	1,597	688	8,583	6,778
11-15 years	2,938	—	—	2,938	1,130
16-20 years	2,929	—	—	2,929	3,687
21-25 years	1,041	—	—	1,041	1,191
26-50 years	1,115	—	—	1,115	1,557
Total	\$23,658	\$3,305	\$927	\$27,890	\$28,033

The effective rate of interest on the debt portfolio was 6.51 per cent (March 2006 — 6.47 per cent) after considering the effect of derivative instruments used to manage interest rate risk. The longest term to maturity is to June 2, 2037. Total foreign currency denominated debt at March 31, 2007, was \$4.2 billion (March 2006 — \$4.8 billion), 100 per cent of which (March 2006 — \$4.8 billion or 100 per cent) 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, 2007				March 31, 2006		
(\$ millions)	Held by the Province	Guaranteed by the Province	Total	Held by the Province	Guaranteed by the Province	Total
Short-term debt	\$1,583		\$1,583	\$1,479		\$1,479
Current portion of long-term debt	881	968	1,849	3,114	—	3,114
Long-term debt	15,147	9,311	24,458	13,146	10,294	23,440
Total	\$17,611	\$10,279	\$27,890	\$17,739	\$10,294	\$28,033

Fair value of debt issued approximates amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing the 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, 2007, was \$32.1 billion (March 2006 — \$31.5 billion). This is higher than the book value of \$27.9 billion (March 2006 — \$28.0 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.

8) Risk Management and Derivative Financial Instruments

The 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 with a value that is derived from underlying instruments. The 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 the OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. This allows the OEFC to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by the 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, the 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, net of foreign currency holding, to reach a maximum of 5 per cent of total debt. At March 31, 2007, the actual unhedged level was 0.0 per cent (March 2006 — 0.0 per cent) of total debt.

Interest rate resetting risk is the exposure of the OEFC to changes in 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 and fixed rate debt maturing within the next 12 months, net of liquid reserves, to reach a maximum of 35 per cent of total debt. At March 31, 2007, OEFC's interest rate resetting risk as a percentage of total debt was 14.4 per cent (March 2006 — 9.6 per cent).

Liquidity risk is the risk that the OEFC will not be able to meet its current short-term financial obligations. As explained in Note 3, the 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 the OEFC's derivatives, by type, outstanding at March 31, 2007, 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

As at March 31, 2007 (\$ millions)

Maturity in fiscal year	2008	2009	2010	2011	2012	6–10 Years	Over 10 Years	Total	March 2006
Cross-currency swaps	\$1,340	\$387	\$511	\$104	\$96	\$2,303	–	\$4,741	\$4,208
Interest rate swaps	1,159	988	1,025	–	47	3,477	653	7,349	9,427
Forward foreign exchange contracts	473	–	–	–	–	–	–	473	1,218
Other ¹	–	–	–	–	–	–	–	–	111
Total	\$2,972	\$1,375	\$1,536	\$104	\$143	\$5,780	\$653	\$12,563	\$14,964

⁽¹⁾Other includes interest rate options.

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which the 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, as at March 31, 2007.

Credit Risk Exposure (\$ millions)	March 31, 2007	March 31, 2006
Gross credit risk exposure ⁽¹⁾	\$6,833	\$6,254
Less: Netting ⁽²⁾	(7,525)	(7,136)
Net credit risk exposure⁽³⁾	\$(692)	\$(882)

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 \$2 million (March 2006 — \$20 million) and the total exposure to counterparties with negative exposure (meaning that OEFC owed the counterparties) was \$694 million (March 2006 — \$902 million) for a total net credit exposure of \$(692) million (March 2006 — \$(882) million).

The gross credit risk exposure represents the amount of loss that the 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 were not allowed. The 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.

The OEFC manages its credit risk exposure by regularly monitoring compliance with credit limits and by dealing with counterparties with high credit quality. Exclusive of contracts with the Province, the OEFC's most significant concentration of credit risk as at March 31, 2007, was with one A+ rated counterparty which represented more than 10 per cent of the credit risk exposure. The net cost to the OEFC, if it had to replace the contracts with this counterparty, would be \$2 million (March 2006 — \$5 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, the 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 liability was recorded at \$4,286 million on a discounted cash flow (DCF) basis when Ontario Hydro was continued as the OEFC on April 1, 1999. The DCF model was updated as of 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 revenue over a 10-year period.

Under legislated reforms to the electricity market, the 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. At that time, the Ministry of Finance estimated that the bulk of the liability would be eliminated over 12 years as existing electricity contracts expire. As a result, the Corporation is amortizing the liability to revenue over that period.

During the year ended March 31, 2007, the OEFC purchased power from NUGs in the amount of \$863 million (2006 — \$809 million) and sold power to the IESO and municipal electric utilities in the amount of \$863 million (2006 — \$785 million).

Loans receivable from NUGs increased during the year by \$6 million to \$82 million (March 2006 — \$76 million), primarily due to interest which has been added to the principal balance.

Statement of Liability for Power Purchase Contracts (\$ millions)

As at March 31, 2007

	2007	2006
Liability, beginning of year	\$3,389	\$3,785
Amortization	412	396
Liability, end of year	\$2,977	\$3,389

10) Nuclear Funding Liability

The 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 nuclear waste management and station decommissioning costs for OPG's existing nuclear stations. Interest on the liability to the fund is accrued at a rate equal to the Ontario Consumer Price Index plus 3.25 per cent in accordance with the terms of ONFA which were finalized on July 24, 2003. OEFC is not involved in the management of these funds which are reflected on the balance sheet of OPG and jointly managed by OPG and the Province.

The Board of Directors of the OEFC approved the funding of the OEFC's nuclear liability to the Decommissioning Segregated Fund over a four-year period. The OEFC's contributions began in 2003 and the entire liability including interest has been discharged, with a final payment on March 30, 2007.

11) Unfunded Liability

The opening Unfunded Liability has been reduced to reflect the elimination of a working capital adjustment payable to Ontario Power Generation that was originally recognized as an increase to opening Unfunded Liability in the amount of \$110 million. Subsequently, it was determined that there was no obligation for this additional amount of working capital.

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 the 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;
- **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 cumulative 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 the OEFC's debt.

The long-term plan supports estimates that the OEFC's obligations will likely be defeased in the years ranging from 2012 to 2020.

12) Electricity Consumer Price Protection Fund

Beginning in December 2002, the Corporation managed the Electricity Consumer Price Protection Fund (the "Fund"), which supported the Province's policy to provide electricity to low volume and designated

consumers at a fixed price initially and subsequently under a two-tiered pricing plan for the period from April 1, 2004 to March 31, 2005. Starting in January 2005, until the program was terminated as at March 31, 2005, this support function was transferred to the Ontario Power Authority. In fiscal 2005–06 and as a result of OEFC’s on-going audit of claims from the fund made by local distribution companies, OEFC recovered \$56 million in revenue relating to recoveries for wholesale market service charge variances attributable to non-low volume and designated consumers.

13) 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 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 deductible, the OEFC has agreed to indemnify Hydro One in respect of any adverse claim to title to any asset, right or thing transferred or intended to be transferred to the company 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. A similar indemnity provided to OPG was terminated as at May 31, 2006.

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 \$69 million at March 31, 2007 (2006 — \$80 million).

14) 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:

- Province of Ontario
- Ontario Power Generation Inc.
- Hydro One Inc.
- Independent Electricity System Operator
- Ontario Power Authority
- Ontario Financing Authority

15) Comparative Figures

Certain of the prior year’s comparative figures have been reclassified to conform with the financial statement presentation adopted for March 2007.

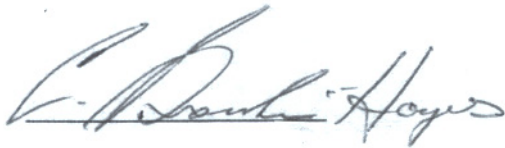
Ontario Energy Board

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.

A handwritten signature in blue ink, appearing to read "C. Barker-Hoyes", is written over a horizontal line.

Catherine Barker-Hoyes
Managing Director, Business Services
July 3, 2007



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

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, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink, appearing to read 'G. Peall'.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
July 3, 2007

Ontario Energy Board
STATEMENT OF FINANCIAL POSITION
As at March 31, 2007

	2007	2006
	\$	\$
ASSETS		
Current Assets:		
Cash	15,667,587	16,545,313
Accounts receivable	5,727,637	3,630,250
Regulatory process costs to be assessed	686,253	86,923
Deposits and prepaid expenses	179,741	212,362
Total Current Assets	22,261,218	20,474,848
Capital assets (note 5)	8,725,901	7,732,731
TOTAL ASSETS	30,987,119	28,207,579
LIABILITIES		
Current Liabilities:		
Deferred revenue (note 3c)	11,029,738	9,645,322
Accounts payable and accrued liabilities	4,880,858	4,382,427
Total Current Liabilities	15,910,596	14,027,749
Long-term Liabilities:		
Deferred revenue related to capital assets (note 3d)	5,385,853	5,116,141
Deferred rent inducement (note 8)	4,311,803	3,736,219
Total Long-term Liabilities	9,697,656	8,852,360
TOTAL LIABILITIES	25,608,252	22,880,109
Operating Reserve (note 4)	4,674,627	4,623,230
Net Assets (note 7)	704,240	704,240
TOTAL LIABILITIES, RESERVE AND NET ASSETS	30,987,119	28,207,579

See accompanying notes to financial statements

On behalf of the Management Committee:



Howard Wetston
Chair



Gordon Kaiser
Vice-Chair



Pamela Nowina
Vice-Chair

Ontario Energy Board
STATEMENT OF OPERATIONS AND NET ASSETS
Period Ended March 31, 2007

	2007	2006
	\$	\$
REVENUES		
Recovery of Costs:		
General cost recovery (note 3a)	26,051,918	23,488,649
Amortization of deferred revenue related to capital assets	1,703,034	955,176
Regulatory process costs	1,106,644	119,017
Total Revenues from Recovery of Costs	28,861,596	24,562,842
Other Revenues:		
Interest income	695,829	464,994
Licence fees	383,080	423,452
Miscellaneous income	20,479	29,979
Total Other Revenues	1,099,388	918,425
TOTAL REVENUES	29,960,984	25,481,267
EXPENSES		
Staff and board member costs	19,845,022	17,841,352
Consulting and professional	3,274,109	1,864,368
Premises	2,308,788	2,306,421
Office and administration	875,690	1,083,732
Publications, media and publishing	844,633	518,808
Information technology	617,618	295,834
Meetings, seminars and travel	492,090	387,674
Intervenor funding	0	227,902
Amortization	1,703,034	955,176
TOTAL EXPENSES	29,960,984	25,481,267
SURPLUS OF REVENUES OVER EXPENSES	0	0
Net Assets, beginning of period (note 7)	704,240	704,240
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, 2007

	2007	2006
	\$	\$
Net inflow (outflow) of cash related to the following activities:		
OPERATING		
Assessment billed	29,699,452	27,757,308
Regulatory process costs revenue	1,106,644	119,017
Other revenues	1,099,388	918,425
Expenses	(29,960,984)	(25,481,267)
Excess of Revenues over Expenses	1,944,500	3,313,483
Adjustment for Non-cash Expenses:		
Amortization of capital assets paid by OEB	1,703,034	955,176
Amortization of leasehold improvements paid by landlord	190,297	10,054
Net Adjustment for Non-cash Expenses	1,893,331	965,230
Changes in Non-cash Working Capital:		
Accounts receivable	(2,097,387)	4,470,086
Regulatory process costs to be assessed	(599,330)	202,752
Deposits and prepaid expenses	32,621	(111,662)
Deferred revenue	(238,975)	89,946
Accounts payable and accrued liabilities	498,431	(2,256,859)
Deferred rent inducement	575,584	2,881,534
Changes in Non-cash Operating Working Capital	(1,829,056)	5,275,797
Net Cash from Operating Activities	2,008,775	9,554,510
FINANCING		
Due to the Province of Ontario	-	(126,390)
Net Cash Used in Financing Activities	-	(126,390)
INVESTING		
Capital asset purchases	(2,886,501)	(5,264,351)
Net Cash Used in Investing Activities	(2,886,501)	(5,264,351)
NET CHANGE IN CASH	(877,726)	4,163,769
Cash, beginning of period	16,545,313	12,381,544
Cash, end of period	15,667,587	16,545,313

See accompanying notes to financial statements

Ontario Energy Board
Notes To The Financial Statements
March 31, 2007

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 Board was continued as a corporation without share capital empowered to fully recover its costs from natural gas and electricity industry participants.

On December 9, 2004, the *Electricity Restructuring Act, 2004* was passed. The *Electricity Restructuring Act, 2004* 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 agent of Her Majesty in right of Ontario, the Board is exempted from federal and provincial income taxes under the Income Tax Act and from goods and services taxes under the Excise Tax Act.

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 include:

a) Revenue Recognition

Revenues received in the 2006-07 fiscal year that relate to subsequent years are not recognized as revenue and are deferred. Recognition of revenue related to the recovery of costs is matched to the expenses of the Board as follows:

- General cost recovery related to the expenses of the Board is recognized as revenue to the extent that they are in excess of regulatory process costs, amortization of deferred revenue related to capital assets, and other revenues. Revenue related to the 2006-07 true-up (note 3b) and the 2007-08 first quarter billing are deferred because they have been billed in advance (note 3c).
- Amortization of deferred revenue related to capital assets is recognized as revenue on the same basis that the underlying capital assets are amortized. Revenue related to capital asset expenditures is deferred because they have been billed in advance (note 3c).
- Regulatory process costs are recognized as revenue as related expenses are incurred.

Other revenues are recognized when received and receivable.

Ontario Energy Board
Notes To The Financial Statements
March 31, 2007

2. Significant Accounting Policies (Continued)

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 Pension 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 the Chair as described in note 6b. 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, 2007

3. Industry Assessments for 2006-07

During the 2006-07 fiscal year, the natural gas and electricity industry participants were assessed estimated costs for the 2006-07 fiscal year based on budgeted amounts. Amounts assessed in excess of actual costs are a true-up and are reported as current deferred revenue and will be used to reduce the 2007-08 fiscal year assessment. The calculation of the general cost recovery, true-up and deferred revenue are outlined in the following tables.

a) 2006-07 General cost recovery

Staff and board member costs	\$19,845,022
Consulting and professional	3,274,109
Premises	2,308,788
Office and administration	875,690
Publications, media and publishing	844,633
Information technology	617,618
Meetings, seminars and travel	492,090
Amortization	1,703,034
Total expenses	\$29,960,984
Regulatory process costs, amortization of deferred revenue related to capital assets, and other revenues	(3,909,066)
General cost recovery at March 31, 2007	\$26,051,918

b) 2006-07 True-up

General cost recovery (note 3a)	\$26,051,918
2006-07 Capital expenditures paid by the OEB	1,972,746
Total assessment (actual)	\$28,024,664
Total assessment (budget)	31,164,176
2006-07 Under spending	\$(3,139,512)
Adjustment to the operating reserve	51,397
2006-07 True-up at March 31, 2007	\$(3,088,115)

c) 2006-07 Current Deferred Revenue

2006-07 True-up (note 3b)	\$3,088,115
2007-08 1st quarter billing	7,941,623
Current deferred revenue	\$11,029,738

Ontario Energy Board
Notes To The Financial Statements
March 31, 2007

3. Industry Assessments for 2006-07 (Continued)

d) 2006-07 Deferred Revenue Related to Capital Assets

Revenue related to capital asset expenditures are deferred because they have been billed in advance with the exclusion of leasehold improvements paid by the landlord which were not included in the assessments. As part of the leasehold inducements included in the lease agreement, the landlord paid for \$3,540,400 of leasehold improvements on behalf of the Board since the start of the lease on January 1, 2005.

Net book value of capital assets 2006-07	\$ 8,725,901
Leasehold improvements paid by landlord	(3,540,400)
<u>Accumulated amortization of leasehold improvements paid by landlord</u>	<u>200,352</u>
<u>2006-07 Deferred revenue related to capital assets</u>	<u>\$ 5,385,853</u>

4. Operating Reserve

As part of its self-financing status, the Board was allowed to establish an operating reserve equal to 15% of the current annual assessment which is adjusted on an annual basis. The operating reserve is to be used for cash flow management and to support working capital requirements.

2006-07 Operating reserve

Operating reserve as at March 31, 2006	\$4,623,230
<u>Adjustment to the operating reserve</u>	<u>51,397</u>
<u>Operating reserve as at March 31, 2007</u>	<u>\$4,674,627</u>

5. Capital Assets

	Cost	Accumulated amortization	Net book value 2007	Net book value 2006
Office furniture and equipment	\$2,331,916	\$752,791	\$1,579,125	\$1,940,791
Computer equipment and related software	4,558,763	1,841,499	2,717,264	2,280,396
Audio visual equipment	833,865	270,677	563,188	512,599
Leasehold improvements	4,100,122	233,798	3,866,324	2,998,945
	<u>\$11,824,666</u>	<u>\$3,098,765</u>	<u>\$8,725,901</u>	<u>\$7,732,731</u>

Ontario Energy Board
Notes To The Financial Statements
March 31, 2007

6. Employee Future Benefits

- a) The Board's contribution to the Public Service Pension Plan for the 2006-07 fiscal year was \$1,026,606 (2006 - \$907,956) and is included in staff and board member costs on the Statement of Operations and Net Assets
- b) The unfunded supplemental pension plans for the Board's Chair had an accrued benefit obligation of \$187,404 (2006 - \$126,122) and an accrued benefit liability of \$169,051 (2006 - \$114,589). The Board's related expense for the year was \$54,462 (2006 - \$46,323) and is included in salaries and benefits. No benefits were paid during the year (2006 - \$0). The remaining service period of the Chair covered by this plan is 1.25 years at March 31, 2007 (2006 - 2.25 years). The significant actuarial assumptions adopted at March 31, 2007 included a discount rate of 4.75% (2006 - 5%) and a rate of compensation increase of 3.0% (2006 - 3.0%).
- c) 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, a related party.

7. Related Party Transactions

The Board entered into transactions with the Province of Ontario as follows:

The Ministry of Energy provided a grant for one time transition funding of \$704,240 related to the substantial transfer of Ministry employees to the Board on March 29, 2004.

8. Deferred Rent Inducement and Operating Lease Commitments

The Board entered into a lease commitment for its office space during the 2004-05 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 changes in deferred rent inducements are as follows:

	2007	2006
Balance, beginning of the year	\$ 3,736,219	\$ 854,680
Add: Leasehold improvements	913,756	2,478,344
Other rent inducements	0	741,367
Total lease inducements	\$ 913,756	\$ 3,219,711
Less: Amortization of deferred rent inducement netted against premises expense	(338,172)	(338,172)
Balance, end of the year	\$ 4,311,803	\$ 3,736,219

Ontario Energy Board
Notes To The Financial Statements
March 31, 2007

8. Deferred Rent Inducement and Operating Lease Commitments (Continued)

The minimum annual payments under the operating lease for the next 12 years and in aggregate are as follows:

2008	\$2,166,207
2009	2,237,613
2010	2,347,993
2011	2,532,931
2012 and thereafter	<u>26,953,472</u>
	\$36,238,216

9. Comparative Figures

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

Ontario Financing Authority

Responsibility for Financial Reporting

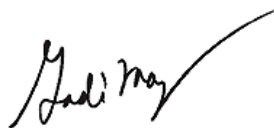
The accompanying financial statements of the Ontario Financing Authority have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of Management. The preparation of financial statements necessarily involves the use of estimates based on Management's 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 5, 2007.

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
Ontario Financing Authority

Auditor's Report



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

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, 2007, and the statements of net income and retained earnings and cash flow 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, 2007 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15^e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

www.auditor.on.ca

Toronto, Ontario
June 5, 2007

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Balance Sheet

As at March 31, 2007

<i>(in thousands of dollars)</i>	2007	2006
ASSETS		
Current assets		
Cash	\$ 436	\$ 150
Interest receivable	2,032	2,029
Due from agencies & related parties (Note 7)	1,255	1,119
Due from the Province of Ontario	1,108	829
Total current assets	\$ 4,831	\$ 4,127
Fixed assets (Note 3)	1,495	2,058
Loans receivable (Note 2)	79,021	79,021
Total assets	\$ 85,347	\$ 85,206
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Due to the Province of Ontario - operating	\$ 1,108	\$ 829
Due to the Province of Ontario - interest	2,029	2,029
Due to the Province of Ontario – recoveries (Notes 6, 7)	1,545	1,129
Total current liabilities	\$ 4,682	\$ 3,987
Long term debt (Note 2)	79,021	79,021
Deferred revenue for fixed assets (Note 4)	1,495	2,058
Retained earnings	149	140
Total liabilities and retained earnings	\$ 85,347	\$ 85,206

See accompanying notes to financial statements

Approved on behalf of the Board:



Colin Andersen
Chair



Gadi Mayman
Chief Executive Officer and Vice-Chair

Statement of Net Income and Retained Earnings

For the year ended March 31, 2007

<i>(in thousands of dollars)</i>	2007	2006
REVENUE		
Interest revenue	\$ 7,603	\$ 7,599
Cost recovery from the Province of Ontario (Note 6)	15,003	14,876
Total revenue	\$ 22,606	\$ 22,475
EXPENSES		
Salaries, wages and benefits	\$ 14,058	\$ 13,512
Interest on long term debt	7,594	7,595
Administrative and general	4,162	3,482
Amortization	1,360	1,378
Subtotal	\$ 27,174	\$ 25,967
Less: cost recovery from Agencies & related parties (Note 7)	(4,577)	(3,496)
Total expenses	\$ 22,597	\$ 22,471
Net Income	9	4
Retained earnings, beginning of year	140	136
Retained earnings, end of year	\$ 149	\$ 140

See accompanying notes to financial statements

Cash Flow Statement

For the year ended March 31, 2007

<i>(in thousands of dollars)</i>	2007	2006
Cash flows from operating activities		
Net income	\$ 9	\$ 4
Adjustment for amortization	1,360	1,378
Decrease/(increase) in interest receivable	(3)	—
Decrease/(increase) in due from agencies & related parties	(136)	—
Increase in recoveries due to the Province	416	—
Increase / (decrease) in deferred revenue	(563)	(167)
Cash flows from operating activities	\$ 1,083	\$ 1,215
Cash flows from financing activities		
Repayment to the Province re: OMIC loans	—	(6)
Repayment from holders of OMIC loans	—	6
Cash flows from financing activities	—	—
Cash flows from investing activities		
Purchase of fixed assets	(797)	(1,211)
Cash flows used in investing activities	(797)	(1,211)
Net increase in cash	286	4
Cash, beginning of year	150	146
Cash, end of year	\$ 436	\$ 150

See accompanying notes to financial statements

Notes to Financial Statements

For the year ended March 31, 2007

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*. In accordance with the act, the OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario
- manages the Provincial debt
- provides financial and centralized cash management services for the Province
- advises ministries, Crown agencies and other public bodies on financial policies and projects
- assists Crown agencies and other public bodies to borrow and invest money
- acts at the direction of the Province in lending to certain public bodies
- invests on behalf of some public bodies.

In addition, the OFA's objects include:

- providing 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* (Canada).

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The financial statements are prepared in accordance with Canadian generally accepted accounting principles prescribed by the Canadian Institute of Chartered Accountants.

Fixed assets: Fixed assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below.

Furniture and equipment	5 years
Computer hardware	3 years
Leasehold improvements	Term of lease plus one renewal period

Funding received from the Province and the Agencies for the acquisition of fixed assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the fixed assets.

Measurement uncertainty: The preparation of these financial statements requires management to make estimates that 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.

2. ONTARIO MUNICIPAL IMPROVEMENT CORPORATION (OMIC)

In accordance with the *Capital Investment Plan Act, 1993*, OMIC's assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) which were used to make loans to municipalities and school boards under similar terms as its debt.

The maturities of the outstanding loans receivable and outstanding debt payable to the Canada Pension Plan are set out below:

(in thousands of dollars)

Maturing in:	Principal Maturing	Average Interest Rate (%)
2010	\$ 5,156	10.86
2011	29,630	9.97
2012	44,235	9.22
Total	\$ 79,021	9.61

3. FIXED ASSETS

The net book value (NBV) of fixed assets is as follows:

(in thousands of dollars)

	Cost	Accumulated Amortization	NBV March 31, 2007	NBV March 31, 2006
Furniture and equipment	\$ 549	\$ 340	\$ 209	\$ 90
Computer hardware	8,600	7,585	1,015	1,553
Leasehold improvements	1,526	1,255	271	415
Total	\$ 10,675	\$ 9,180	\$ 1,495	\$ 2,058

4. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province and the Agencies for the acquisition of fixed assets.

(in thousands of dollars)

	Province	Agencies	Total
Balance, beginning of year	\$ 1,824	\$ 234	\$ 2,058
Capitalization	797	-	797
Amortization	(1,175)	(185)	(1,360)
Balance, end of year	\$ 1,446	\$ 49	\$ 1,495

5. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in the financial statements. Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating \$3.6 billion expiring from 2027 to 2032. Repayments received from public bodies by the OFA are forwarded to the Province. 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 the public body.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements consisting of a number of promissory notes for terms not exceeding one year. The promissory notes are later converted to term debt and repayment terms are finalized at that time. As of March 31, 2007, the amounts receivable by the OFA on behalf of the Province represent debentures, except for the short-term loans to the Ontario Power Authority, and the lines of credit to the Ontario Northland Transportation Commission and to the Ontario Infrastructure Projects Corporation.

The following represents amounts receivable by the OFA including accrued interest. These amounts are in turn owed to the Province by the OFA. These are related party transactions, with the exception of those with the Corporation of the City of Windsor.

(in thousands of dollars)

	March 31, 2007 March 31, 2006	
Centennial Centre of Science and Technology	\$ 6,011	\$ 9,017
Corporation of the City of Windsor	23,955	22,512
Ontario Infrastructure Projects Corporation	20,263	—
Ontario Lottery and Gaming Corporation	393,150	535,248
Ontario Northland Transportation Commission	47,161	49,534
Ontario Power Authority	75,610	711,692
School Boards	770,769	—
	\$ 1,336,919	\$ 1,328,003

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act, 1990*. The loan will be repaid in installments to March 15, 2013 and bears interest at 4.23 per cent.

The Corporation of the City of Windsor is a municipality within the meaning of *the Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of a provincial division courthouse and city police headquarters. This is a 20 year debenture at 6.41 per cent maturing in March 2021.

The Ontario Infrastructure Projects Corporation (including the former Ontario Strategic Infrastructure Financing Authority) obtained a 10-year Revolving Credit Facility from the OFA for a maximum amount of \$200 million on June 23, 2006. The OIPC first borrowed through this credit facility on October 16, 2006 and as of March 31, 2007, it had drawn \$20 million at interest rates ranging from 4.1 to 4.3 per cent.

The Ontario Lottery and Gaming Corporation 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 outstanding loan of \$393 million was issued on June 30, 2004 to purchase the casino complex in Niagara Falls. This is a five year loan at 4.3821 per cent maturing in June 2009.

The Ontario Northland Transportation Commission is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. The ONTC debentures (outstanding as of March 31, 2007 - \$32.1 million, 2006 - \$34.5 million) were originally issued in six stages maturing from 2008 to 2031 bearing interest at rates varying from 4.717 to 6.37 per cent. ONTC's operating lines of credit were extended to March 2008 by Order in Council to a maximum of \$15 million. As of March 31, 2007, the full amount of \$15 million had been drawn (2006 - \$15 million) bearing interest at 4.46 per cent.

The Ontario Power Authority, established in December 2004, is a not-for-profit corporation. The OFA has provided the OPA with a revolving credit facility of \$975

million expiring December 31, 2010. The interest rate on the outstanding loan is 4.40 percent.

In November 2006, the OFA advanced loans to school boards under the *Good Places to Learn* initiative in the amount of \$771 million including interest to March 31, 2007. The school boards are committed to make semi-annual blended payments of principal and interest for 25 years. The loans bear interest at 4.56 per cent. The OFA recovered \$151,000 in costs associated with the financing and the management of the school board loans.

6. DEBT MANAGEMENT FOR THE PROVINCE

The OFA 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 set aside funds necessary to dispose of nuclear waste and used fuel and to decommission existing 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 period ended March 31, 2007 was \$15 million (2006 - \$14.9 million).

7. INVESTMENT AND DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides services to agencies, related parties and other public bodies (listed below), including investment management services on a cost recovery basis amounting to \$67,000 for the year ended March 31, 2007 (2006 - Nil) of which \$16,000 (2006 - Nil) is outstanding at March 31, 2007. Funds managed on behalf of these other public bodies amounted to \$2.2 billion at March 31, 2007 (2006 - \$2.3 billion).

Algonquin Forestry Authority	Ontario Realty Corporation
Deposit Insurance Corporation of Ontario	Ontario Securities Commission
Northern Ontario Heritage Fund Corporation	Ontario Trillium Foundation
Ontario Immigrant Investor Corporation	Pension Benefits Guarantee Fund
Ontario Infrastructure Projects Corporation	

In addition, the OFA provides debt management services on a cost recovery basis to agencies and related parties as set out below:

Agencies:

Ontario Electricity Financial Corporation (OEFC)

OEFC is 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 amounting to approximately \$27.9 billion.

Ontario Infrastructure Projects Corporation (OIPC)

The OFA manages the debt of OIPC of \$2.4 billion including loans from the Province, a provincial agency and third parties.

Related parties:**School Boards**

As described in Note 5, the OFA made loans to school boards and recovered costs in the amount of \$151,000.

Total costs recovered and amounts outstanding at the end of the year from OEFC, OIPC and the related parties are set out below:

(in thousands of dollars)

	March 31, 2007	March 31, 2006
Costs Recovered:		
Agencies:		
OEFC	\$ 3,330	\$ 2,497
OIPC	1,029	999
Related parties	218	—
Total	\$ 4,577	\$ 3,496
Receivables:		
Agencies:		
OEFC	\$ 875	\$ 684
OIPC	213	435
Related parties	167	—
Total	\$ 1,255	\$ 1,119

8. 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 pension plan established by the Province of Ontario. The Ministry of Government Services (MGS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGS and is not reported in these financial statements.

9. 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 useful information to that which has already been presented in these financial statements.

10. CONTINGENCIES AND COMMITMENTS

At March 31, 2007, there were no claims under which the OFA would be financially liable. Civil litigation and grievance proceedings have resulted from the OFA's operations of the Province of Ontario Savings Office until the date of its sale on March 31, 2003. However, settlements, if any, arising from these POSO claims will be accounted for by the Province in the period in which settlement occurs.

11. COMPARATIVE FIGURES

The prior year's comparative figures have been reclassified to conform with the financial statement presentation adopted for March 2007.

ONTARIO IMMIGRANT INVESTOR CORPORATION (OIIC)

Responsibility for Financial Reporting

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

A handwritten signature in blue ink, appearing to be 'J. Langley', written over a horizontal line.

John Langley
President

A handwritten signature in blue ink, appearing to be 'D. Clifford', written over a horizontal line.

David Clifford
Chief Financial Officer



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

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, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink, appearing to read 'G. Peall'.

Toronto, Ontario
July 5, 2007

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Ontario Immigrant Investor Corporation

Balance Sheet

As at March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
ASSETS		
Cash	14	7,271
Accounts receivable	5,426	—
Investments (Note 3)	401,703	321,776
Deferred commission charges (Note 5)	14,384	13,715
	421,527	342,762
LIABILITIES AND RETAINED EARNINGS		
Liabilities		
Accounts payable	844	615
Repayable Provincial Allocations (Note 4)	399,976	330,611
	400,820	331,226
Retained Earnings	20,707	11,536
	421,527	342,762

See accompanying notes to financial statements.

Approved on behalf of the Board:



Chair



Director

Ontario Immigrant Investor Corporation

Statement of Operations and Retained Earnings

For the Year Ended March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
Revenue		
Interest income	15,429	11,237
Recovery of deferred commission charges expensed (Note 5)	22	6
	<u>15,451</u>	<u>11,243</u>
Expenses (Note 6)		
Amortization of deferred commission charges (Note 5)	5,436	4,385
Investment management fee (Note 3)	844	615
	<u>6,280</u>	<u>5,000</u>
Net Income	9,171	6,243
Retained earnings, beginning of year	<u>11,536</u>	<u>5,293</u>
Retained earnings, end of year	<u>20,707</u>	<u>11,536</u>

See accompanying notes to financial statements.

Ontario Immigrant Investor Corporation

Statement of Cash Flows

For the Year Ended March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
Cash provided by (used in) operating activities		
Net income	9,171	6,243
Changes in non-cash items related to operations		
Accounts receivable	(5,426)	7,897
Deferred commission charges	(669)	(4,642)
Accounts payable	229	332
	3,305	9,830
Cash (used in) provided by investing and financing activities		
Investments	(79,927)	(127,841)
Repayable provincial allocations	69,365	125,252
	(10,562)	(2,589)
Net increase in cash	(7,257)	7,241
Cash, beginning of year	7,271	30
Cash, end of year	14	7,271

See accompanying notes to financial statements.

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2007

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 approximate their fair value due to the nature of these instruments. The fair value of the repayable provincial allocations will be less than the carrying value because the debt is interest-free. 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%.

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2007

3. Investments (continued)

The investment portfolio is managed by the Ontario Financing Authority (OFA) in accordance with 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.

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	688
Due fiscal year 2008	16,943
Due fiscal year 2009	21,527
Due fiscal year 2010	140,430
Due fiscal year 2011	132,078
Due fiscal year 2012	88,310
	399,976

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2007

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.

	2007 (\$ 000)	2006 (\$ 000)
Balance, beginning of year	13,715	9,073
Commissions paid	6,121	9,036
Commissions recovered	(16)	(9)
Amortization	(5,436)	(4,385)
Balance, end of year	14,384	13,715

A total of \$38,135 (2006 – \$14,183) in commissions were recovered during the year, \$21,665 (2006 – \$5,673) of which had previously been amortized to expense, leaving an unamortized balance of \$16,470 (2006 – \$8,510) 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.

**ONTARIO INFRASTRUCTURE PROJECTS CORPORATION
(INFRASTRUCTURE ONTARIO)****Responsibility for Financial Reporting**

The accompanying consolidated financial statements of Infrastructure Ontario have been prepared in accordance with accounting principles generally accepted in Canada as recommended in the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants (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.

The Board of Directors oversees management's responsibilities for financial reporting through the audit committee. The Audit Committee reviews the financial statements and recommends them to the Board for approval.

The financial statements have been audited by Hilborn Ellis Grant LLP. 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, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of management,



J. David Livingston
President and Chief Executive Officer



Gregg Smyth
*Vice President, Finance & Risk Management, and
Chief Financial Officer*



Hilborn Ellis Grant LLP
Chartered Accountants

Auditors' Report

To the Directors of
**Ontario Infrastructure Projects Corporation/
Société Ontarienne de Travaux d'Infrastructure ("Infrastructure Ontario")**
and to the Minister of Finance

We have audited the balance sheet of **Ontario Infrastructure Projects Corporation/Société Ontarienne de Travaux d'Infrastructure ("Infrastructure Ontario")** as at March 31, 2007 and the statements of operations and deficit 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink that reads "Hilborn Ellis Grant LLP".

Toronto, Ontario
June 4, 2007

Chartered Accountants
Licensed Public Accountants

ONTARIO INFRASTRUCTURE PROJECTS CORPORATION

BALANCE SHEET**As at March 31, 2007**

(in thousands of dollars)

ASSETS	2007 (Note 19)	2006 (Note 19)
Current assets		
Cash	\$ 5,692	\$ 4,665
Accounts receivable (Note 2)	20,571	12,709
Current portion of debentures (Note 3)	51,855	34,091
Short-term investments	1,094,575	1,063,259
	<u>1,172,693</u>	<u>1,114,724</u>
Long-term assets		
Loans receivable (Note 3)		
- construction advances	277,670	364,498
- debentures	814,990	547,131
- deferred cost on concessionary loans	(115,313)	(101,551)
Project receivables (Note 4)	21,327	-
Long-term investments (Note 5)	98,427	402,695
Debt issue costs (Note 6)	5,116	6,035
Deferred losses/(gains) on hedging (Note 7)	(4,665)	(4,280)
Capital assets (Note 8)	3,989	1,076
	<u>1,101,541</u>	<u>1,215,604</u>
Total Assets	<u>\$ 2,274,234</u>	<u>\$ 2,330,328</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ 11,297	\$ 8,562
Interest payable (Note 10)	26,374	15,748
Deferred Grant Revenue (Note 11)	148	-
Commercial Paper (Note 12)	288,857	348,575
	<u>326,676</u>	<u>372,885</u>
Long-term debt (Note 13)		
Province of Ontario Loan	1,000,000	1,000,000
Infrastructure Renewal Bonds	650,000	650,000
Ontario Opportunity Bonds	323,284	323,354
Ontario Clean Water Agency Loan	120,000	120,000
OFA Revolving Credit Facility	20,000	-
	<u>2,113,284</u>	<u>2,093,354</u>
Total Liabilities	<u>2,439,960</u>	<u>2,466,239</u>
Deficit	<u>(165,726)</u>	<u>(135,911)</u>
Total liabilities and deficit	<u>\$ 2,274,234</u>	<u>\$ 2,330,328</u>



Isabel McHenry

ONTARIO INFRASTRUCTURE PROJECTS CORPORATION

STATEMENT OF OPERATIONS AND DEFICIT

For the year ended March 31, 2007

(in thousands of dollars)

	2007 (Note 19)	2006 (Note 19)
REVENUE		
Investment interest	\$ 57,931	\$ 60,067
Loan interest	33,250	18,283
Amortization deferred concession costs	5,154	2,653
Other revenue	378	-
Total Loan Program	96,713	81,003
Project Recoveries	28,197	591
Investment interest	-	12
Project recoveries	135	-
Grant from Ministry of Public Infrastructure Renewal	7,068	8,270
Total Corporate	7,203	8,282
Total Revenue	132,113	89,876
EXPENSES		
Province of Ontario loan interest	41,380	28,278
Infrastructure Renewal Bond interest	29,900	29,913
Ontario Opportunity Bond interest	13,742	13,743
Commercial Paper Interest	12,240	8,957
Ontario Clean Water Agency loan interest	5,110	3,498
Concession costs	18,916	40,757
Amortization debt issue costs	919	920
Amortization deferred hedging losses/(gains)	(462)	(74)
Amortization capital assets	-	168
Salaries, wages and benefits	2,147	2,802
Administrative and general	2,636	2,667
Total Loan Program	126,528	131,629
OFA Revolving Credit Facility interest	263	-
Project advisory costs	18,890	591
Salaries, wages and benefits	7,257	-
Administrative and general	1,787	-
Total Projects	28,197	591
Amortization capital assets	479	18
Project advisory costs	225	5,832
Salaries, wages and benefits	3,627	1,412
Administrative and general	2,872	1,020
Total Corporate	7,203	8,282
Total Expenses	161,928	140,502
Net Loss from operations	(29,815)	(50,626)
Deficit, beginning of year	(135,911)	(85,285)
Deficit, end of year	\$ (165,726)	\$ (135,911)

ONTARIO INFRASTRUCTURE PROJECTS CORPORATION

STATEMENT OF CASH FLOWS

For the year ended March 31, 2007

(in thousands of dollars)

	2007 (Note 19)	2006 (Note 19)
OPERATING ACTIVITIES		
Net Loss from operations	\$ (29,815)	\$ (50,626)
Items not requiring a current cash outlay:		
Concession costs	18,916	40,757
Amortization deferred concession costs	(5,154)	(2,653)
Amortization capital assets	479	186
Amortization debt issue costs	919	920
Amortization deferred hedging gain	(462)	(74)
	(15,117)	(11,490)
Changes in non-cash working capital:		
Increase in accounts receivable	(7,862)	(456)
Net increase (decrease) in short-term investments	(31,316)	176,953
Increase in accounts payable and accrued liabilities	2,735	6,655
Increase in interest payable	10,626	7,135
Increase in deferred grant revenue	148	-
Increase (decrease) commercial paper	(59,718)	34,388
	(100,504)	213,185
Increase in loans receivable net of repayments	(198,795)	(487,377)
Increase in project receivables	(21,327)	-
Cash used in operating activities	(320,626)	(274,192)
FINANCING ACTIVITIES		
Advances from OFA Revolving Credit Facility	20,000	-
Redemption of Ontario Opportunity Bonds	(70)	(10)
Debt issue costs	-	(101)
Deferred gain on sale of hedging investments	847	5,892
Cash from financing activities	20,777	5,781
INVESTING ACTIVITIES		
Sale of long-term investments	304,268	273,916
Acquisition of capital assets	(3,392)	(1,042)
Cash from investing activities	300,876	272,874
Net increase in cash	1,027	4,463
Cash, beginning of the period	4,665	202
Cash, end of the period	\$ 5,692	\$ 4,665

ONTARIO INFRASTRUCTURE PROJECTS CORPORATION

NOTES TO FINANCIAL STATEMENTS**For the year ended March 31, 2007**(tabular amounts in thousands of dollars)

BACKGROUND

On November 7, 2005, the government established the Ontario Infrastructure Projects Corporation (Infrastructure Ontario) to implement Ontario's major infrastructure projects using alternative financing and procurement (AFP) methods.

Infrastructure Ontario is a Crown agency incorporated under the *Business Corporations Act* (Ontario) and reports to the Minister of Public Infrastructure Renewal (PIR).

Pursuant to a unanimous shareholder agreement and a Memorandum of Understanding between the corporation and the Minister of PIR, the objects of Infrastructure Ontario are:

- To provide on a cost effective and timely manner, project and contract management of large complex infrastructure projects identified in the multi-year capital plan of the Government of Ontario as AFP projects as assigned by the shareholder, as represented by the Ministry of PIR, to the corporation.
- Where requested, provide financial and execution advice in respect of assets or interests of the Government and implement transactions in respect of such assets or interests.
- To undertake any additional objects as directed by the shareholder.

On July 17, 2006 Infrastructure Ontario and the Ontario Strategic Infrastructure Financing Authority (OSIFA) amalgamated and OSIFA became a division of Infrastructure Ontario. The objects of the OSIFA division are to provide advisory services and financing for municipalities, universities and other public bodies in the Province of Ontario.

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 financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent 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 these estimates.

Revenue recognition

Infrastructure Ontario receives grant revenue from PIR in relation to in-year corporate expenses. The grant is recorded as unearned revenue until the corporate expenses have been incurred. Once incurred, the grant is recognized as revenue.

Costs incurred by Infrastructure Ontario on long term projects are fully recoverable. Revenue is recognized as the recoverable project costs are incurred.

ONTARIO INFRASTRUCTURE PROJECTS CORPORATION**NOTES TO FINANCIAL STATEMENTS (continued)****For the year ended March 31, 2007**

(tabular amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)**Loans receivable**

Loans receivable are stated at their estimated net realizable value. Loans with concessionary terms are discounted using the Provincial 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. Only the 2003-04 program loans were issued with concessionary terms.

Loans with concessionary terms are recorded at face value discounted by the amount of the grant portion. The grant portion is recognized as a concession cost at the date of issuance of the loan and amortized to revenue over the term of the loan. Concessions for construction advances are initially calculated based on the terms and conditions of long-term debentures with no amortization taken until the advances are converted to debentures, at which time the value of the concession is recalculated.

Hedge accounting

Infrastructure Ontario is exposed to interest rate fluctuations during the period between the issuance of Infrastructure Renewal Bonds and initiating debentures with municipalities. To manage this interest rate risk, Infrastructure Ontario utilizes financial instruments with similar characteristics to hedge against the debt. Infrastructure Ontario has formally documented its risk management objective and strategy, including relationships between the hedging instrument and the hedged item, for undertaking these various hedging transactions.

The hedging instruments are classified under long-term investments. Gains and losses resulting from hedging activities are deferred and amortized to operations over the term of the underlying debt, which matures June 1, 2015.

Taxes

As a Crown corporation, Infrastructure Ontario is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act of Canada.

Short-term investments

Short-term investments include money market securities with maturities of less than twelve months. As at March 31, 2007 the interest rates on these money market securities ranged from 4.3% to 4.4%. 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 being amortized over the life of the bond issues.

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, furniture and fixtures 10 years and leasehold improvements 10 years.

ONTARIO INFRASTRUCTURE PROJECTS CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2007

(tabular amounts in thousands of dollars)

2. ACCOUNTS RECEIVABLE

	2007 (Note 19)	2006 (Note 19)
Investment interest receivable	\$ 8,746	\$ 5,648
Loan interest receivable	7,752	4,954
Due from Ontario Ministries	2,783	1,723
GST receivable	1,290	384
Total	\$ 20,571	\$ 12,709

3. LOANS RECEIVABLE

Infrastructure Ontario established a 'concessionary' loan program for municipalities in 2003-04. In 2004-05 for municipalities and in 2005-06 for universities, Infrastructure Ontario also established an 'infrastructure renewal' loan program that operates on a cost pass-through basis.

As of March 31, 2007, construction advances are receivable from forty two municipalities and one university. The interest rate on concessionary construction loans was one half of the average of Prime and 30 day Bankers' Acceptances. The interest rate on infrastructure renewal construction loans was equal to the rate charged on 30 day Bankers' Acceptances plus ten basis points. Debentures receivable are due from ninety seven municipalities, with terms ranging from 5 to 40 years.

	2007 (Note 19)		2006 (Note 19)	
Construction Advances				
Concessionary loan program	\$ 183,826		\$ 285,469	
Infrastructure renewal loan program	93,844		79,029	
	\$ 277,670		\$ 364,498	
Debentures		Interest %		Interest %
Concessionary loan program				
Maturity within 5 years	\$ 2,452	1.87 - 2.31	\$ 3,132	1.87 - 2.31
6 to 10 years	141,179	2.06 - 2.69	121,972	2.06 - 2.69
11 to 15 years	64,468	2.28 - 2.67	15,346	2.28 - 2.67
16 to 20 years	305,601	2.38 - 2.95	214,159	2.36 - 2.95
Greater than 20 years	38,155	2.52 - 3.05	6,426	2.54 - 3.05
	551,855		361,035	
Infrastructure renewal loan program				
Maturity within 5 years	663	3.94 - 4.17	830	3.94 - 4.17
6 to 10 years	38,981	4.04 - 5.02	20,599	4.04 - 4.58
11 to 15 years	22,664	4.57 - 4.86	21,836	4.57 - 4.65
16 to 20 years	205,540	4.54 - 5.22	170,903	4.57 - 4.94
Greater than 20 years	47,142	4.78 - 5.29	6,019	4.78 - 4.82
	314,990		220,187	
Total debentures	866,845		581,222	
Less: portion due within one year	51,855		34,091	
Long-term portion of debentures	\$ 814,990		\$ 547,131	

ONTARIO INFRASTRUCTURE PROJECTS CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2007

(tabular amounts in thousands of dollars)

3. LOANS RECEIVABLE (continued)**Deferred Costs on Concessionary Loans**

	2007 (Note 19)	2006 (Note 19)
Deferred costs on concessionary loans, beginning of year	101,551	63,447
Concession costs current year	18,916	40,757
Amortization concession costs	(5,154)	(2,653)
Deferred costs on concessionary loans, end of year	\$ 115,313	\$ 101,551

The organization has no significant credit risk with the current loan portfolio. In case of default, the Province of Ontario is obligated to redirect funds owing to a Borrower, to pay Infrastructure Ontario. This is done through an intercept mechanism, which is a condition of all loans. Management also actively reviews the credit performance of each Borrower and determined there is no need for a provision at this time.

4. PROJECT RECEIVABLES

During the year ending March 31, 2007 Infrastructure Ontario incurred project costs and recognized project recoveries of approximately \$28.3 million. During the year \$7 million has been billed to Ontario Ministries, while the remaining \$21.3 million has been recognized as accrued project receivables. Certain project receivables, including interest costs to finance the receivables, will not be billed until the completion of the project.

5. LONG-TERM INVESTMENTS

Long-term investments consist of \$98 million (2006 - \$403 million) of bonds utilized as hedging instruments as described in Note 1, which are carried at cost.

6. DEBT ISSUE COSTS

	Cost	Accumulated Amortization	Net 2007 (Note 19)	Net 2006 (Note 19)
Ontario Opportunity Bonds	\$ 1,689	\$ 1,319	\$ 370	\$ 708
Infrastructure Renewal Bonds	5,957	1,211	4,746	5,327
Total	\$ 7,646	\$ 2,530	\$ 5,116	\$ 6,035

7. DEFERRED LOSSES/(GAINS) ON HEDGING

	Cost	Accumulated Amortization	Net 2007 (Note 19)	Net 2006 (Note 19)
Net gains on hedging activities	\$ (5,189)	\$ 524	\$ (4,665)	\$ (4,280)

ONTARIO INFRASTRUCTURE PROJECTS CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2007

(tabular amounts in thousands of dollars)

8. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net 2007 (Note 19)	Net 2006 (Note 19)
Computer equipment	\$ 1,260	\$ 525	\$ 735	\$ 251
Furniture and fixtures	892	71	821	237
Leasehold improvements	2,626	193	2,433	588
Total	\$ 4,778	\$ 789	\$ 3,989	\$ 1,076

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007 (Note 19)	2006 (Note 19)
Trade payables and accruals	\$ 10,930	\$ 6,927
Due to the Ontario Financing Authority	367	1,635
Total	\$ 11,297	\$ 8,562

10. INTEREST PAYABLE

	March 31 2007 (Note 19)	March 31 2006 (Note 19)
Province of Ontario Loan	\$ 10,307	\$ -
Infrastructure Renewal Bonds	9,884	9,884
Ontario Opportunity Bonds	5,496	5,497
Ontario Clean Water Agency Loan	424	367
OFA Revolving Credit Facility	263	-
Total	\$ 26,374	\$ 15,748

11. DEFERRED GRANT REVENUE

The Ministry of PIR transferred \$7.2 million to Infrastructure Ontario for recoverable corporate costs (2006 - \$8.3 million). As of March 31, 2007 \$7.1 million has been recognized as revenue, with the remaining \$148 thousand being deferred as unearned grant revenue.

12. COMMERCIAL PAPER

In November 2004, Infrastructure Ontario commenced issuing notes under a commercial paper program. The funds are used for short-term funding requirements including cash management, financing assets and general operating requirements. The program is authorized to issue a maximum of \$500 million for terms of up to one year. During the year, interest on the notes ranged from 3.9% to 4.4% and as of March 31, 2007, maturities ranged from April 2007 to June 2007.

ONTARIO INFRASTRUCTURE PROJECTS CORPORATION**NOTES TO FINANCIAL STATEMENTS (continued)****For the year ended March 31, 2007**

(tabular amounts in thousands of dollars)

13. LONG TERM DEBT**Ontario Opportunity Bonds**

Infrastructure Ontario has outstanding \$323 million in tax-exempt, redeemable 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 year \$70 thousand (2006 - \$10 thousand) of Ontario Opportunity Bonds were redeemed.

Infrastructure Renewal Bonds

On February 24, 2005, Infrastructure Ontario 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.

Ontario Clean Water Agency Loan and Province of Ontario Loan

The Ontario Clean Water Agency (OCWA), an agency of the Province of Ontario has provided a twenty-year subordinated loan of \$120 million to Infrastructure Ontario in exchange for a promissory note which matures on March 1, 2023. The interest on the note is reset monthly, with the interest rate set at four basis points below the average one month Canadian Dollar Offered Rate, payable quarterly.

The Province of Ontario has provided Infrastructure Ontario 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 at the Province's three-month treasury bill rate and payable quarterly.

The \$1.12 billion provides: (i) credit protection to investors in unsubordinated debt such as Infrastructure Renewal Bonds, Ontario Opportunity Bonds and Commercial Paper (ii) a liquidity backstop for Infrastructure Ontario's financing needs; and (iii) a stable long-term capital base that enables Infrastructure Ontario to achieve a high credit rating.

OFA Revolving Credit Facility

The Ontario Financing Authority (OFA), an agency of the Province of Ontario has provided Infrastructure Ontario with a subordinated revolving credit facility of up to \$200 million to provide working capital for AFP projects. Advances are to be repaid upon completion of individual AFP projects. The credit facility must be repaid in full by June 23, 2016. As at March 31, 2007, Infrastructure Ontario has utilized \$20 million on this line of credit, with interest at the Province's cost of funds for borrowings with a similar term. Current interest ranged from 4.12% to 4.35%, with maturities from October 2009 to February 2010.

14. RELATED PARTY TRANSACTIONS

In addition to the loans from OFA, OCWA and the Province of Ontario, Infrastructure Ontario receives a grant from the Ministry of PIR to cover corporate overhead. In 2006-07, Infrastructure Ontario received \$7.2 million (2006 - \$8.3 million).

Project costs and recoveries are also undertaken with various Ontario Ministries, such as the Ministry of Health and Long Term Care, the Ministry of the Attorney General, the Ministry of Children and Youth Services and the Ministry of Government Services.

ONTARIO INFRASTRUCTURE PROJECTS CORPORATION**NOTES TO FINANCIAL STATEMENTS (continued)****For the year ended March 31, 2007**

(tabular amounts in thousands of dollars)

14. RELATED PARTY TRANSACTIONS (continued)

Infrastructure Ontario has incurred costs for services with the OFA of \$935 thousand (2006 - \$925 thousand) and has also incurred costs for wages and benefits to the Ontario Ministry of Labour and Ontario Realty Corporation.

15. FINANCIAL INSTRUMENTS

The carrying amounts for cash, accounts receivable, short-term investments, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The organization earns interest on loan receivables, short and long-term investments and pays interest on short and long-term debt. To the extent that these financial instruments mature or reprice at different points in time, the organization is exposed to interest rate risk. Management actively manages the maturities of these financial assets and liabilities to mitigate this risk.

16. CONTINGENCIES

Infrastructure Ontario, in the ordinary course and conduct of its business, may be exposed to various legal proceedings. At March 31, 2007, Infrastructure Ontario was not aware of any such proceedings in process.

17. COMMITMENTS

On August 18, 2003, the Minister of Finance announced that 88 municipalities would be eligible for up to \$1 billion in low-interest loans to strengthen local communities. As at March 31, 2007, loans in the amount of \$784 million were issued to seventy five municipalities on the 2003-04 concessionary loan program.

On December 20, 2004, the Minister of Finance announced that 109 municipalities would be eligible for up to \$1.2 billion as part of Infrastructure Ontario's 2004-05 infrastructure renewal loan program. As at March 31, 2007 loans in the amount of \$357 million were issued to sixty municipalities on this program.

On November, 2005, the Minister of Public Infrastructure Renewal announced that the loan program was being expanded to help Ontario universities build and renew infrastructure by making them eligible for low cost, longer term fixed rate loans. As at March 31, 2007 a loan in the amount of \$7 million was issued to one university.

On February 10, 2006, the Minister of Public Infrastructure Renewal announced that the infrastructure renewal loan program would now be open for applications from all municipalities on a continuous basis and 64 communities would be eligible for up to \$418 million as part of Infrastructure Ontario's 2005-06 municipal infrastructure renewal loan program. This was in addition to \$126 million that had been announced on August 12, 2005. As at March 31, 2007 loans in the amount of \$81 million were issued to twenty-three municipalities on the 2005-06 program and \$12 million to five municipalities on the 2006-07 program.

ONTARIO INFRASTRUCTURE PROJECTS CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)**For the year ended March 31, 2007**(tabular amounts in thousands of dollars)

18. ECONOMIC DEPENDENCE

Infrastructure Ontario is dependent on the Province of Ontario for the provision of funds to cover operating costs, finance project costs until recovery and to support the concessionary loans provided to municipalities. Based on the Province's support in providing a multi-year commitment for public infrastructure projects and providing a fifty-year loan, Infrastructure Ontario is considered a going concern.

19. AMALGAMATION AND COMPARATIVE FIGURES

The July 17, 2006 amalgamation of Infrastructure Ontario and OSIFA brought together the two organizations. The March 31, 2007 financial statements and the comparative figures have been restated to present the results of operations as if the two organizations had operated as a single entity since April 1, 2005. Infrastructure Ontario was incorporated on November 7, 2005, accordingly, the results of this projects division of the amalgamated entity are included only from that date. Certain of the comparative figures have been reclassified to conform to the current year's presentation.

The comparative figures for the OSIFA division were audited by the Office of the Auditor General of Ontario.

20. SUBSEQUENT EVENT

On April 19, 2007, Infrastructure Ontario issued \$300 million of Infrastructure Renewal Bonds. The bonds bear interest at 4.70% per annum and mature on June 1, 2037. Interest is paid semi-annually on June 1st and December 1st until maturity. Infrastructure Ontario will record these bonds as part of the long term debt of the organization in fiscal year 2007-08.

777 Bay Street, 2nd Floor
Toronto ON M5G 2E5

Tel: (416) 585-6731
Fax: (416) 585-7330

777, rue Bay, 2^e étage
Toronto ON M5E 2E5

Tél: (416) 585-6731
Télécopieur: (416) 585-7330



Ontario

Ontario Mortgage and
Housing Corporation

Société ontarienne
d'hypothèques et de logement

July 16, 2007

Management's Responsibility For Financial Statements

The accompanying financial statements of the Ontario Mortgage and 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 July 10, 2007.

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 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, which appears on the following page, outlines the scope of the Auditor General's examination and opinion.

On behalf of Management:

Susan Gillespie
General Manager



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

Auditor's Report

To the Ontario Mortgage and Housing Corporation
and to the Minister of Municipal Affairs and Housing

I have audited the statement of financial position of Ontario Mortgage and Housing Corporation as at March 31, 2007 and the statement of operations and accumulated deficit for the 15-month period 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, 2007, and the results of its operations for the period then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink, appearing to read 'G. Peall', is written above the printed name.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
July 10, 2007

ONTARIO MORTGAGE AND HOUSING CORPORATION
Statement of Financial Position
As at March 31, 2007

	March 31	December 31
	2007	2005
ASSETS	(thousands of dollars)	
Cash	383	98,613
Accrued Interest from Universities and Colleges	375	-
Due from Province of Ontario	13,910	144
Investments in Properties (note 2)	24,229	25,349
	38,897	124,106
Non-Profit Housing Fund (note 3)	1,369,164	1,356,636
	1,408,061	1,480,742
LIABILITIES		
Accounts Payable and Accrued Liabilities	14,398	62,489
Current Portion of Long-Term Debt	43,737	39,328
Long-Term Debt (note 4)	791,609	873,866
	849,744	975,683
Non-Profit Housing Fund (note 3)	1,369,164	1,356,636
CONTINGENT LIABILITIES (note 5)		
ACCUMULATED DEFICIT	(810,847)	(851,577)
	1,408,061	1,480,742

See accompanying notes to financial statements

On Behalf of the Board:



Director



General Manager

ONTARIO MORTGAGE AND HOUSING CORPORATION
Statement of Operations and Accumulated Deficit
For the 15 Months Ended March 31, 2007

	15-Month Period Ended March 31, 2007	Year Ended December 31, 2005
Revenues:	(thousands of dollars)	
Subsidies from Province:		
Debt Service Obligations	111,634	97,434
Interest Differential in Non-Profit Housing Fund (note 3)	18,605	16,888
Bursary Revenue from Ministry (note 6)	2,650	1,290
Environmental Remediation	415	584
Sundry	14	54
Interest received from Student Housing	1,934	1,624
Total Revenues	135,252	117,874
Expenses:		
Debentures Interest:		
Devolved Properties	70,954	59,845
Student Housing	1,934	1,624
Interest Differential in Non-Profit Housing Fund (note 3)	18,605	16,888
Amortization Expenses - Chippawa Properties	60	44
Bursary Program (note 6)	2,650	1,290
Environmental Remediation	415	587
Miscellaneous	(96)	41
Total Expenses	94,522	80,319
Excess of Revenues over Expenses (note 7)	40,730	37,555
Contributed Surplus	-	(6)
Accumulated Deficit, Beginning of Year	(851,577)	(889,126)
Accumulated Deficit, End of Year	(810,847)	(851,577)

See accompanying notes to financial statements

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

Fifteen Months ended March 31, 2007

NATURE OF OPERATIONS

Under the *Social Housing Reform Act 2000* (SHRA), the Corporation transferred ownership of public housing units to Local Housing Corporations (LHCs) which are controlled by Municipal Services Managers. The Corporation retained its Investment in Student Housing and certain other assets, and responsibility for administering the Corporation's debts, the Non-Profit Housing Fund, and contingent liabilities. The Ministry of Municipal Affairs and Housing provides the Corporation with subsidies to cover its debt service payments and other expenses.

In December 2006, the Corporation's governing legislation, the *Ontario Housing Corporation Act* R.S.O. 1990 c.0.21. was amended as follows: the title was changed to the *Ontario Mortgage and Housing Corporation Act* R.S.O. 1990 c.0.21; the Corporation's name was changed to Ontario Mortgage and Housing Corporation (OMHC); its fiscal year end was changed from December 31 to March 31; the transition fiscal period was specified as being the 15 months ended March 31, 2007; and the Corporation was given responsibility for administering the Ontario Mortgage and Housing Initiative. The purpose of the Initiative is to facilitate the development of affordable housing and the Corporation's responsibilities in this regard include:

- (a) Developing and managing a roster of approved lenders who may provide mortgage financing for the purposes of developing affordable housing, and making the roster available to persons interested in developing affordable housing;
- (b) Providing other information about affordable housing to approved lenders or potential approved lenders and to persons interested in developing affordable housing; and
- (c) Entering into agreements in relation to the Initiative.

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 the 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 MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

Fifteen Months ended March 31, 2007

2. INVESTMENTS IN PROPERTIES

The Corporation's investments in properties are as follows:

	Mar 31 2007	Dec 31 2005
	(thousands of dollars)	
(a) Student Housing	23,220	24,281
(b) Provincial Housing	1,009	1,068
	24,229	25,349

(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.

	Mar 31 2007	Dec 31 2005
	(thousands of dollars)	
Original Cost	39,486	39,486
Less: Accumulated Capital Repayments	16,266	15,205
	23,220	24,281

(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.

	Mar 31 2007	Dec 31 2005
	(thousands of dollars)	
Original Cost	1,262	1,262
Less: Accumulated Capital Repayments	253	194
	1,009	1,068

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

Fifteen Months ended March 31, 2007

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 March 31, 2007 the Fund consisted of:

	Mar 31 2007	Dec 31 2005
	(thousands of dollars)	
Assets		
Cash	21	13
Loans to Province of Ontario	1,157,212	1,157,212
Mortgages to Universities and Colleges	166,128	166,128
Interest Receivable	45,803	33,283
	1,369,164	1,356,636
Liabilities and Fund Balance		
Canada Pension Plan Investment Fund	1,323,340	1,323,340
Interest Payable	45,803	33,283
Fund Balance	21	13
	1,369,164	1,356,636

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.

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

Fifteen Months ended March 31, 2007

Details of the transactions related to the fund balance are as follows:

	15 months ended Mar 31 2007	Year ended Dec 31 2005
	(thousands of dollars)	
Balance – Beginning of Year	13	3,963
Interest Earned – Loans, Mortgages, Bank	138,326	119,129
Interest Differential Subsidy from the Ministry of Municipal Affairs and Housing	18,605	16,888
Interest Paid on CPP Debentures	(156,923)	(135,977)
Transfers to Ministry of Finance	0	(3,990)
Balance – End of Year	21	13

4. LONG TERM DEBT

Long term debt is comprised of the following:

	Mar 31 2007	Dec31 2005
	(thousands of dollars)	
Canada Mortgage and Housing Corporation	746,297	815,198
Loans Repayable to Province	89,049	97,996
	835,346	913,194
Less: Current Portion	43,737	39,238
	791,609	873,866

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 6.8% respectively (2005 – 6.8% and 7.1% respectively). Interest expense for the 15 months ended March 31, 2007 totaled \$77.2 million (year ended Dec. 31, 2005 – \$61.5), \$8.3 million (year ended Dec. 31, 2005 – \$7.0) of which was paid to the Province.

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

Fifteen Months ended March 31, 2007

Scheduled payments of principal and interest over the next five years are as follows:

	CMHC Debentures	Loans Repayable to Province	Total
	Thousands of dollars		
2007	90,379	11,248	101,627
2008	90,300	11,227	101,527
2009	90,203	11,199	101,402
2010	89,481	10,981	100,462
2011	88,311	10,798	99,109

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 environmental 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 March 31, 2007, there were \$4.6 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; however the Corporation will be reimbursed by the Ministry of Municipal Affairs and Housing for costs incurred. Cumulative expenditures for remediation to March 31, 2007 are \$1,002,000 (2005 – \$587,000) and the Corporation has committed to provide TCHC with up to \$1,440,000 in 2008.
- c) The Corporation is one of the defendants in a class action, the outcome of which is uncertain. As a crown corporation, OMHC would be reimbursed by the Province for the cost of any settlement.

ONTARIO MORTGAGE AND HOUSING CORPORATION**Notes to Financial Statements****Fifteen Months ended March 31, 2007**

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 annual funding of \$1,150,000 plus any unspent amounts from the previous year, is divided equally among eligible tenants subject to maximum grants of \$3,000 for full-time and \$1,000 for part-time students. In addition to the regular annual funding, the Ministry of Municipal Affairs and Housing provided one-time funding of \$1,500,000 in fiscal 2007.

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.

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 March 31, 2007. 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 March 31, 2007, the aggregate fair value of the CMHC debentures was more than their aggregate book values by \$114 million (Dec. 31, 2005 – \$121 million).

Since the Corporation is controlled by the Province of Ontario, the fair value of loans repayable to province (\$89 million at March 31, 2007) has not been calculated.

10. COMPARATIVE FIGURES

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

ONTARIO PLACE CORPORATION

Ontario Place Corporation Financial Statements for the year ended December 31, 2006 were not available at the time of printing. When available, they will be included in Volume 2 posted to the website: www.fin.gov.on.ca/english/ .

ONTARIO POWER AUTHORITY

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

We have audited the statement of financial position of the Ontario Power Authority as at December 31, 2006, and the statements of operations, cash flows and changes in net assets 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 December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants

Toronto, Canada

February 12, 2007

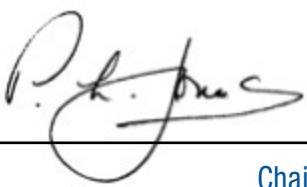
Statement of Financial Position

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
ASSETS		
Current Assets:		
Cash and cash equivalents:	\$ 40,289,599	\$ 8,911,099
Accounts receivable, net	102,725,702	230,401
Other current assets (note 3)	2,260,090	1,871,974
Total Current Assets	\$ 145,275,391	\$ 11,013,474
Regulated Price Plan Variance (note 4)	\$ 77,341,339	\$ 744,280,862
Capital Assets (note 5)	3,515,970	3,394,765
TOTAL ASSETS	\$ 226,132,700	\$ 758,689,101
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 91,974,748	\$ 71,372,501
Contract deposits (note 18)	1,306,800	84,889
Deferred rent inducement, net (note 8)	1,195,080	1,331,013
Due to Ministry of Energy (note 14)	—	6,816,692
Operating loan (note 11)	33,788,770	7,008,002
Revolving loan - Regulated Price Plan (note 11)	106,533,010	603,785,956
Retailer Settlement Balance (note 6 and 11)	(11,483,164)	72,827,345
Total Current Liabilities	\$ 223,315,244	\$ 763,226,398
Long Term Liabilities (note 18)	\$ —	\$ 1,254,000
NET ASSETS:		
Internally restricted for Conservation and Technology Funds (note 12)	\$ 2,468,675	\$ 1,021,250
Investment in capital assets	3,515,970	3,394,765
Unrestricted / accumulated operating surplus	(3,167,189)	(10,207,312)
Commitments (note 8)	2,817,456	(5,791,297)
TOTAL LIABILITIES and NET ASSETS	\$ 226,132,700	\$ 758,689,101

See accompanying notes to financial statements.

On behalf of the Board:


Chair


CEO

Statement of Operations

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
REVENUES		
Fees	\$ 30,944,308	\$ 15,000,000
Registration	395,889	—
Interest income	475,627	125,014
	<u>31,815,824</u>	<u>15,125,014</u>
EXPENSES		
Staff and board costs	\$ 13,677,813	\$ 5,929,823
Professional and consulting fees	11,249,413	6,274,558
Conservation/Technology Development Fund expense (note 12)	1,052,575	78,750
General operating costs (note 7)	3,341,331	1,699,081
Amortization of capital assets	661,736	117,407
	<u>\$ 29,982,868</u>	<u>\$ 14,099,619</u>
Income before other interest, other income and expense and global adjustment:	\$ 1,832,956	\$ 1,025,395
OTHER (INCOME) AND EXPENSE:		
Loss on disposal of capital assets	\$ 40,895	\$ —
Ministry of Energy - RFP costs / (recoveries) (note 14)	(6,816,692)	6,816,692
Interest earned on RPP balance	(16,771,487)	(5,969,074)
Interest paid on RPP loan	16,071,356	5,671,208
Interest paid on retailers loan	700,131	297,866
Total Other (Income) and Expense	\$ (6,775,797)	\$ 6,816,692
GLOBAL ADJUSTMENTS AND SETTLEMENTS: (note 16)		
Non-utility generation contracts	\$ 400,150,050	\$ 136,485,048
Designated nuclear generation	150,059,205	(803,741,050)
Designated hydroelectric generation	(225,963,441)	(487,994,199)
Renewable electricity supply	(10,739,939)	—
Global adjustment / provincial benefit	(313,505,875)	1,155,250,201
Total Global Adjustments and Settlements	\$ —	\$ —
Excess of revenues over expenses (expenses over revenue)	\$ 8,608,753	\$ (5,791,297)

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Cash Flows from Operating Activities:		
Excess of revenues over expenses (expenses over revenues)	\$ 8,608,753	\$ (5,791,297)
Adjustments for:		
Loss on disposal of capital assets	40,895	—
Amortization of capital assets	661,736	117,407
Change in non-cash operating items (note 15)	(55,668,424)	78,948,030
	(46,357,040)	73,274,140
Cash Flows from Financing and Investing Activities:		
(Recoveries)/advances from the Ontario Financing Authority	\$ (497,252,946)	\$ 603,785,956
(Recoveries)/advances from the Ministry of Energy	(6,816,692)	6,816,692
(Increase)/decrease in the RPP Variance Account	666,939,523	(744,280,862)
Increase/(decrease) in the Retailers Settlement Balance	(84,310,509)	72,827,345
Purchase of capital assets (gross)	(823,836)	(3,512,172)
	\$ 77,735,540	\$ (64,363,041)
Net Increase in cash and cash equivalents	31,378,500	8,911,099
Cash and cash equivalents, beginning of year	8,911,099	—
Cash and cash equivalents, end of year	\$ 40,289,599	\$ 8,911,099

See accompanying notes to financial statements.

Statement of Changes in Net Assets

Year ended December 31, 2006, with comparative figures for 2005

	Net Assets Invested in Capital Assets	Internally Restricted			Unrestricted	Accumulated Net Assets
		2005 Conservation Fund	2006 Conservation Fund	2006 Technology Fund		
Balance, beginning of the year	\$ 3,394,765	\$ 1,021,250	\$ —	\$ —	\$ (10,207,312)	\$ (5,791,297)
Excess of revenue over expenses	(661,736)	—	—	—	9,270,489	8,608,753
Establishment of 2006 Conservation Fund	—	—	1,500,000	—	(1,500,000)	—
Establishment of 2006 Technology Fund	—	—	—	1,000,000	(1,000,000)	—
2005 Conservation Fund expenditures	—	(751,347)	—	—	751,347	—
2006 Conservation Fund expenditures	—	—	(300,228)	—	300,228	—
2006 Technology Fund expenditures	—	—	—	(1,000)	1,000	—
Investment in capital assets (net)	782,941	—	—	—	(782,941)	—
Balance, end of year	\$ 3,515,970	\$ 269,903	\$ 1,199,772	\$ 999,000	\$ (3,167,189)	\$ 2,817,456

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2006, with comparative figures for 2005

1 Nature of Operations

The Ontario Power Authority (the “OPA” or the “Authority”) was established as a non-share corporation, on December 9, 2004, by the *Electricity Restructuring Act, 2004* (the “Act”). In accordance with the Act, the OPA’s main objectives are:

1. to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term;
2. to conduct independent planning for electricity generation, demand management, conservation and transmission, and develop integrated power system plans for Ontario;
3. to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario;
4. to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources;
5. to establish system-wide goals for the amount of electricity to be produced from alternative energy sources and renewable energy sources;
6. to engage in activities that facilitate load management;
7. to engage in activities that promote electricity conservation and the efficient use of electricity;
8. to assist the Ontario Energy Board by facilitating stability in rates for certain types of customers;
9. to collect and provide to the public and the Ontario Energy Board information relating to medium- and long-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs.

The Authority’s ability to continue as a going concern is dependent upon its ability to obtain financing to support operations. The OPA’s creditworthiness is provided by:

1. The ability of the OPA to meet its obligations is provided for in legislation.
2. The OPA’s minimal counterparty risk, given that its principal counterparty is the IESO, a creation of the province and a strong counterparty.

Definitions:

OPA Ontario Power Authority	RFP Request for proposal
RPP Regulated Price Plan	OEB Ontario Energy Board
IESO Independent Electricity System Operator	OPG Ontario Power Generation
NUG Non utility generation	LDC Local distribution company
OFA Ontario Financing Authority	HOEP Hourly Ontario Energy Price

2 Summary of Significant Accounting Policies

Basis of accounting:

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

Revenue recognition:

Fees earned by the OPA are based upon OEB-approved rates for electrical energy withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the period in which it is collected.

Cash and cash equivalents:

Cash and cash equivalents is comprised of bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 120 days.

Capital assets:

Capital assets are recorded at cost. The capital cost of property and equipment is amortized on a straight-line basis over their estimated service lives, as follows:

Class of Asset	Estimated Service Life
Furniture and equipment	10 years
Leasehold improvements	length of lease
Computer hardware and software	2.5 years
Audio-visual equipment	10 years
Telephone system	5 years

Measurement uncertainty:

Uncertainty in determining 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. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

3 Other Current Assets

	2006	2005
Global adjustment recoverable	\$ 1,086,978	\$ 1,726,149
Government procurement costs	1,034,970	—
GST recoverable	—	131,187
Prepays	138,142	14,638
Total	\$ 2,260,090	\$ 1,871,974

The OPA applied for and received approval to establish a deferral account for the Government of Ontario procurement costs in its 2007 Revenue Requirement Submission to the OEB. The OPA will propose a settlement of these costs with its 2008 Revenue Requirement Submission. The costs paid in 2006 will be received with the settlement of the 2008 Revenue Requirement Submission. Refer to note 14 for information on the legislative authority related to the government procurement costs.

Notes to Financial Statements *(continued)*

Year ended December 31, 2006, with comparative figures for 2005

4 The Regulated Price Plan (RPP) Variance Account

The RPP has been designed to provide stable electricity pricing so that consumers will not experience volatility from electricity spot market prices.

While prices for RPP consumers are set every six months by the OEB based upon a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecast cost of supplying electricity to all RPP consumers. The OPA tracks this variance in the RPP variance account.

To assure smooth prices are provided to residential, small commercial and other designated customers, while recovering the full cost of electricity, this difference will be blended into future prices.

The following outlines the composition of the variance account:

	2006	2005
Ontario Power Generation rebate contribution	\$ 7,215,194	\$ 361,224,170
Total RPP variance before interest	47,385,585	377,087,619
Interest earned	22,740,560	5,969,073
Total	\$ 77,341,339	\$ 744,280,862

In April 2006, the OPA received a payment of the OPG rebate for RPP customers of \$300,332,540 to apply against the outstanding RPP variance. The rebate is now calculated on a lagging three-month basis and paid quarterly by OPG. In 2006, the total OPG rebate related to RPP customers was \$354,008,976.

5 Capital Assets

	Cost	Accumulated Amortization	Net Book Value 2006	Net Book Value 2005
Furniture and equipment	\$ 1,414,585	\$ 140,464	\$ 1,274,121	\$ 1,163,254
Leasehold improvements	1,574,770	181,359	1,393,411	1,429,723
Computer hardware and software	1,022,608	412,036	610,572	624,248
Audio-visual equipment	142,215	17,339	124,876	132,407
Telephone system	125,545	12,555	112,990	45,133
	\$ 4,279,723	\$ 763,753	\$ 3,515,970	\$ 3,394,765

6 Retailer Settlement Balance

Legislation provisions ensure that electricity retailers will be made whole by the OPA for contracts with low-volume and designated consumers that were entered into before prices were frozen by legislation effective November 11, 2002. These provisions are achieved by the OPA and retailers settling any differences between the HOEP and the contract price for each contract. When HOEP is below the contract price, the OPA will make payments to the retailers. When HOEP is above the contract price, then the OPA receives a payment. Many of the retailer contracts that were in effect on November 11, 2002 had terms of three to five years. As a result, the number of contracts and associated volumes will decline as these contracts expire. It is expected that by November 2007, all of these contracts will have expired.

7 General Operating Costs

	2006	2005
General program costs	\$ 1,200,807	\$ 536,662
Information technology	159,152	101,175
Premise	1,274,575	551,474
Office and administration	706,797	494,483
Bank interest	—	15,287
Total	\$ 3,341,331	\$ 1,699,081

8 Commitments

The OPA entered into two long-term lease commitments for office space during the fiscal year 2006, which included various lease inducements. Deferred rent inducement represents the benefit of operating lease inducements that are being amortized on a straight-line basis over 10 years, the term of the lease. In addition to a rent-free period until May 2006 (valued at \$212,589) for the initial lease, the OPA received an additional rent-free period on a portion of the new space until May 15, 2007 (valued at \$28,728). The OPA initially obtained an allowance for leasehold improvements of \$1,359,332. As at December 31, 2006, the deferred rent inducement, net of amortization, was \$1,195,080.

In accordance with guidance provided by the Canadian Institute of Chartered Accountants, the OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2006, the accrued rent liability was \$240,046.

The minimum annual payments under the operating lease are approximately as follows:

Commitments	
2007	\$ 804,000
2008	903,000
2009	903,000
2010	920,000
2011	983,000
2012 and thereafter	3,729,000
Total	\$ 8,242,000

The lease commitments entered into in 2006 are set to expire consistent with the initial lease terms. All lease commitments are set to terminate on October 14, 2015.

Notes to Financial Statements *(continued)*

Year ended December 31, 2006, with comparative figures for 2005

9 Related Party Transactions

The OPA considers the Government of the Province of Ontario, its Agencies and its Crown Corporations to be related parties. In the normal course of operations, the OPA has transactions with the following related parties:

- a) Hydro One
- b) Ontario Power Generation
- c) Independent Electricity System Operator
- d) Ontario Financing Authority
- e) Ministry of Energy

	2006		2005	
	Revenues	Expenses	Revenues	Expenses
Hydro One	\$ —	\$ —	\$ —	\$ —
Ontario Power Generation	—	30,795	—	—
Independent Electricity System Operator (fees, IPSP planning assistance)	37,761,000	439,000	15,000,000	—
Ontario Financing Authority (interest)	—	16,771,487	—	5,969,074
Ministry of Energy (RFP costs)	—	1,034,970	—	6,816,692
	<u>\$ 37,761,000</u>	<u>\$ 18,276,252</u>	<u>\$ 15,000,000</u>	<u>\$ 12,785,766</u>

The 2006 expense related to the Ministry of Energy RFP costs is classified in the balance sheet consistent with the OEB decision to allow the cost to be carried in a deferral account and settled at the same time as the retail contract settlement deferral accounts in the 2008 Revenue Requirement Submission to the OEB.

10 Pension Plan

The OPA makes contributions to Ontario Pension Board, a multi-employer plan, on behalf of all staff. The plan is a contributory defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately 8 percent of earnings. As a result, the OPA made contributions totalling \$666,839 during the year.

11 Revolving Line of Credit, Outstanding Promissory Notes:

The OPA has available a revolving operating facility in the amount of \$975 million, provided to it by the Ontario Financing Authority.

	2006	2005
Operating loan	\$ 33,788,770	\$ 7,008,002
Revolving loan - Regulated Price Plan	106,533,010	603,785,956
Retailer settlement balance	(11,483,164)	72,827,345
Total outstanding	<u>140,321,780</u>	<u>683,621,303</u>
Average interest rate	4.01%	3.37%

All outstanding promissory notes are cleared monthly and replaced with new promissory notes.

12 Internally Restricted Funds

The Ontario Power Authority established the Conservation Fund to assist electricity conservation projects. To date, three funds have been set up as depicted in the table below. The 2005 Conservation Fund is fully awarded and payments will be made as the projects meet their milestones. As at December 31, 2006, \$1,331,770 in grants has been awarded for the 2006 Conservation Fund, and \$736,572 has been awarded for the Technology Fund.

Internally Restricted Funds	Restricted Fund	Expensed 2006	Expensed 2005	Balance Remaining	
				December 31 2006	December 31 2005
2005 Conservation Fund	\$ 1,100,000	\$ 751,347	\$ 78,750	\$ 269,903	\$ 1,021,250
2006 Conservation Fund	1,500,000	300,228	—	1,199,772	—
2006 Technology Development Fund	1,000,000	1,000	—	999,000	—
	\$ 3,600,000	\$ 1,052,575	\$ 78,750	\$ 2,468,675	\$ 1,021,250

13 Fair Value of Financial Assets and Financial Liabilities

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The fair values of the Regulated Price Plan variance, operating loan, revolving loan - Regulated Price Plan and retailer settlement balance are not provided because it would not provide additional useful information as they would be offset and/or would not be practical to determine.

14 RFP Costs Transferred to the OPA

Under section 25.18 of the *Electricity Act, 1998*, the OPA is required to reimburse the Crown, or, if so directed by the Minister of Finance, an agency of the Crown for certain costs incurred by the Crown or an agency of the Crown after January 20, 2004, and before the Ontario Energy Board's first approval of the OPA's procurement process under subsection 25.31(4) of the *Electricity Act, 1998*. These costs include costs incurred related to the OPA, a contract to procure supply capacity or conservation and demand management, an initiative that was commenced by the Crown that the OPA has been required to assume under a Minister's directive or a matter within the objects of the OPA.

During 2006, the OPA received three invoices from the Ministry of Energy totalling \$1,034,970. For additional information, please refer to note 3.

15 Change in Non-Cash Operating Items

	2006	2005
(Increase)/decrease in accounts receivable	\$ (102,495,301)	\$ (230,401)
Increase in other current assets	(388,116)	(1,871,974)
Increase in accounts payable	20,602,247	71,372,501
Increase/(decrease) in deferred rent inducement	(135,933)	1,331,013
Increase in operating loan	26,780,768	7,008,002
Increase/(decrease) in contract deposits	(32,089)	1,338,889
	\$ (55,668,424)	\$ 78,948,030

Notes to Financial Statements *(continued)*

Year ended December 31, 2006, with comparative figures for 2005

16 Global Adjustments and Settlements

Global adjustments and settlements are charges that flow through the OPA from the IESO monthly. These charges are set up so there will be no financial impact on the OPA.

NUG Contract Adjustment Balancing Amount:

Charge Type 193 – Ontario Electricity Financial Corporation's claim for the difference between market payments for NUGs and NUG contract costs.

Regulated Nuclear Generation Balancing Amount:

Charge Type 194 – the difference between the market payments for OPG's nuclear generation and the payments at the prescribed nuclear rate.

Regulated Hydroelectric Generation Balancing Amount:

Charge Type 195 – the difference between the market payments for OPG's base-load hydroelectric generation (up to 1,900 MW) and the payments at the prescribed hydroelectric rate.

The other charge type related to the Global Adjustment is Charge Type 1450, OPA Contract Adjustment Balancing Amount.

This is the OPA's claim for the difference between market payments for OPA contracted generation and the OPA's contract costs.

Global Adjustment Balancing Amount:

Charge Type 195 – the total of all components of the Global Adjustment (Charge Types 193, 194, 195, 1450).

Renewable Electricity Supply:

In October 2006, the OPA became a Metered Market Participant (MMP) for the supply of renewable energy to Ontario. Renewable energy is defined by legislation as an energy source that is renewed by natural processes and includes wind, water, biomass, solar energy, geothermal or tidal force. Prior to the OPA assuming responsibility for the settlement of renewable energy generation, these contracts were managed by the Ontario Electricity Financial Corporation.

17 Comparative Figures

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current year.

18 Contract Deposits

Deposit amounts received from Renewable Energy Supply (RES) contractors. The deposit amounts are larger during the construction phase and are reduced once the project commences commercial operations. The deposits are classified as current liabilities as the projects are expected to enter commercial operations in 2007.

**Ontario
Racing
Commission**

Suite 400
10 Carlson Court
Toronto, Ontario
M9W 6L2
Tel 416 213-0520
Fax 416 213-7827

**Commission
des courses
de l'Ontario**

Bureau 400
10 Carlson Court
Toronto (Ontario)
M9W 6L2
Tél 416 213-0520
Téléc 416 213-7827

**Ontario Racing Commission****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 the 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, 2007.

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 of Ontario 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 of Ontario. 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 stylized signature of John L. Blakney in blue ink.

John L. Blakney
Chief Executive Officer

A stylized signature of Steven Lehman in blue ink.

Steven Lehman
Chief Administrative Officer



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

Auditor's Report

To the Ontario Racing Commission
and to the Minister of Government Services

I have audited the balance sheet of the Ontario Racing Commission as at March 31, 2007 and the statement of operations and retained income and of 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink, appearing to read 'G. Peall'.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
June 8, 2007

Ontario Racing Commission

Balance Sheet

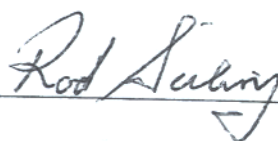
As at March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
ASSETS		
Current		
Cash	2,366	2,460
Accounts receivable	169	532
Prepaid expenses	94	209
	<u>2,629</u>	<u>3,201</u>
Capital assets (Note 7)	624	635
	3,253	3,836
LIABILITIES AND RETAINED INCOME		
Current		
Accounts payable and accrued liabilities	1,260	1,111
Deferred cost recovery from industry (Note 4D)	179	50
	<u>1,439</u>	<u>1,161</u>
Long-term		
Accrued benefit obligation (Note 5C)	555	651
Deferred lease inducement (Note 11)	414	460
	<u>969</u>	<u>1,111</u>
Retained income (Note 10)	<u>845</u>	<u>1,564</u>
	3,253	3,836

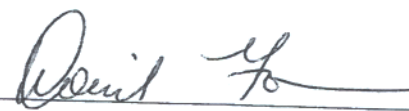
Commitments (Note 8)

See accompanying notes to financial statements.

Approved on behalf of the Commission:



Chair



Member

Ontario Racing Commission

Statement of Operations and Retained Income For the Year Ended March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
Revenue		
Track levy (Note 3)	5,636	5,883
Regulatory levy (Note 3)	—	4,001
Licence and registration fees	3,571	1,777
Fines and penalties	449	326
Cost recovery from industry (Note 4)	515	338
Interest income	106	77
Miscellaneous	19	—
Total revenue	10,296	12,402
Expenses		
Salaries and wages	5,316	5,491
Employee benefits (Note 5)	969	1,109
Services (Note 9)	3,348	3,327
Transportation and communication	1,116	1,148
Supplies	168	184
Amortization	98	139
Total expenses	11,015	11,398
(Deficiency)/Excess of revenue over expenses	(719)	1,004
Retained income, beginning of year	1,564	560
Retained income, end of year (Note 10)	845	1,564

See accompanying notes to financial statements.

Ontario Racing Commission

Statement of Cash Flows

For the Year Ended March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
Cash flows from operating activities		
(Deficiency)/Excess of revenue over expenses	(719)	1,004
Amortization	98	139
	(621)	1,143
Changes in non-cash items		
Non-cash operating working capital	756	(608)
Accrued benefit obligation	(96)	3
Deferred lease inducement	(46)	460
	614	(145)
	(7)	998
Cash used for investing activity		
Purchase of capital assets	(87)	(574)
Net change in cash position	(94)	424
Cash position, beginning of year	2,460	2,036
Cash position, end of year	2,366	2,460
Cash is composed of:		
General	1,366	1,460
Reserve (Note 10)	1,000	1,000
	2,366	2,460

See accompanying notes to financial statements.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2007

1. Objective 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 equipment	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 are due.

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) FINANCIAL INSTRUMENTS

The Commission 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.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2007

2. Significant Accounting Policies (Continued)

(E) USE OF ESTIMATES

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

3. Track Levy And Regulatory Levy

The levies were established such that the total sum of the levies and other revenue received by the Commission would be sufficient to cover all costs associated with the operation of the Commission. The track levy was calculated as a percentage of total wagering made at each racing association during the 2005 calendar year. The regulatory levy, which ended March 31, 2006, was calculated as a percentage of purses paid at each racetrack during the previous calendar year.

4. Cost Recovery From Industry

The Commission recovers certain costs from the industry for its activities as follows:

(A) HORSE IMPROVEMENT PROGRAM

As of May 1, 2005, the Commission assumed responsibility for the administration of the Horse Improvement Program (HIP). The HIP is a racing and breeding incentive program that was established in 1974. The objectives of the program are: to supplement purses paid; to improve the quality and quantity of racing stock in Ontario; to fund equine research; to promote the Ontario-bred horse; and to promote horse breeding and ownership in the province. A Memorandum of Understanding (MOU) effective September 30, 1996 between the then Ministry of Consumer and Commercial Relations, the Ontario Horse Racing Industry Association and the Commission provided for a reduction of pari-mutuel taxes, with the forgone revenue being allocated to various industry participants. The MOU has been supplemented by subsequent agreements to include an allocated portion of revenue from slot machines at racetracks. As of December 31, 2006, the program had net assets of over \$5 million and revenue and expenditures for the year each of over \$48 million. None of these assets is owned by the Commission or reflected in these financial statements. Separate financial statements have been prepared for the HIP, which were audited by an independent public accounting firm. The Commission recovered \$322,168 (2006 – \$228,135) from HIP for its costs to administer the program for the fiscal year ended March 31, 2007.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2007

4. Cost Recovery From Industry (Continued)

(B) QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM

As a result of an agreement between the Ontario Lottery and Gaming Corporation and owners of the Ajax Downs racetrack, the Commission assumed responsibility to administer the Quarter Horse Racing Industry Development Program (QHRIDP) with an objective to establish a program for the betterment of the Ontario quarter horse racing industry and horse racing in general. Since March 2006, the program has been funded by an allocated portion of revenue from slot machines at the racetrack. As of December 31, 2006, the program had net assets of approximately \$4.7 million, and revenue and expenditures for the period of over \$7 million and \$1.7 million respectively. None of these assets is owned by the Commission or reflected in these financial statements. Separate financial statements have been prepared for the program, which were audited by an independent public accounting firm. The Commission recovered \$60,042 (2006 – \$0) from QHRIDP for its costs to administer the program for the fiscal year ended March 31, 2007.

(C) INVESTIGATIONS FOR RACETRACK LICENSING

The Commission recovers its costs for conducting eligibility investigations relating to applications for racetrack licences for new racetracks, changes of ownership, or changes in the conditions of licensing. The Commission requires applicants to prepay the estimated costs of investigations and records these prepayments as a deferred cost recovery from industry until the actual related costs are incurred. In fiscal 2007, the Commission incurred \$50,380 (2006 – \$110,000) for the costs of investigations relating to racetrack licensing.

(D) EQUINE MEDICATION CONTROL AND DRUG TASK FORCE

A letter of intent dated December 20, 2006, between an Ontario horse racing industry advisory group and the Commission established the Equine Medication Control and Drug Task Force. The mandate of the Task Force, which is administered by the Commission and partially funded by the racetracks and the horsemen's purse accounts, is to combat the supply and use of illegal equine medications and drugs in the Ontario horse racing industry. For fiscal 2007, the Commission recovered \$82,877 from the industry (which includes racetracks and horsemen) for their share of costs incurred relating to the Task Force. An additional \$178,695 was collected from the industry and taking this revenue into income was deferred until the related costs are incurred.

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 \$355,407 (2006 – \$332,539) and are included in employee benefits.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2007

5. Employee Benefits (Continued)

(B) NON-PENSION BENEFITS

The cost of post-retirement non-pension employee benefits is paid by the Ministry of Government Services and is not included in the Statement of Operations and Retained Income.

(C) ACCRUED BENEFIT OBLIGATION

The accrued benefit obligation is comprised of an accrual for earned employee severance and unused vacation entitlements due upon termination or retirement. In fiscal 2007, the cost of these employee benefits was \$93,554 (2006 – \$144,164) and is included in employee benefits.

6. Members' Remuneration

Total remuneration of the Chair and members of the Commission for the year was \$184,922 (2006 – \$153,963).

7. Capital Assets

	2007 (\$ 000)			2006 (\$ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment and software	331	248	83	21
Office furniture and equipment	235	100	135	163
Leasehold improvements	451	45	406	451
	1,017	393	624	635

8. Commitments

The Commission is committed under operating leases on head office premises and vehicles with future minimum rental payments due as follows:

	Premises (\$ 000)	Vehicles (\$ 000)	Total (\$ 000)
2008	279	198	477
2009	335	145	480
2010	335	66	401
2011	346	—	346
2012	346	—	346
2013–2016	1,409	—	1,409
	3,050	409	3,459

Ontario Racing Commission

Notes to Financial Statements

March 31, 2007

9. Related Party Transactions

The Commission paid the Province of Ontario for: Ontario Provincial Police investigative and related services totalling \$721,598 (2006 – \$923,752); and administrative services, information technology services, and use of computer equipment totalling \$158,671 (2006 – \$241,294).

The Commission has governance and administrative responsibilities over certain industry-funded programs and recovers its costs as disclosed under Note 4.

10. Reserve

Subsection 13(1) 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 responsible for the Commission 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 Government 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.

11. Deferred Lease Inducement

As part of its lease arrangements for its new head office premises, the Commission negotiated a lease inducement of \$459,920 to cover the costs of leasehold improvements. This deferred lease inducement is being amortized as a reduction of rent expense on a straight-line basis over the 10-year lease period that commenced April 1, 2006, being the start date of the lease.

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 7, 2007.

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.

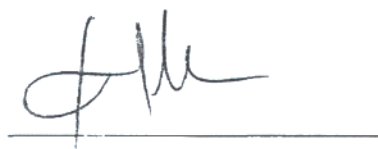
The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board of Directors reviews and approves the financial statements.

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:



Greg Dadd
Chief Operating Officer



Dave Glass
President and Chief Executive Officer

Dated: June 7, 2007



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

Auditor's Report

To the Ontario Realty Corporation,
The Minister of Public Infrastructure Renewal,
and to the Minister of Finance

I have audited the balance sheet of the Ontario Realty Corporation as at March 31, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink, appearing to read 'G. Peall', is positioned above the printed name of the Deputy Auditor General.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
June 7, 2007

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

BALANCE SHEET

As at March 31	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents (note 7c)	\$ 42,793	\$ 34,366
Accounts receivable (note 7d)	3,324	7,022
Prepaid expenses	715	327
Due from Province (note 2)	-	444
	46,832	42,159
Capital assets (note 3)	3,852	5,289
Funds held in trust (note 4)	124,518	86,441
	\$ 175,202	\$ 133,889
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,513	\$ 9,562
Provision for severance costs (note 2)	46	945
	8,559	10,507
Funds held in trust (note 4)	124,518	86,441
RETAINED EARNINGS	42,125	36,941
	\$ 175,202	\$ 133,889

Commitments (note 5)

Contingencies (note 6)

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

On behalf of the Board

Director:

Director:



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	2007	2006
REVENUE		
Management fees (note 7a)	\$ 38,055	\$ 37,621
Expense reimbursement - in lieu of fees (note 7a)	10,985	14,085
Direct recoverable costs (note 7a)	5,087	4,884
Bank interest and other income (note 7c)	1,455	1,961
	55,582	58,551
EXPENSES		
Salaries and benefits (note 2)	32,001	32,309
Direct operating expenses (note 7f)	15,506	18,352
Amortization	2,891	2,704
	50,398	53,365
EXCESS OF REVENUE OVER EXPENSES BEFORE RECOVERABLE SEVERANCE COSTS	5,184	5,186
Provision for recoverable severance costs (note 2)	(404)	-
Recoverable from Province (note 2)	404	-
EXCESS OF REVENUE OVER EXPENSES	5,184	5,186
RETAINED EARNINGS, BEGINNING OF YEAR	36,941	31,755
RETAINED EARNINGS, END OF YEAR	\$ 42,125	\$ 36,941

The accompanying summary of significant accounting policies and notes are an integral part of these 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	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenue over expenses	\$ 5,184	\$ 5,186
Adjustments for:		
Amortization	2,891	2,704
Provision for severance costs (note 2)	(411)	306
Recoverable from Province (note 2)	404	-
Deferred revenue	-	(1,066)
	8,068	7,130
Changes in non cash working capital		
Decrease (Increase) in accounts receivable	3,698	(2,560)
Decrease (Increase) in prepaid expenses	(388)	7
(Decrease) Increase in accounts payable and accrued liabilities	(1,049)	32
	10,329	4,609
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of capital assets (note 3)	(1,454)	(1,320)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Severance payments made during year and previously provided for (note 2)	(488)	(917)
Severance recoveries from Province (note 2)	40	120
	(448)	(797)
Net increase in cash and cash equivalents	8,427	2,492
Cash and cash equivalents, beginning of year	34,366	31,874
Cash and cash equivalents, end of year	\$ 42,793	\$ 34,366

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

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
Year ended March 31, 2007

NOTES TO FINANCIAL STATEMENTS

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). The Province has delegated authority to the Corporation under subsections 6(1), 8(1) and 8(2) of the *Ministry of Government Services Act* to acquire, hold and, with approval, dispose of property for government and government related agencies. As a Crown Corporation and operational enterprise of the Province, the Corporation is exempt from income taxes.

The Corporation is accountable to the Province and 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 48.3 million rentable square feet: 38.8 million owned by the Province and 9.5 million leased from the private sector, as well as 81,448 acres of land owned by the Province. The Corporation also provides property management services to the City of Greater Sudbury for one property.

In June 2005, the Provincial Government initiated a number of organizational changes, including announcing that the Corporation would report to the Ministry of Public Infrastructure Renewal (PIR). An Order in Council dated September 21, 2005, transferred all of the powers and duties of the programs and activities formerly assigned to the Chair of the Management Board of Cabinet ("Chair") and the Management Board Secretariat in respect of the Corporation, and responsibilities of the Chair for the administration of the *Capital Investment Plan Act, 1993*, in respect of the Corporation to PIR.

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.

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.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
Year ended March 31, 2007

NOTES TO FINANCIAL STATEMENTS

c) 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.

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 amortized on a straight-line basis over their estimated useful lives as follows:

Computer hardware and software	3 years
Custom software	5 years
Furniture, fixtures and office equipment	3 years
Leasehold improvements	3 - 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 multi-employer 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.

f) Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, due from Province, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
Year ended March 31, 2007

NOTES TO FINANCIAL STATEMENTS

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.

2. SEVERANCE COSTS

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 the Province approving a new governance structure for the Corporation. These severance costs were recovered from the Province. As of March 31, 2007 all applicable severance costs had been paid.

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. The settlement from the realignment is expected to be completed in the 2007/08 fiscal year.

As of March 31, 2007, total expected severance costs associated with the realignment were \$3,106 (2006 - \$3,113) of which \$3,060 (2006 - \$2,612) had been paid. During the year ended March 31, 2007, the provision was decreased by \$7 (2006 increase of \$306) 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 2007			2006		
	Recoverable Severance	Corporate Realignment	Total	Recoverable Severance	Corporate Realignment	Total
Balance - beginning of year	\$444	\$501	\$945	\$564	\$992	\$1,556
Increase (Decrease) of provision	(404)	(7)	(411)	-	306	306
Severance payments	(40)	(448)	(488)	(120)	(797)	(917)
Balance - end of year	\$ 0	\$46	\$46	\$444	\$501	\$945

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
Year ended March 31, 2007

NOTES TO FINANCIAL STATEMENTS

Other Severance

The Corporation also incurred other employee severance costs totalling \$913 (2006 - \$1,215) that are included in salaries and benefits expenses in the Statement of Operations and Retained Earnings.

3. CAPITAL ASSETS

Capital assets consist of the following:

March 31			2007	2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	\$ 6,093	\$ 5,442	\$ 651	\$ 515
Custom software	7,357	5,265	2,092	3,419
Furniture, fixtures and office equipment	706	706	-	213
Leasehold improvements	3,078	1,969	1,109	1,142
	\$ 17,234	\$ 13,382	\$ 3,852	\$ 5,289

During the year ended March 31, 2007, capital assets were acquired at an aggregate cost of \$ 1,454 (2006 - \$1,320).

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 PIR and the City of Greater Sudbury. They relate directly to the operation of several PIR 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 funds held in trust for PIR are \$123,892 (2006 - \$84,695).

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
Year ended March 31, 2007

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

2008	\$	1,984
2009		1,328
2010		1,007
2011		848
2012		848
	\$	<u>6,015</u>

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

- a) The Corporation is economically dependant on the Province as all of the revenue received from the Province for the provision of services are under the control of the Minister of Public Infrastructure Renewal.

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 a percentage of project costs, related to PIR 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 human resource services) are funded by PIR as an annual allocation along with the administration costs associated with the sale and acquisition of properties on behalf of the ministries.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
Year ended March 31, 2007

NOTES TO FINANCIAL STATEMENTS

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 PIR 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 PIR 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 *Capital Investment Plan Act* requires that all short-term investments be invested with the Ontario Financing Authority (OFA), a Crown Corporation of the Province, unless the Minister of Finance agrees otherwise. Short-term investments of \$24,629 (2006 - \$28,585), invested by the OFA, are included in cash and cash equivalents in the Balance Sheet and interest earned on these investments of \$1,022 (2006 - \$733) is included in Bank interest and other income in the Statement of Operations and Retained Earnings. Other income also includes recognition, in the prior year, of deferred revenue related to severance costs.
- d) The Corporation's accounts receivable include \$3,123 (2006 - \$6,900) from the Province.
- e) 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 the Province and is not included in the Statement of Operations and Retained Earnings.
- f) The Corporation's direct operating expenses include accommodation costs of \$1,620 (2006 - \$1,406) charged by PIR.
- g) 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.
- Severance Costs (Note 2)
 - Funds Held in Trust (Note 4)

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
Year ended March 31, 2007

NOTES TO FINANCIAL STATEMENTS

8. PENSION PLANS

The Corporation's required contributions to the pension plans (see note 1e) for the year ended March 31, 2007 were \$1,325 (2006—\$1,334) and are included in salaries and benefits in the Statement of Operations and Retained Earnings.

ONTARIO SECURITIES COMMISSION**MANAGEMENT'S RESPONSIBILITY AND CERTIFICATION**

Management is responsible for the integrity, consistency and reliability 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.

We certify that we have reviewed the financial statements and other information contained in the annual report, and, based on our knowledge, they do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the statements and the annual report.

Based on our knowledge, the financial statements together with other financial information included in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Ontario Securities Commission as of the dates and for the periods presented. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions, and are believed to be reasonable.

We are responsible for establishing and maintaining internal control over financial reporting for the Commission. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

We have disclosed in the MD&A any change in our internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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



W. David Wilson
Chair and Chief Executive Officer



A. Kenneth Gibson, CA
Director, Corporate Services

May 9, 2007



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

Auditor's Report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

J. R. McCarter, CA
Auditor General
Licensed Public Accountant

Toronto, Ontario
May 9, 2007

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15^e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

ONTARIO SECURITIES COMMISSION**Balance Sheet**

As at March 31,

	2007	2006
ASSETS		
CURRENT		
Cash	\$ 58,770,149	\$ 55,900,077
Accounts receivable	1,707,830	1,469,999
Prepaid expenses	777,250	337,761
	61,255,229	57,707,837
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 3)	5,611,341	4,700,795
FUNDS IN TRUST (Note 4)	16,174,925	8,865,176
RESERVE FUND ASSETS (Note 5)	32,000,000	32,000,000
CAPITAL ASSETS (Notes 6, 12(b))	3,229,307	4,017,062
	\$ 118,270,802	\$ 107,290,870
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 10,737,044	\$ 9,927,782
Current portion of obligation under capital leases (Note 12(b))	198,037	139,215
	10,935,081	10,066,997
NON-CURRENT		
Obligation under capital leases (Note 12(b))	246,743	295,931
Pension liabilities (Note 7(b))	1,409,779	1,231,788
	12,591,603	11,594,716
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 3)	5,611,341	4,700,795
FUNDS IN TRUST (Note 4)	16,174,925	8,865,176
SURPLUS		
OPERATING		
General (Note 8)	51,794,689	50,031,939
Reserve (Note 5)	32,000,000	32,000,000
	83,794,689	82,031,939
CONTRIBUTED	98,244	98,244
	83,892,933	82,130,183
	\$ 118,270,802	\$ 107,290,870

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

W. David Wilson

Chair

David L. Knight, FCA

Commissioner

ONTARIO SECURITIES COMMISSION**Statement of Operations and Operating Surplus**

For the year ended March 31,

	2007	2006
REVENUES		
Fees (Note 8)	\$ 67,784,003	\$ 79,977,793
Investment income	3,139,931	1,872,001
Miscellaneous	143,024	1,199,757
	71,066,958	83,049,551
EXPENSES		
Salaries and benefits (Note 11)	51,507,726	48,871,068
Administrative	5,142,855	5,262,735
Occupancy (Note 12(a))	5,103,973	4,569,769
Professional services (Note 11)	4,826,948	3,826,706
Amortization	1,771,296	2,329,622
Other	951,410	963,071
	69,304,208	65,822,971
EXCESS OF REVENUES OVER EXPENSES	1,762,750	17,226,580
OPERATING SURPLUS, BEGINNING OF PERIOD	82,031,939	64,805,359
OPERATING SURPLUS, END OF PERIOD	\$ 83,794,689	\$ 82,031,939
Represented by:		
General	\$ 51,794,689	\$ 50,031,939
Reserve	32,000,000	32,000,000
	\$ 83,794,689	\$ 82,031,939

See accompanying notes to Financial Statements.

ONTARIO SECURITIES COMMISSION**Statement of Cash Flows**

For the year ended March 31,

	2007	2006
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess of revenues over expenses	\$ 1,762,750	\$ 17,226,580
Items not affecting cash		
Pension liabilities	177,991	117,041
Loss/(gain) on disposal of capital assets	3,896	(29,608)
Amortization	1,771,296	2,329,622
	3,715,933	19,643,635
Changes in non-cash working capital:		
Accounts receivable	(237,831)	16,722
Prepaid expenses	(439,489)	24,015
Accounts payable and accrued liabilities	809,262	1,486,278
	131,942	1,527,015
	3,847,875	21,170,650
Cash flows from financing activities		
Repayment of obligations under capital leases	(147,959)	(29,146)
	(147,959)	(29,146)
Cash flows from investing activities		
Proceeds from sale of capital assets	615	144,625
Purchase of capital assets (Note 6)	(830,459)	(1,974,898)
	(829,844)	(1,830,273)
NET INCREASE IN CASH POSITION	2,870,072	19,311,231
CASH POSITION, BEGINNING OF PERIOD	55,900,077	36,588,846
CASH POSITION, END OF PERIOD	\$ 58,770,149	\$ 55,900,077

See accompanying notes to Financial Statements.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2007

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 marketplace in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Investments

Investments are carried at cost, which approximates market value.

b) Capital assets

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

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

c) Revenues

Fees are recognized when earned, which is normally upon receipt.

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

d) Funds Held Pursuant to Designated Settlements and Orders

Funds held pursuant to Designated Settlements and Orders are recorded when settlements are approved or orders made, unless management determines there is significant doubt as to ultimate collection, in which case they are recognized when cash is received.

e) 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.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2007

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

The costs of post-retirement non-pension benefits are not included in the Statement of Operations and Operating Surplus as described in note 13(c).

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.

3. FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS

The Commission has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine. The balance includes a settlement for \$1,900,000, which is subject to the approval of the responsible Minister as required under the provision of the *Securities Act* in effect at the time the settlement was approved. The accumulated funds are held in a segregated bank account and earn interest at a rate of the monthly average bank prime rate less 1.75%.

As at March 31, 2007, the accumulated balance is determined as follows:

	2007	2006
Opening balance	\$4,700,795	\$2,501,008
Settlements and Orders	711,883	2,166,560
Uncollected Settlements written off	-	(89,400)
Interest	215,663	122,627
Payments	(17,000)	-
Closing balance	\$5,611,341	\$4,700,795
Represented by:		
Cash	\$5,591,158	\$4,655,125
Receivables	20,183	45,670
	\$5,611,341	\$4,700,795

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2007

4. FUNDS IN TRUST

During the year, the Commission received payments from the operator of the System of Electronic Data Analysis and Retrieval ("SEDAR"), the National Registration Database ("NRD"), and the System for Electronic Disclosure by Insiders ("SEDI") representing the accumulated surplus from the operations of SEDAR, NRD, and SEDI. The total accumulated funds as at March 31, 2007 were \$16,174,925 (2006 - \$8,865,176) representing total payments received of \$15,464,752 (2006 - \$8,606,532) and interest earned of \$710,173 (2006 - \$258,644). These funds are to be held by the Commission in accordance with agreements amongst the Commission, the Alberta Securities Commission, the British Columbia Securities Commission, L'Autorité des marchés financiers and, in the case of NRD, the Investment Dealers Association of Canada, and shall be used to offset any shortfall in revenues from the systems, develop or enhance the systems and reduce systems' fees. These funds are held in a segregated bank account and earn interest at a rate of the monthly average bank prime rate less 1.75%.

5. RESERVE FUND ASSETS

- 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, 2007, have been invested in one year Government of Ontario treasury bills with the Ontario Financing Authority.
- b) The May 2, 2000 Budget proposed 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. At March 31, 2007, legislation has not yet been introduced.

The Commission received approval in 2002 from the Ministry of Finance to retain \$12.0 million, which may only be used toward implementation costs of the proposed merger and is subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

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

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2007

6. CAPITAL ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2007 Net Book Value</u>	<u>2006 Net Book Value</u>
Office furniture	\$ 3,425,305	\$ 2,913,017	\$ 512,288	\$ 654,818
Office equipment	580,424	351,491	228,933	286,976
Computer hardware and related applications	13,443,480	12,076,883	1,366,597	1,724,390
Leasehold improvements	7,252,225	6,130,736	1,121,489	1,350,878
	<u>\$ 24,701,434</u>	<u>\$ 21,472,127</u>	<u>\$ 3,229,307</u>	<u>\$ 4,017,062</u>

During the year, capital assets were acquired at an aggregate cost of \$988,052 (2006 - \$2,439,190) of which \$157,593 (2006 - \$464,292) were acquired by means of capital leases.

7. PENSION PLANS

- a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2007 was \$2,684,244 (2006 - \$2,498,157) and is included in salaries and benefits.
- b) The unfunded supplemental pension plans for the Commission's current and former Chairs and Vice-Chairs had an accrued benefit obligation of \$1,311,797 at March 31, 2007 (2006 - \$1,217,986) and an accrued benefit liability of \$1,409,779 (2006 - \$1,231,788). The Commission's related expense for the year was \$248,910 (2006 - \$169,999) and is included in salaries and benefits. Benefits totaling \$70,919 were paid during the year (2006 - \$52,958). The average remaining service lifetime of the active members covered by these plans ranges from .85 to 4.59 years at March 31, 2006 (2005 - .25 to 3.88 years); the 2006 figures were used for amortization purposes in fiscal 2007. The average life expectancy of the non-active members ranges from 18.13 to 24.22 years at March 31, 2006 (2005 - 22.48 years). The significant actuarial assumptions adopted at March 31, 2007 include a discount rate of 4.75% (2006 - 5.0%) and a rate of compensation increase ranging from 2.1% to 3.0%, as applicable (2006 - 2.1% to 3.0%).

8. FEES

The Commission's fee regime is designed to generate fees that reflect the Commission's cost of providing services to market participants. The fee regime is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of Commission staff resources expended in undertaking certain activities requested of staff by market participants. Under this fee model, the Commission sets fees estimated to reflect the cost of regulation over a three-year horizon. The forecasted General Operating Surplus at March 31,

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2007

2006 was used to establish a reduced level of participation fees for the three-year cycle which began April 1, 2006.

Details of fees received for the year ended March 31, 2007 are as follows:

	<u>2007</u>	<u>2006</u>
Participation Fees	\$ 54,813,878	\$ 65,758,682
Activity Fees	10,731,993	12,126,591
Late Filing Fees	2,238,132	2,092,520
Total	<u>\$ 67,784,003</u>	<u>\$ 79,977,793</u>

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, 2007 and 2006 and for the two years ended March 31, 2007 are as follows:

INVESTOR EDUCATION FUND

	2007	2006
Financial Position		
Total assets	<u>\$2,535,910</u>	<u>\$4,095,205</u>
Total liabilities	<u>355,542</u>	<u>276,959</u>
Invested in capital assets	<u>1,617,925</u>	<u>788,002</u>
Available for Fund purposes	<u>562,443</u>	<u>3,030,244</u>
Total net assets	<u>2,180,368</u>	<u>3,818,246</u>
	<u>\$2,535,910</u>	<u>\$4,095,205</u>
Results of Operations		
Total interest income	\$97,277	\$120,886
Total expenses	<u>1,735,155</u>	<u>1,834,640</u>
Deficiency of revenue over expenses	<u>(\$1,637,878)</u>	<u>(\$1,713,754)</u>

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2007

Cash flows

Cash flows from operating activities		
Investment income received	\$104,415	\$119,996
Cash paid for initiatives and expenses	(1,393,492)	(1,416,093)
Cash paid for capital purchases	(1,123,266)	(342,871)
Net decrease in cash position	(2,412,343)	(1,638,968)
Cash position, beginning of period	3,296,294	4,935,262
Cash position, end of period	<u>\$883,951</u>	<u>\$3,296,294</u>

- b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:
- i) The Board of the Commission authorizes transfers of the Funds Held Pursuant to Designated Settlements and Orders to the Fund in accordance with the Minister's approval and its own authority under the *Securities Act*. In 2007, the Board of the Commission did not authorize any such transfers to the Fund (2006- \$0).
 - 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, 2007, the Commission incurred costs totalling \$565,788 (2006 - \$553,162) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, \$103,327 is owing to the Commission as of March 31, 2007 (2006 - \$128,234).

10. COMMITMENTS AND CONTINGENCIES

- a) The Commission has committed to paying 45.1% of annual shortfalls resulting from the operations of SEDAR, where SEDAR operating costs exceed revenues. SEDAR is an electronic filing and payment system jointly used by the members of the Canadian Securities Administrators (CSA) for the transmission, receipt, acceptance, review and dissemination of documents filed in an electronic format. The system is operated by an external agency on behalf of the CSA under an agreement signed on August 1, 2004. The Alberta Securities Commission, the British Columbia Securities Commission and L'Autorité des marchés financiers have also committed to paying a specified percentage of any annual SEDAR deficit.

In the current year, there were no SEDAR deficits. As described in Note 4, the Commission is holding funds in trust that may be used to offset shortfalls in revenue in SEDAR, SEDI, and NRD. As at March 31, 2007, \$12,485,730 (2006 - \$8,865,176) of the total funds held in trust are available for SEDAR.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2007

- b) The Commission is involved in various legal actions arising from the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time, however Management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on the Commission's financial position.

11. RECOVERY OF COSTS OF INVESTIGATIONS

In 2007, the Commission applied \$185,000 (2006 - \$417,327) in recoveries of the costs of investigations against salaries and benefits and \$34,911 (2006 - \$684,173) against professional services.

12. LEASE OBLIGATIONS**a) Operating**

The Commission is committed to operating lease payments as follows:

2008	-	\$ 4,878,084
2009	-	\$ 4,922,695
2010	-	\$ 4,952,214
2011	-	\$ 4,989,674
2012	-	\$ 4,966,340
Thereafter	-	\$ 2,067,607

b) Capital

The Commission has entered into capital lease agreements for computer equipment. Leases that substantially transfer all of the benefits and risks of ownership of property to the Commission, or otherwise meet the criteria for capitalizing a lease under Canadian generally accepted accounting principles, are accounted for as capital leases. An asset is recorded at the time the capital lease is entered into, together with its related obligation to reflect its purchase and financing. Computer equipment recorded under capital leases is amortized on the same basis as computer hardware and related applications as described in note 2(b). The total interest expense recorded on the lease obligations for the year ended March 31, 2007 is \$22,581 (2006 - \$6,135). The following is a schedule of future minimum lease payments for the capital leases, which expire on or before February 28, 2010 :

Year Ending March 31,	
2008	\$ 218,492
2009	207,235
2010	49,707
Total minimum lease payments	475,434
Less: Amount representing interest at 6%	30,654
Balance of the obligation	<u>\$444,780</u>

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2007

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 fee model as described in note 8 and the Commission's practice of setting fees in three-year cycles, the Commission is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the Commission are subject to appropriate terms and conditions to be agreed with the Ministry.
- b) The Commission has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.
- c) Costs of post-retirement non-pension employee benefits are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus.

14. COMPARATIVE FIGURES

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

Ontario Tourism Marketing Partnership Corporation

Management Report

The accompanying financial statements are the responsibility of the management of the Ontario Tourism Marketing Partnership Corporation. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting policies. The statements include certain amount 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.

Management 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 Corporation's assets are properly accounted for and adequately safeguarded.

The financial statements have been audited by BDO Dunwoody LLP, a firm of independent external auditors appointed by the Board of Director, whose report follows.



Nancy Rowland
Director, Corporate Services
May 11, 2007



Lidia Maleckyj
Treasurer
May 11, 2007



BDO Dunwoody LLP
Chartered Accountants
and Advisors

1 City Centre Drive Suite 1700
Mississauga Ontario Canada L5B 1M2
Telephone: (905) 270-7700
Fax: (905) 270-7915
Toll Free: 1-866-248-6660

www.bdo.ca

Auditors' Report

To the Board of Directors of
Ontario Tourism Marketing Partnership Corporation

We have audited the balance sheet of Ontario Tourism Marketing Partnership Corporation as at March 31, 2007 and the statements of operations and accumulated surplus 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 the 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants, Licensed Public Accountants

Mississauga, Ontario
May 11, 2007

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Balance Sheet

March 31	2007 (\$ 000)	2006 (\$ 000)
ASSETS		
Current		
Cash and cash equivalents	10,974	19,006
Accounts receivable	1,578	1,651
Due from the province	1,229	588
Prepaid expenses	1,189	717
	<u>14,970</u>	<u>21,962</u>
Loan receivable (Note 3)	-	3,087
Capital assets (Note 4)	<u>1,085</u>	<u>1,701</u>
	16,055	26,750
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities	5,575	9,899
Deferred revenue (Note 5)	1,975	2,114
	<u>7,550</u>	<u>12,013</u>
Deferred revenue (Note 5)	-	3,000
Equity		
Accumulated Surplus	<u>8,505</u>	<u>11,737</u>
	16,055	26,750

Approved on behalf of the Board:

Chair

Director

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION**Statement of Operations and Accumulated Surplus**

For the year ended March 31	2007 (\$ 000)	2006 (\$ 000)
Revenues		
Province of Ontario Grant (Note 6)	58,658	55,686
Advertising sales	3,236	3,679
Travel Information Centres- Sales and rentals	1,042	963
Interest income	387	410
Trade promotions	344	380
Government of Canada	115	128
Marketing research and other revenue	227	35
	64,009	61,281
Expenses		
Advertising and sales promotion	39,374	32,307
Trade development	5,503	5,804
Travel Information Centres (Note 7)	5,901	5,577
Administration (Note 8)	6,155	5,351
Tourism consumer information services	4,891	3,774
Events marketing program	3,065	2,993
Research	1,151	1,197
Amortization of capital assets	1,061	1,014
Board and committee expenses (Note 9)	140	112
	67,241	58,129
Excess (deficiency) of revenues over expenses	(3,232)	3,152
Accumulated surplus, beginning of year	11,737	8,585
Accumulated surplus, end of year	8,505	11,737

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Statement of Cash Flows

For the year ended March 31	2007 (\$ 000)	2006 (\$ 000)
Cash provided by operating activities		
Excess (deficiency) of revenues over expenses	(3,232)	3,152
Add (deduct) non-cash items:		
Amortization of capital assets	1,061	1,014
	(2,171)	4,166
Change in non-cash working capital	(8,503)	(5,597)
	(10,674)	(1,431)
Cash used in investing and financing activities		
Loan receivable	3,087	(3,087)
Capital asset additions	(445)	-
Lease obligations	-	(17)
	2,642	(3,104)
Increase (decrease) in cash during the year	(8,032)	(4,535)
Cash and cash equivalents, beginning of year	19,006	23,541
Cash and cash equivalents, end of year	10,974	19,006

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION**Notes to Financial Statements****March 31, 2007**

1. NATURE OF CORPORATION

The Ontario Tourism Marketing Partnership Corporation (OTMPC) was established as a corporation without share capital on November 30, 1998 pursuant to Ontario Regulation 618/98 made under the *Development Corporations Act*. The Corporation commenced active operations on April 1, 1999. The objects of the Ontario Tourism Marketing Partnership Corporation are:

- (a) to market Ontario as a travel destination;
- (b) to undertake joint marketing initiatives with the tourism industry;
- (c) to support and assist the marketing efforts of the tourism industry; and
- (d) in co-operation with the tourism industry, the Government of Ontario, other governments and other agencies of governments, to promote Ontario as a travel destination.

The Corporation enters into agreements with private and public sector partners in order to add value to tourism marketing programs. The Corporation tracks the dollar value (leverage, in-kind) of such agreements to demonstrate the impact of the Corporation's investment on the partnered marketing programs. Partner revenues and expenses are not included in the Corporation's financial statements.

In accordance with the Regulation, as amended by Ontario Regulation 271/04, the mandate of the Corporation has been extended indefinitely.

The Corporation is a not-for-profit organization, and thus not subject to income tax.

2. SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of Accounting**

The financial statements are the representations of management and are prepared in accordance with Canadian generally accepted accounting principles.

(b) Revenue Recognition*Province of Ontario Grant*

The Corporation is funded primarily by the Province of Ontario. Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant is related to a future period, it is deferred and recognized in a subsequent period.

Advertising Sales and Travel Information Centers – Sales and rentals

Revenue from Advertising sales and Travel Information Centers – Sales and rentals is recognized in the period in which the service is provided or the program is run, the amount can be reasonably estimated and collection is reasonably assured.

Interest Income

Interest Income is recognized in the period in which it is earned.

Other

Other revenue items are recognized in the period in which they relate, when the amount can be reasonably estimated and collection is reasonably assured.

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION**Notes to Financial Statements****March 31, 2007**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**(c) Donated Services**

The Corporation benefits from services provided by the tourism industry, such as transportation costs (airline and bus tickets), and accommodation and meal costs (discounted or free hotel rooms and restaurant charges). Because of the difficulty of determining their fair value, donated services are not recognized in the financial statements.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of bank balances and term deposits that are readily convertible into cash with original maturity dates of less than ninety days.

(e) Capital Assets

All capital assets are recorded at cost except for contributed capital assets which are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful life of the asset, with half a year amortization taken in the year of acquisition and disposition. All capital assets are amortized over three to five years.

(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 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 as additional information becomes available in the future.

(g) Financial Instruments

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

3. LOAN RECEIVABLE

The loan receivable in the amount of \$3,000,000 plus interest was due from LOTR Toronto Management Corp. relating to the stage production of Lord of the Rings. The loan was originally funded from the 2004/2005 Revitalization budget. During the year, the production was closed and, as a result, the loan was expensed as unrecoverable.

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2007

4. CAPITAL ASSETS

	2007 (\$ 000)			2006 (\$ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture	279	271	8	13
Leasehold improvements	432	423	9	16
Tourism consumer information system	4,451	3,443	1,008	1,493
Assets under Capital Lease	589	529	60	179
	5,751	4,666	1,085	1,701

5. DEFERRED REVENUE

	2007 (\$ 000)	2006 (\$ 000)
Cultural Tourism Strategy- Province of Ontario	-	1,981
Revitalization Program –Province of Ontario	-	3,000
Brand Essence Program	1,787	-
Advertising programs	188	133
	1,975	5,114
Less: Current Portion	(1,975)	(2,114)
	0	3,000

6. REVENUE: PROVINCE OF ONTARIO

The Corporation received funding from the Province as follows:

	2007 (\$ 000)	2006 (\$ 000)
Core funding	39,176	40,678
Brand Essence Program	9,613	-
Travel Information Centres	4,166	4,200
Deferred from 2005/2006	4,981	9,889
Summer Experience Program	275	276
Northern Ontario Heritage Fund	410	342
Miscellaneous Advertising	37	-
Tourism Strategy	-	65
Innovation Fund	-	236
	58,658	55,686

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2007

7. TRAVEL INFORMATION CENTRES

Effective April 1, 2005, the Management Board of Cabinet approved the transfer of the 18 Ontario Travel Information Centres from the Ministry of Tourism to the Corporation. To cover the cost of assuming these responsibilities, the Management Board of Cabinet also approved an increase in the Corporation's revenue from the Province of Ontario by \$4.2 million.

The expenditures for the Travel Information Centres are as follows:

	2007 (\$ 000)	2006 (\$ 000)
Salaries and benefits	3,159	3,094
Accommodation	1,700	1,620
Services	593	515
Transportation and communications	118	152
Supplies and equipment	70	108
Merchandise for sale	261	88
	<u>5,901</u>	<u>5,577</u>

The Corporation's contributions related to the PSPF and OPSEU pension funds for the year were \$125,663 (2006 - \$128,606) and are included in salaries and benefits.

8. ADMINISTRATIVE EXPENSES

Certain costs of administration such as legal and human resources support services, were provided by the Ministry of Tourism without charge. All other administrative expenses are borne by the Corporation and are as follows:

	2007 (\$ 000)	2006 (\$ 000)
Salaries and benefits	5,003	4,402
Services	719	583
Transportation and communications	285	275
Supplies and equipment	148	91
	<u>6,155</u>	<u>5,351</u>

The Corporation 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) which are both multi-employer defined benefit pension plans established by the Province. These plans are accounted for as defined contribution plans, as the Corporation has insufficient information to apply defined benefit plan accounting to these pension plans. The Corporation's contributions related to the PSPF and OPSEU Pension Fund for the year were \$267,711 (2006 - \$229,409) and are included in salaries and benefits.

Costs of post-retirement non-pension employee benefits are paid by the Management Board Secretariat and are not included in administrative expenses.

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2007

9. BOARD AND COMMITTEE EXPENSES

Board and committee members are reimbursed for travel expenses incurred to attend board of directors and related committee meetings. Board and committee members do not receive per diems to attend board and committee meetings

10. SALARY DISCLOSURE

Section 3(5) of the Public Sector Salary Disclosure Act, 1996 required disclosure of Ontario public-sector employees who were paid an annual salary in excess of \$100,000. For the Corporation, in the calendar year 2006, this disclosure requirement is as follows:

Name	Position	Salary (\$)	Taxable Benefits (\$)
McInnis, Sandra	CEO/President	\$148,805	\$263
Kenny, William	Vice President, Industry Relations & Corp. Comm.	\$113,477	\$201
Garrett, Robin	CEO/President	\$150,046	\$261

11. COMMITMENTS

The corporation has various operating leases for its premises. The minimum annual lease payments for the next five years are as follows:

	(\$ 000)
2008	301
2009	227
2010	151
2011	140
2012	140

12. CONTINGENT LIABILITY

The Corporation is involved in a dispute with a former supplier over amounts billed to the Corporation of approximately \$1.5 million. The outcome is not determinable.

13. COMPARATIVE AMOUNTS

The comparative amounts presented in the financial statements have been restated to conform to the current year's 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.

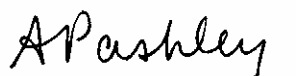
Management maintains a system of internal controls designed to provide reasonable assurance that financial information is accurate and that assets are protected.

The Board of Directors ensures that management fulfils its responsibilities for financial reporting and internal control. The Finance & Audit 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



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, 2007 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, 2007 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.

A handwritten signature in black ink that reads 'KPMG LLP' with a long horizontal line underneath.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

April 27, 2007

ONTARIO TRILLIUM FOUNDATION

Statement of Financial Position

March 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Cash	\$ 921,310	\$ 999,297
Accrued interest and other	3,383,625	2,040,955
Investments (note 2)	98,435,000	99,306,439
Capital assets, net (note 3)	500,241	587,879
	<u>\$ 103,240,176</u>	<u>\$ 102,934,570</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued liabilities	\$ 635,018	\$ 641,953
Deferred contributions (note 4(a))	3,675,804	2,951,558
Grants payable (note 4(b))	96,357,312	96,769,017
	<u>100,668,134</u>	<u>100,362,528</u>

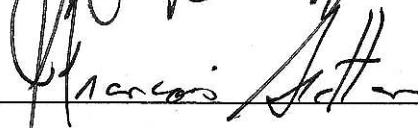
Net assets:

Invested in capital assets	500,241	587,879
Unrestricted	2,071,801	1,984,163
	<u>2,572,042</u>	<u>2,572,042</u>

	<u>\$ 103,240,176</u>	<u>\$ 102,934,570</u>

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, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Ontario government funding (note 4(a))	\$ 99,275,754	\$ 100,816,575
Grants rescinded or recovered	1,836,931	1,502,849
Investment income	6,119,643	4,156,944
	107,232,328	106,476,368
Expenses:		
Program activities:		
Grants pledged (note 4)	95,762,400	94,968,100
Grantmaking expenses	9,740,918	9,816,158
Non-grant community services (note 5)	235,437	228,364
	105,738,755	105,012,622
Support services	1,072,339	1,097,198
Amortization	421,234	366,548
	107,232,328	106,476,368
Excess of revenue over expenses	\$ —	\$ —

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2007, with comparative figures for 2006

			2007	2006
	Invested in capital assets	Unrestricted	Total	Total
Net assets, beginning of year	\$ 587,879	\$ 1,984,163	\$ 2,572,042	\$ 2,572,042
Excess (deficiency) of revenue over expenses	(423,367)	423,367	—	—
Purchase of capital assets	335,729	(335,729)	—	—
Net assets, end of year	\$ 500,241	\$ 2,071,801	\$ 2,572,042	\$ 2,572,042

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Statement of Cash Flows

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operating activities:		
Amortization of capital assets which does not involve cash	\$ 421,234	\$ 366,548
Loss on disposal of capital assets	2,133	—
Change in non-cash operating items	(1,037,064)	(5,284,273)
	(613,697)	(4,917,725)
Investing activities:		
Net decrease in investments	871,439	5,405,182
Purchase of capital assets	(335,729)	(281,335)
	535,710	5,123,847
Increase (decrease) in cash	(77,987)	206,122
Cash, beginning of year	999,297	793,175
Cash, end of year	\$ 921,310	\$ 999,297

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements

Year ended March 31, 2007

The Ontario Trillium Foundation (the "Foundation" or "OTF"), an agency of the Ministry of Culture (the "Ministry"), is financially supported by the Ontario government. 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 Foundation 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, 2007

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:

	2007	2006
Treasury bills	\$ 98,435,000	\$ 99,076,396
Bankers' acceptances	—	230,043
	<u>\$ 98,435,000</u>	<u>\$ 99,306,439</u>

The market value of investments approximates cost.

The treasury bills and bankers' acceptances are due within the next four months and bear interest from 4.12% to 4.50% (2006 - 2.96% to 4.05%).

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2007

3. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and fixtures	\$ 740,007	\$ 621,496	\$ 118,511	\$ 72,647
Computer hardware	1,035,343	797,166	238,177	277,626
Computer software	382,585	322,318	60,267	22,968
Leasehold improvements	1,216,378	1,133,092	83,286	214,638
	\$ 3,374,313	\$ 2,874,072	\$ 500,241	\$ 587,879

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:

	2007	2006
Deferred contributions, beginning of year	\$ 2,951,558	\$ 3,768,133
Activities during the year:		
Funding received	100,000,000	100,000,000
Investment income recorded as revenue	6,119,643	4,156,944
Grants pledged	(95,762,400)	(94,968,100)
Grantmaking expenses	(9,740,918)	(9,816,158)
Support services and amortization	(1,493,573)	(1,463,746)
Non-grant community services	(235,437)	(228,364)
Grants rescinded or recovered related to grants approved after March 31, 1999	1,836,931	1,502,849
Amounts recognized as Ontario government funding	(99,275,754)	(100,816,575)
Deferred contributions, end of year	\$ 3,675,804	\$ 2,951,558

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2007

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:

	2007	2006
Grants pledged - Community and Province-Wide grants programs	\$ 95,762,400	\$ 94,968,100
Grants rescinded	(1,347,200)	(1,066,500)
Grants paid	(94,826,905)	(97,416,250)
	(411,705)	(3,514,650)
Grants payable, beginning of year	96,769,017	100,283,667
Grants payable, end of year	\$ 96,357,312	\$ 96,769,017

Grants are payable to various organizations in the fiscal years ending March 31 as follows:

2008	\$ 66,007,812
2009	23,980,300
2010	5,543,500
2011	697,600
2012	128,100
	\$ 96,357,312

5. Non-grant community services:

Non-grant community services 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, 2007

6. Commitments:

Future minimum annual rental payments for premises under operating leases are as follows:

2008	\$ 364,000
2009	77,000
2010	34,000
2011	2,000
	\$ 477,000

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.

OTF's lease for its Toronto head office premises expires in February 2008. A commitment for future lease space will be negotiated prior to that time.

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.



100 Queen's Park 416.586.8000
Toronto, Ontario www.rom.on.ca
Canada M5S 2C6

ROYAL ONTARIO MUSEUM

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Royal Ontario Museum for the year ending March 31, 2007 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 May 25, 2007.

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,

A handwritten signature in black ink, appearing to read "W.T. Graesser", positioned above a horizontal line.

W.T. Graesser,
Executive Director, Finance

A handwritten signature in black ink, appearing to read "Meg Beckel", positioned above a horizontal line.

Meg Beckel,
Chief Operating Officer

AUDITORS' REPORT

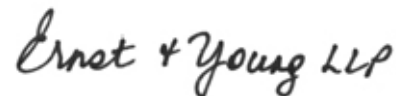
To the Trustees of
The Royal Ontario Museum

We have audited the balance sheet of **The Royal Ontario Museum** as at March 31, 2007 and the statements of operations and changes in net deficit 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 March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
July 11, 2007.



Chartered Accountants
Licensed Public Accountants

The Royal Ontario Museum

Incorporated by Special Act of the Ontario Legislature as a corporation without share capital

BALANCE SHEET

As at March 31

	2007 \$	2006 \$
	[000's]	
ASSETS [note 14]		
Current		
Due from The Royal Ontario Museum Foundation [note 12]	1,089	855
Other accounts receivable	4,298	2,025
Inventories	115	94
Deferred exhibition costs and other assets	1,930	999
Total current assets	7,432	3,973
Deferred pension costs [note 13]	4,233	2,043
Capital assets, net [note 4]	241,741	194,521
Other assets	1,114	1,387
	254,520	201,924
LIABILITIES AND NET DEFICIT		
Current		
Bank indebtedness [note 14[a]]	4,690	2,208
Accounts payable and accrued liabilities	27,784	26,318
Deferred contributions [note 6]	3,091	2,875
Total current liabilities	35,565	31,401
Long-term debt [note 14[b]]	58,736	40,745
Deferred capital contributions [note 7]	165,791	130,479
Accrued non-pension liability [note 13]	2,937	2,502
Total liabilities	263,029	205,127
Net deficit [note 8]	(8,509)	(3,203)
	254,520	201,924

See accompanying notes

The Royal Ontario Museum

STATEMENT OF OPERATIONS AND
CHANGES IN NET DEFICIT

	Year ended March 31, 2007 \$	Nine-month period ended March 31, 2006 \$
		[000's]
REVENUES		
Grants <i>[note 9]</i>	24,599	18,658
Admission fees	3,117	2,223
Museum programs	1,765	1,241
Ancillary services	5,319	2,077
Investment income	87	39
Donations - Gifts in kind <i>[note 5]</i>	978	1,184
Amortization of deferred capital contributions <i>[note 7]</i>	3,421	2,456
Other	1,844	812
	41,130	28,690
EXPENSES <i>[note 10]</i>		
Curatorial and collections management	10,812	7,838
Building, security and visitor services	8,571	5,689
Ancillary services	4,671	1,858
General and administration	2,940	2,879
Education and public programs	2,621	1,763
Library and information services	2,673	1,794
Exhibition and gallery development	2,024	1,412
Marketing and public relations	2,285	1,590
Temporary exhibitions	2,607	1,619
Artifacts and specimens <i>[note 5]</i>		
Gifts in kind	978	1,184
Purchased	2,328	1,556
Amortization of capital assets	3,685	2,552
Other	241	111
	46,436	31,845
Deficiency of revenues over expenses for the period	(5,306)	(3,155)
Net deficit, beginning of period	(3,203)	(48)
Net deficit, end of period <i>[note 8]</i>	(8,509)	(3,203)

See accompanying notes

The Royal Ontario Museum

STATEMENT OF CASH FLOWS

	Year ended March 31, 2007 \$	Nine-month period ended March 31, 2006 \$
	[000's]	
OPERATING ACTIVITIES		
Deficiency of revenues over expenses for the period	(5,306)	(3,155)
Add (deduct) non-cash items		
Amortization of capital assets	3,685	2,552
Amortization of deferred capital contributions	(3,421)	(2,456)
Deferred capital contributions recognized as other revenue	(622)	(111)
	(5,664)	(3,170)
Changes in non-cash working capital balances related to operations		
Due from The Royal Ontario Museum Foundation	(234)	(993)
Other accounts receivable	(967)	(114)
Inventories	(21)	26
Deferred exhibition costs and other assets	(931)	31
Accounts payable and accrued liabilities	2,542	1,144
Deferred contributions	216	(3,160)
Net change in deferred pension costs	(2,190)	(341)
Net change in accrued non-pension liability	435	341
Cash used in operating activities	(6,814)	(6,236)
INVESTING AND FINANCING ACTIVITIES		
Purchase of capital assets, net of increase in other accounts receivable, and accounts payable and accrued liabilities related to construction in progress	(53,287)	(42,610)
Advances on long-term debt	17,991	13,201
Increase (decrease) in bank indebtedness	2,482	(209)
Decrease (increase) in other assets	273	(146)
Contributions received for capital asset purchases	39,355	36,000
Cash provided by investing and financing activities	6,814	6,236
Net change in cash during the period	—	—
Cash, beginning of period	—	—
Cash, end of period	—	—

See accompanying notes

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2007

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.

The Museum's fiscal year end was changed from June 30 to March 31 effective March 31, 2006. As a result of this change, the 2006 comparative financial statements include results for a nine-month period and the 2007 financial statements include results for a year.

2. RENAISSANCE ROM PROJECT

The Board of Trustees has approved Phase I of the Renaissance ROM Project. The project will be completed in two phases with a total estimated cost of \$246,000,000 before financing and fundraising costs. Phase I, with a total cost of \$224,800,000, is planned to be substantially completed in June 2007. Phase II will cost an additional \$21,200,000 and is scheduled to be completed as additional funding becomes available. The total project involves the restoration of the original buildings as well as the construction of 40,000 square feet of new gallery spaces. The Renaissance ROM Project will permanently alter the Museum's economic base and is expected to provide additional annual market income to sustain excellence across the board.

Funding for this project is coming from the public and private sectors. As at March 31, 2007, the Museum has received commitments from the federal and provincial governments of \$72,000,000 and from the private sector of \$123,000,000. The balance is expected to be funded through additional government grants, the development of 90 Queen's Park and the ongoing fundraising campaign being carried out by The Royal Ontario Museum Foundation [the "Foundation"] [note 12]. As of March 31, 2007, the Museum has invested \$213,708,000 [2006 - \$164,241,000] in the project, which is included in capital assets on the balance sheet [note 4].

As at March 31, 2007, the Museum has entered into contracts with a total outstanding value of approximately \$20,765,000 [2006 - \$33,400,000] for capital asset additions.

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2007

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 is 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 period 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.

Admission fees, museum programs and ancillary services revenue is recorded as revenue when the services have been provided or the goods delivered.

Derivative financial instruments

Derivative financial instruments are contracts that provide the opportunity to exchange cash flows that are determined by applying certain rates, indices or changes to notional contract amounts. The Museum uses interest rate swaps to manage exposure to fluctuations in interest rates and forward foreign currency contracts to manage exposure to fluctuations in exchange rates. These instruments are used for hedging an on-balance sheet liability or a future contractual obligation.

Hedges are documented at inception detailing the particular risk management objective and strategy for undertaking the hedge transaction. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at the inception and over the life of the hedge in order to qualify for hedge accounting. Changes in the fair value of derivative instruments that qualify for hedge accounting are not recorded in the financial statements. When derivatives are not determined to be highly effective hedges, cease to exist or cease to be effective prior to maturity, any gains or losses during the period are recorded in the statement of operations and changes in net deficit.

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2007

Inventories

Inventories, which consist mainly of supplies, are stated at the lower of average cost and net realizable value.

Deferred exhibition costs

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 healthcare 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.

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

Construction in progress comprises direct construction and other costs associated with the Renaissance ROM Project including capitalized interest. Interest costs are capitalized during the construction period. No amortization is recorded until construction is substantially complete and the assets are ready for use.

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2007

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at period end. Revenues and expenses are translated at exchange rates in effect on the date of the transaction.

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 revenues 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.

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

4. CAPITAL ASSETS

[a] Capital assets consist of the following:

	2007		2006	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$ [000's]	\$	\$
Land	931	—	931	—
Building	54,912	40,092	54,912	39,052
Galleries	38,228	32,489	37,771	31,210
Building improvements	17,359	11,549	17,028	11,021
Renaissance ROM Project <i>[note 2]</i>				
Construction in progress	202,386	—	153,769	—
Galleries	11,322	1,092	10,472	524
Furniture and equipment	3,570	1,745	3,032	1,587
	328,708	86,967	277,915	83,394
Less accumulated amortization	86,967		83,394	
Net book value	241,741		194,521	

During the year ended March 31, 2007, interest of \$2,663,000 [nine-month period ended March 31, 2006 - \$1,234,000] was capitalized in the Renaissance ROM Project.

[b] The change in net book value of capital assets is due to the following:

	Year ended March 31, 2007 \$	Nine-month period ended March 31, 2006 \$
	[000's]	
Balance, beginning of period	194,521	147,153
Purchase of capital assets funded by restricted capital contributions	34,140	28,920
Purchase of capital assets funded by bank indebtedness, long-term debt, or accounts payable and accrued liabilities	16,115	20,302
Purchase of capital assets funded internally	650	698
Amortization of capital assets	(3,685)	(2,552)
Balance, end of period	241,741	194,521

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

5. ARTIFACTS AND SPECIMENS

As at March 31, 2007, the collection consisted of approximately 6,000,000 artifacts and specimens. During the year ended March 31, 2007, the Museum accessioned approximately 2,000 objects to its collections through the donation and purchase of artifacts.

6. DEFERRED CONTRIBUTIONS

Deferred contributions represent grants from federal and provincial governments, corporations and the Foundation [note 12] related primarily to next year's operations.

7. 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 deferred capital contributions is recorded as revenue in the statement of operations and changes in net deficit. The changes in the deferred capital contributions balance are as follows:

	Year ended March 31, 2007 \$	Nine-month period ended March 31, 2006 [000's] \$
Balance, beginning of period	130,479	97,046
Amortization of deferred capital contributions	(3,421)	(2,456)
Deferred capital contributions recognized as other revenue	(622)	(111)
Restricted contributions received related to prior year capital asset purchases	367	4,172
Other restricted contributions received for capital asset purchases [note 12]	38,988	31,828
Balance, end of period	165,791	130,479

As at March 31, 2007, deferred capital contributions of \$7,900,000 [2006 - \$3,674,000] were received but not spent.

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

8. NET DEFICIT

Changes in the components of net deficit are as follows:

	Year ended March 31, 2007				Nine-month period ended March 31, 2006
	Operating deficit	Board restricted	Invested in capital assets	Total	Total
	\$	\$	\$	\$	[000's] \$
Balance, beginning of period	(6,667)	728	2,736	(3,203)	(48)
Excess (deficiency) of revenues over expenses for the period	(5,548)	242	—	(5,306)	(3,155)
Net change in invested in capital assets	(20)	—	20	—	—
Balance, end of period	(12,235)	970	2,756	(8,509)	(3,203)

9. GRANTS

Grants consist of the following:

	Year ended March 31, 2007	Nine-month period ended March 31, 2006
	\$	[000's] \$
Province of Ontario		
Operating	18,518	13,851
Other	617	522
Government of Canada	322	404
The Royal Ontario Museum Foundation [note 12]	5,142	3,881
	24,599	18,658

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

10. EXPENSES

Expenses are reported in the statement of operations and changes in net deficit on a functional basis. Expenses by category are as follows:

	Year ended March 31, 2007 \$	Nine-month period ended March 31, 2006 [000's] \$
Salaries and benefits <i>[note 13]</i>	24,052	18,259
Purchased goods and services	17,721	9,850
Amortization of capital assets	3,685	2,552
Gifts in kind	978	1,184
	46,436	31,845

11. MUSEUM VOLUNTEERS

During a typical year, Museum volunteers contribute approximately 65,000 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 \$2,000,000 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, 2006, Museum volunteers contributed \$60,000 to the Foundation for acquisition and research projects at the Museum. A contribution of \$60,000 is expected to be approved in June 2007 for the same purposes. The ROM Reproductions Association contributed \$150,000 during the year ended June 30, 2006 to the Foundation for the purchase of artifacts and specimens. A contribution of \$100,000 is expected to be received by the Foundation in June 2007 for the same purposes.

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2007

12. 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. The fund balances of the Foundation as at its most recent fiscal year end are as follows:

	June 30, 2006
	\$
	[000's]
Unrestricted funds	167
Restricted funds	
Available currently	6,948
	7,115
Endowment funds	
Externally restricted	8,947
Internally restricted	12,192
	21,139
	28,254

During the year ended March 31, 2007, the Foundation granted \$31,910,000 [nine-month period ended March 31, 2006 - \$19,358,000] to the Museum. Of this amount, \$3,574,000 [nine-month period ended March 31, 2006 - \$1,757,000] was recorded as grant revenue [note 9], \$25,818,000 [nine-month period ended March 31, 2006 - \$15,728,000] was recorded as an increase in deferred capital contributions in connection with the Renaissance ROM Project [note 7], \$904,000 [nine-month period ended March 31, 2006 - \$304,000] was recorded as other deferred capital contributions [note 7] and \$1,614,000 [nine-month period ended March 31, 2006 - \$1,569,000] was recorded as deferred contributions.

Amounts due to/from the Foundation are non-interest bearing and have no fixed terms of repayment.

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

13. EMPLOYEE BENEFITS

The Museum has a defined benefit registered pension plan and other defined 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:

	Year ended March 31, 2007 \$	Nine-month period ended March 31, 2006 [000's] \$
Defined benefit plan	2,253	2,063
Other post-employment benefits	553	424
	2,806	2,487

The assets and liabilities of the plans are measured at the balance sheet date. 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 as at March 31 is as follows:

	Pension		Non-pension	
	2007 \$	2006 \$	2007 \$	2006 \$
Accrued liabilities	66,693	63,406	5,028	4,778
Market value of plan assets	57,824	51,345	—	—
Deficit	(8,869)	(12,061)	(5,028)	(4,778)
Unamortized transitional obligation (asset)	(3,938)	(4,515)	1,707	1,892
Unrecognized past service costs	(2,950)	(3,350)	—	—
Unrecognized net actuarial loss	19,990	21,969	384	384
Balance sheet asset (liability)	4,233	2,043	(2,937)	(2,502)

Included in the balance sheet asset related to the defined benefit pension plan is a deficit of \$875,000 [2006 - \$561,105] in connection with a supplementary pension plan.

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

The significant actuarial assumptions adopted to determine the expense for the Museum's benefit plans as at March 31 are as follows:

	Pension		Non-pension	
	2007	2006	2007	2006
	%	%	%	%
Discount rate	5.25	5.25	5.25	5.25
Expected long-term rate of return on plan assets	7.00	7.00	—	—
Rate of compensation increase	3.50	3.00	—	—
Rate of increase in pensions	—	—	—	—

The significant actuarial assumptions adopted in measuring the liabilities of the Museum's benefit plans as at March 31 are as follows:

	Pension		Non-pension	
	2007	2006	2007	2006
	%	%	%	%
Discount rate	5.25	5.25	5.25	5.25
Rate of compensation increase	3.50	3.50	—	—
Rate of increase in pensions	—	—	—	—

For measurement purposes as at March 31, 2007, an initial weighted average increase in the cost of healthcare and dental benefits of 6.49% in 2007 was assumed with an ultimate 4.50% annual rate of increase after 2016.

The Museum's pension plan assets are invested in pooled funds that provide the following asset mix:

	2007	2006
	%	%
Cash and cash equivalents	5	4
Bonds	32	34
Canadian equities	33	34
U.S. equities	16	15
Other foreign equities	14	13
	100	100

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

Other information about the Museum's pension and non-pension plans is as follows:

	Pension		Non-pension	
	Year ended	Nine-month	Year ended	Nine-month
	March 31,	period ended	March 31,	period ended
	2007	March 31,	2007	March 31,
	2007	2006	2007	2006
	\$	\$ [000's]	\$	\$
Employee contributions	652	821	—	—
Employer contributions	4,444	2,404	118	83
Benefits paid	2,829	2,120	118	83

The most recent actuarial valuation of the registered pension plan for funding purposes was as of January 1, 2006 and the next required valuation is as of January 1, 2007.

14. CREDIT FACILITIES

On October 16, 2006, the Museum signed a revised credit agreement that increased the maximum borrowings to \$100,350,000 as follows:

- [a] The Museum has a demand revolving operating credit facility of \$5,000,000 [2006 - \$3,000,000] with interest payable at prime less 10 basis points. As at March 31, 2007, there was \$4,690,000 [2006 - \$2,208,000] outstanding in connection with this facility.
- [b] The Museum has a revolving reducing instalment term loan facility [the "Loan"] of \$85,000,000 to assist with the financing of Phase I of the Renaissance ROM Project and \$8,000,000 to assist with the financing of Phase II. Interest is payable at the bankers' acceptance rate plus 100 basis points. Principal repayments are to begin on December 31, 2007 or the last day of the first fiscal quarter following the substantial completion of Phase I, if earlier. Minimum quarterly repayments are to be equal to the amount required to repay the outstanding balance in full by March 31, 2011. Further repayments are required in certain circumstances. In addition, the credit agreement includes covenants which must be met by the Museum and, if not met, the bank has the right to demand repayment of the outstanding balance.

As at March 31, 2007, \$58,736,000 [2006 - \$40,745,000] of bankers' acceptances were outstanding in connection with the Loan, of which the interest on \$20,300,000 [2006 - \$20,300,000] has been fixed at 4.53% through an interest rate swap [note 15[b]].

- [c] The Museum has a letter of credit facility of \$2,000,000 [2006 - \$5,000,000]. As at March 31, 2007, there was no outstanding letter of credit [2006 - \$452,000].

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2007

- [d] The Museum has pledged substantially all of its assets as security for the credit facilities. The Foundation has provided an undertaking to transfer all of its unrestricted donations to the Museum under certain circumstances. In addition, the Museum has assigned all payments from the Foundation and the Ontario government restricted for the financing of the Renaissance ROM Project.

15. FINANCIAL INSTRUMENTS

- [a] The Museum is exposed to foreign exchange risk with respect to contractual obligations payable in foreign currency and to interest rate risk with respect to its long-term debt. The Museum enters into derivative financial instruments to manage its risk exposure.

The Museum is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect counterparties to fail to meet their obligations given their high credit rating.

- [b] The Museum has in place an Interest Rate Swap Agreement [the "Agreement"] with a notional value of \$20,000,000, designated as a hedge of a portion of the Loan, which will expire on May 2, 2008. Under the terms of the Agreement, the Museum has agreed with a counterparty to exchange, at specified intervals and for a specified period, its floating interest obligation for fixed interest [4.53%] calculated on the notional value of the Loan. The use of the swap effectively enables the Museum to convert part of the floating rate interest obligation of the Loan into a fixed rate obligation and thus manage its exposure to interest rate risk. As at March 31, 2007, the Agreement qualified as an effective hedge transaction.

As at March 31, 2007, the fair value of the interest rate swap was a gain of \$186,000 [2006 - gain of \$308,000].

- [c] The Museum has in place forward foreign currency contracts [the "Forward Contracts"] to manage foreign exchange risk on contractual obligations denominated in Euros. Under the terms of the Forward Contracts, the Museum will receive delivery of the foreign currency contracted rate of 1.4820. The use of the Forward Contracts enables the Museum to fix the exchange rate and reduce the risk of fluctuations in the rate. The Forward Contracts are marked to market.

As at March 31, 2007, the notional value of the Forward Contracts totalled \$373,000 [2006 - \$2,352,000] and the fair value was \$386,000 [2006 - \$2,396,000], resulting in a gain of \$13,000 [2006 - gain of \$44,000] recorded in the accounts.

- [d] The fair values of financial instruments approximate their carrying values unless otherwise noted.

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2007

16. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 financial statements.

The Royal Ontario Museum

Schedule

SCHEDULE OF OPERATIONS BY FUND

	Year ended March 31, 2007				Nine-month period ended March 31, 2006			
	Operating Fund \$	Restricted Fund \$	Capital Fund \$	Total \$	Operating Fund \$	Restricted Fund \$	Capital Fund \$	Total \$
[000's]								
REVENUES								
Grants	19,718	4,881	—	24,599	15,258	3,400	—	18,658
Admission fees	3,117	—	—	3,117	2,223	—	—	2,223
Museum programs	1,765	—	—	1,765	1,241	—	—	1,241
Ancillary services	5,319	—	—	5,319	2,077	—	—	2,077
Investment income	75	12	—	87	32	7	—	39
Donations - Gifts in kind	—	978	—	978	—	1,184	—	1,184
Amortization of deferred capital contributions	5	—	3,416	3,421	—	—	2,456	2,456
Other	256	966	622	1,844	234	467	111	812
	30,255	6,837	4,038	41,130	21,065	5,058	2,567	28,690
EXPENSES								
Curatorial and collections management	9,327	1,485	—	10,812	6,521	1,317	—	7,838
Building, security and visitor services	7,319	845	407	8,571	5,196	493	—	5,689
Ancillary services	4,671	—	—	4,671	1,858	—	—	1,858
General and administration	2,866	74	—	2,940	2,877	2	—	2,879
Education and public programs	2,142	479	—	2,621	1,465	298	—	1,763
Library and information services	2,293	380	—	2,673	1,538	256	—	1,794
Exhibition and gallery development	2,024	—	—	2,024	1,412	—	—	1,412
Marketing and public relations	2,285	—	—	2,285	1,590	—	—	1,590
Temporary exhibitions	2,607	—	—	2,607	1,619	—	—	1,619
Artifacts and specimens								
Gifts in kind	—	978	—	978	—	1,184	—	1,184
Purchased	—	2,328	—	2,328	—	1,556	—	1,556
Amortization of capital assets	269	—	3,416	3,685	96	—	2,456	2,552
Other	—	26	215	241	—	—	111	111
	35,803	6,595	4,038	46,436	24,172	5,106	2,567	31,845
Excess (deficiency) of revenues over expenses for the period	(5,548)	242	—	(5,306)	(3,107)	(48)	—	(3,155)
Net assets (deficit), beginning of period	(4,862)	728	931	(3,203)	(1,755)	776	931	(48)
Net assets (deficit), end of period	(10,410)	970	931	(8,509)	(4,862)	728	931	(3,203)



100 Queen's Park 416.586.8000
Toronto, Ontario www.rom.on.ca
Canada M5S 2C6

ROYAL ONTARIO MUSEUM

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Royal Ontario Museum for the year ending March 31, 2006 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 14, 2006 [except as to note 14[d], which is as of October 16, 2006].

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,

A handwritten signature in black ink, appearing to be 'W.T. Graesser', written over a horizontal line.

W.T. Graesser,
Executive Director, Finance

A handwritten signature in black ink, appearing to be 'Meg Beckel', written over a horizontal line.

Meg Beckel,
Chief Operating Officer

AUDITORS' REPORT

To the Trustees of
The Royal Ontario Museum

We have audited the balance sheet of **The Royal Ontario Museum** as at March 31, 2006 and the statements of operations and changes in net deficit and cash flows for the nine-month period 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 March 31, 2006 and the results of its operations and its cash flows for the nine-month period then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,

August 14, 2006 [except as to note 14[d],
which is as of October 16, 2006].

Ernst & Young LLP

Chartered Accountants

The Royal Ontario Museum

Incorporated by Special Act of the Ontario Legislature as a corporation without share capital

BALANCE SHEET

	As at March 31, 2006 \$	As at June 30, 2005 \$
	[000's]	
ASSETS		
Current		
Due from The Royal Ontario Museum Foundation <i>[note 12]</i>	855	—
Other accounts receivable	2,025	1,911
Inventories	94	120
Deferred exhibition costs and other assets	999	1,030
Total current assets	3,973	3,061
Deferred pension costs <i>[note 13]</i>	2,217	1,702
Capital assets, net <i>[note 4]</i>	194,521	147,153
Other assets	1,387	1,241
	202,098	153,157
LIABILITIES AND NET DEFICIT		
Current		
Bank indebtedness <i>[note 14]</i>	2,208	2,417
Accounts payable and accrued liabilities	26,492	17,864
Due to The Royal Ontario Museum Foundation <i>[note 12]</i>	—	138
Deferred contributions <i>[note 6]</i>	2,875	6,035
Total current liabilities	31,575	26,454
Long-term debt <i>[note 14]</i>	40,745	27,544
Deferred capital contributions <i>[note 7]</i>	130,479	97,046
Accrued non-pension liability <i>[note 13]</i>	2,502	2,161
Total liabilities	205,301	153,205
Net deficit <i>[note 8]</i>	(3,203)	(48)
	202,098	153,157

See accompanying notes

The Royal Ontario Museum

STATEMENT OF OPERATIONS AND
CHANGES IN NET DEFICIT

	Nine-month period ended March 31, 2006 \$	Year ended June 30, 2005 \$
	[000's]	
REVENUES		
Grants <i>[note 9]</i>	18,658	25,268
Admission fees	2,223	3,024
Museum programs	1,241	1,898
Ancillary services	2,077	4,442
Investment income	39	82
Donations - Gifts in kind <i>[note 5]</i>	1,184	790
Amortization of deferred capital contributions	2,456	2,400
Other	812	820
	28,690	38,724
EXPENSES <i>[note 10]</i>		
Curatorial and collections management	7,838	9,703
Building, security and visitor services	5,689	6,751
Ancillary services	1,858	3,605
General and administration	2,879	2,690
Education and public programs	1,763	2,545
Library and information services	1,794	2,325
Exhibition and gallery development	1,412	1,447
Marketing and public relations	1,590	1,266
Temporary exhibitions	1,619	3,540
Artifacts and specimens <i>[note 5]</i>		
Gifts in kind	1,184	790
Purchased	1,556	1,626
Amortization of capital assets	2,552	2,684
Other	111	16
	31,845	38,988
Deficiency of revenues over expenses for the period	(3,155)	(264)
Net assets (deficit), beginning of period	(48)	216
Net deficit, end of period <i>[note 8]</i>	(3,203)	(48)

See accompanying notes

The Royal Ontario Museum

STATEMENT OF CASH FLOWS

	Nine-month period ended March 31, 2006 \$	Year ended June 30, 2005 \$
	[000's]	
OPERATING ACTIVITIES		
Deficiency of revenues over expenses for the period	(3,155)	(264)
Add (deduct) non-cash items		
Amortization of capital assets	2,552	2,684
Amortization of deferred capital contributions	(2,456)	(2,400)
Deferred capital contributions recognized as revenue	(111)	—
	(3,170)	20
Changes in non-cash working capital balances related to operations		
Due to/from The Royal Ontario Museum Foundation	(993)	(1,220)
Other accounts receivable	(114)	77
Inventories	26	(12)
Deferred exhibition costs and other assets	31	34
Accounts payable and accrued liabilities	1,318	(544)
Deferred contributions	(3,160)	(160)
Net change in deferred pension costs	(515)	(758)
Net change in accrued non-pension liability	341	487
Cash used in operating activities	(6,236)	(2,076)
INVESTING AND FINANCING ACTIVITIES		
Purchase of capital assets, net of increase in accounts payable and accrued liabilities related to construction in progress	(42,610)	(51,301)
Advances on long-term debt	13,201	14,266
Increase (decrease) in bank indebtedness	(209)	1,575
Sale of investments	—	222
Increase in other assets	(146)	(266)
Contributions received for capital asset purchases	36,000	32,835
Cash provided by (used in) investing and financing activities	6,236	(2,669)
Net decrease in cash and cash equivalents during the period	—	(4,745)
Cash and cash equivalents, beginning of period	—	4,745
Cash and cash equivalents, end of period	—	—

See accompanying notes

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

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.

In November 2005, the Board of Trustees approved a change in the Museum's fiscal year end from June 30 to March 31 effective March 31, 2006. This change was subsequently approved by the Government of Ontario. As a result of this change, these financial statements include the operating results of the Museum for a nine-month transition period ended March 31, 2006.

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 \$246,000,000 before financing and fundraising costs. Phase I, with a total cost of \$224,800,000, is planned to be substantially completed in June 2007. Phase II will cost an additional \$21,200,000 and is scheduled to be completed as additional funding becomes available. The total project involves the restoration of the original buildings as well as the construction of 40,000 square feet of new gallery spaces. The Renaissance ROM Project will permanently alter the Museum's economic base and is expected to provide additional annual market income to sustain excellence across the board.

Funding for this project is coming from the public and private sectors. As at March 31, 2006, the Museum has received commitments from the federal and provincial governments of \$72,000,000 and from the private sector of \$123,000,000. The balance is expected to be funded through additional government grants, the development of 90 Queen's Park and the ongoing fundraising campaign being carried out by The Royal Ontario Museum Foundation [the "Foundation"]. To date, the Museum has invested \$164,241,000 [June 30, 2005 - \$117,225,000] in the project which is included in capital assets on the balance sheet [note 4].

As at March 31, 2006, the Museum had entered into contracts with a total outstanding value of approximately \$33,400,000 for capital asset additions.

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2006

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 is 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 period 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.

Derivative financial instruments

Derivative financial instruments are contracts that provide the opportunity to exchange cash flows that are determined by applying certain rates, indices or changes to notional contract amounts. The Museum uses interest rate swaps to manage exposure to fluctuations in interest rates and forward foreign currency contracts to manage exposure to fluctuations in exchange rates. These instruments are used for hedging an on-balance sheet liability or a future contractual obligation.

Hedges are documented at inception detailing the particular risk management objective and strategy for undertaking the hedge transaction. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at the inception and over the life of the hedge in order to qualify for hedge accounting. Changes in the fair value of derivative instruments that qualify for hedge accounting are not recorded in the financial statements. When derivatives are not determined to be highly effective hedges, cease to exist or cease to be effective prior to maturity, any gains or losses during the period are recorded in the statement of operations and changes in net deficit.

Inventories

Inventories, which consist mainly of supplies, are stated at the lower of average cost and net realizable value.

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2006

Deferred exhibition costs

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 healthcare 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.

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

Construction in progress comprises direct construction and other costs associated with the Renaissance ROM Project including capitalized interest. Interest costs are capitalized during the construction period. No amortization is recorded until construction is substantially complete and the assets are ready for use.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at period end. Revenues and expenses are translated at exchange rates in effect on the date of the transaction.

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

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 revenues 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. CAPITAL ASSETS

[a] Capital assets consist of the following:

	March 31, 2006		June 30, 2005	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$ [000's]	\$	\$
Land	931	—	931	—
Building	54,912	39,052	54,912	38,271
Galleries	37,771	31,210	37,769	30,452
Building improvements	17,028	11,021	14,824	10,627
Renaissance ROM Project <i>[note 2]</i>				
Construction in progress	153,769	—	117,225	—
Galleries	10,472	524	—	—
Furniture and equipment	3,032	1,587	2,334	1,492
	277,915	83,394	227,995	80,842
Less accumulated amortization	83,394		80,842	
Net book value	194,521		147,153	

Interest of \$1,234,000 [year ended June 30, 2005 - \$651,000] was capitalized in the Renaissance ROM Project during the nine-month period ended March 31, 2006.

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

[b] The change in net book value of capital assets is due to the following:

	Nine-month period ended March 31, 2006 \$	Year ended June 30, 2005 \$
	[000's]	
Balance, beginning of period	147,153	90,182
Purchase of capital assets funded by restricted capital contributions	28,920	31,971
Purchase of capital assets funded by bank indebtedness, long-term debt, or accounts payable and accrued liabilities	20,302	24,622
Purchase of capital assets funded internally	698	3,062
Amortization of capital assets	(2,552)	(2,684)
Balance, end of period	194,521	147,153

5. ARTIFACTS AND SPECIMENS

As at March 31, 2006, the collection consisted of approximately 6,000,000 artifacts and specimens. During the nine-month period ended March 31, 2006, the Museum accessioned approximately 1,461 objects to its collections through the donation and purchase of artifacts.

6. DEFERRED CONTRIBUTIONS

Deferred contributions represent grants from federal and provincial governments, corporations and the Foundation [note 12] related primarily to next year's operations.

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

7. 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 deferred capital contributions is recorded as revenue in the statement of operations and changes in net deficit. The changes in the deferred capital contributions balance are as follows:

	Nine-month period ended March 31, 2006 \$	Year ended June 30, 2005 \$
	[000's]	
Balance, beginning of period	97,046	66,611
Amortization of deferred capital contributions	(2,456)	(2,400)
Deferred capital contributions recognized as revenue	(111)	—
Restricted contributions received related to prior year capital asset purchases	4,172	—
Other restricted contributions received for capital asset purchases [note 12]	31,828	32,835
Balance, end of period	130,479	97,046

As at March 31, 2006, deferred capital contributions of \$3,674,000 [June 30, 2005 - \$1,088,000] were received but not spent.

8. NET DEFICIT

Changes in the components of net deficit are as follows:

	Nine-month period ended March 31, 2006				Year ended June 30, 2005
	Operating deficit \$	Board restricted \$	Invested in capital assets \$	Total \$	Total [000's] \$
Balance, beginning of period	(7,204)	776	6,380	(48)	216
Deficiency of revenues over expenses for the period	(3,107)	(48)	—	(3,155)	(264)
Net change in invested in capital assets	3,644	—	(3,644)	—	—
Balance, end of period	(6,667)	728	2,736	(3,203)	(48)

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

9. GRANTS

Grants consist of the following:

	Nine-month period ended March 31, 2006 \$	[000's]	Year ended June 30, 2005 \$
Province of Ontario			
Operating	13,851		19,834
Other	522		1,294
Government of Canada	404		173
The Royal Ontario Museum Foundation <i>[note 12]</i>	3,881		3,967
	18,658		25,268

10. EXPENSES

Expenses are reported in the statement of operations and changes in net deficit on a functional basis. Expenses by category are as follows:

	Nine-month period ended March 31, 2006 \$	[000's]	Year ended June 30, 2005 \$
Salaries and benefits <i>[note 13]</i>	18,259		21,258
Purchased goods and services	9,850		14,256
Amortization of capital assets	2,552		2,684
Gifts in kind	1,184		790
	31,845		38,988

11. MUSEUM VOLUNTEERS

During a typical year, Museum volunteers contribute approximately 65,000 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 \$2,000,000 annually.

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

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, 2005, Museum volunteers contributed \$70,000 to the Foundation for acquisition and research projects at the Museum. A contribution of \$60,000 was approved in May 2006 for the same purposes. The ROM Reproductions Association contributed \$200,000 during the year ended June 30, 2005 to the Foundation for the purchase of artifacts and specimens. A contribution of \$150,000 was received by the Foundation in June 2006 for the same purposes.

12. 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 Foundation continues to have a June 30 year end.

The accounts of the Foundation are presented separately and are not consolidated in these financial statements. The fund balances of the Foundation as at June 30, 2005 are as follows:

	2005 \$ [000's]
Unrestricted funds	509
Restricted funds	
Available currently	10,635
	10,635
Endowment funds	
Externally restricted	7,434
Internally restricted	12,454
	19,888
	31,032

During the nine-month period ended March 31, 2006, the Foundation granted \$19,108,000 [year ended June 30, 2005 - \$17,496,000] to the Museum. Of this amount, \$3,881,000 [2005 - \$3,967,000] was recorded as grant revenue [note 9], \$15,091,000 [2005 - \$12,813,000] was recorded as an increase in deferred capital contributions in connection with the Renaissance ROM Project [note 7] and \$136,000 [2005 - \$716,000] was recorded as deferred contributions [note 6].

Amounts due to/from the Foundation are non-interest bearing and have no fixed terms of repayment.

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

13. EMPLOYEE BENEFITS

The Museum has a defined benefit registered pension plan and other defined 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:

	Nine-month period ended March 31, 2006 \$	Year ended June 30, 2005 \$
	[000's]	
Defined benefit plan	1,889	1,574
Other post-employment benefits	424	600
	2,313	2,174

The assets and liabilities of the plans are measured each period at the balance sheet date. 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 as at March 31, 2006 and June 30, 2005 is as follows:

	Pension		Non-pension	
	2006	2005	2006	2005
	\$	\$	[000's]	\$
Accrued liabilities	63,232	59,951	4,778	5,556
Market value of plan assets	51,345	47,681	—	—
Deficit	(11,887)	(12,270)	(4,778)	(5,556)
Unamortized transitional obligation (asset)	(4,515)	(4,949)	1,892	2,031
Unrecognized past service costs	(3,350)	(3,650)	—	—
Unrecognized net actuarial loss	21,969	22,571	384	1,364
Balance sheet asset (liability)	2,217	1,702	(2,502)	(2,161)

Included in the balance sheet asset related to the defined benefit pension plan is a deficit of \$561,105 in connection with a supplementary pension plan.

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2006

The significant actuarial assumptions adopted to determine the expense for the Museum's benefit plans as at March 31, 2006 and June 30, 2005 are as follows:

	Pension		Non-pension	
	2006	2005	2006	2005
	%	%	%	%
Discount rate	5.25	6.50	5.25	6.50
Expected long-term rate of return on plan assets	7.00	7.00	—	—
Rate of compensation increase	3.00	3.00	—	—
Rate of increase in pensions	—	—	—	—

The significant actuarial assumptions adopted in measuring the liabilities of the Museum's benefit plans as at March 31, 2006 and June 30, 2005 are as follows:

	Pension		Non-pension	
	2006	2005	2006	2005
	%	%	%	%
Discount rate	5.25	5.25	5.25	5.25
Rate of compensation increase	3.50	3.00	—	—
Rate of increase in pensions	—	—	—	—

For measurement purposes as at March 31, 2006, an initial weighted average increase in the cost of healthcare and dental benefits of 6.63% in 2006 was assumed with an ultimate 4.50% annual rate of increase after 2016.

The Museum's pension plan assets are invested in pooled funds that provide the following asset mix:

	March 31, 2006	June 30, 2005
	%	%
Cash and cash equivalents	4	5
Bonds	34	36
Canadian equities	34	33
U.S. equities	15	15
Other foreign equities	13	11
	100	100

The Royal Ontario Museum

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Other information about the Museum's pension and non-pension plans for the nine-month period ended March 31, 2006 and the year ended June 30, 2005 is as follows:

	Pension		Non-pension	
	2006	2005	2006	2005
	\$	\$ [000's]	\$	\$
Employee contributions	821	719	—	—
Employer contributions	2,404	2,332	83	113
Benefits paid	2,120	2,560*	83	113

* Includes \$988,258 transfer of assets to the Ontario Teachers' Pension Plan.

The Museum's 2006 contributions were made in accordance with a January 1, 2004 and January 1, 2005 actuarial valuation report for funding purposes. The Museum's 2007 contributions will be made in accordance with a January 1, 2006 actuarial valuation report for funding purposes that must be filed with the regulators by September 30, 2006.

14. CREDIT FACILITIES

- [a] As at March 31, 2006, the Museum had a demand revolving operating credit facility of \$3,000,000 with interest payable at prime less 10 basis points. As at March 31, 2006, there was \$2,208,000 outstanding in connection with this facility [June 30, 2005 - \$2,417,000].
- [b] As at March 31, 2006, the Museum had a revolving reducing instalment term loan facility [the "Loan"] of \$55,000,000 to assist with the financing of Phase I of the Renaissance ROM Project. Interest is payable at the bankers' acceptance rate plus 100 basis points. Principal repayments were to begin on June 30, 2006 or 90 days after substantial completion of Phase I, if earlier. Minimum monthly repayments were to be equal to the amount required to repay the outstanding balance in full by February 27, 2011. Further repayments were required in certain circumstances.

As at March 31, 2006, \$40,745,000 of bankers' acceptances were outstanding in connection with the Loan of which the interest on \$20,300,000 has been fixed at 4.53% through an interest rate swap [note 15[b]].

- [c] The Museum has a letter of credit facility of \$5,000,000. As at March 31, 2006, there was an outstanding letter of credit in the amount of \$452,000.
- [d] Subsequent to period end, after receiving the approval of the Ontario Financing Authority, the Museum signed a revised credit agreement that increased the maximum borrowings to \$100,350,000. The agreement includes a demand revolving operating facility of \$5,000,000, revolving reducing instalment term loan facilities of \$93,000,000 to finance certain phases of

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2006

the Renaissance ROM Project, a letter of credit facility of \$2,000,000 and a corporate credit card facility of \$350,000. Under certain circumstances, repayment of the term loan facility is to commence on March 31, 2007. This facility matures on March 31, 2011. There is no change in the interest rate payable on the facilities except that, under certain circumstances, a higher rate is payable.

The Foundation has provided an undertaking to transfer all of its unrestricted donations to the Museum under certain circumstances. The Museum has also assigned all payments from such donations as security for the credit facilities.

- [e] 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.

15. FINANCIAL INSTRUMENTS

- [a] The Museum is exposed to foreign exchange risk with respect to contractual obligations payable in foreign currency and to interest rate risk with respect to its long-term debt. The Museum enters into derivative financial instruments to manage its risk exposure.

The Museum is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect counterparties to fail to meet their obligations given their high credit rating.

- [b] The Museum has in place an Interest Rate Swap Agreement [the "Agreement"], designated as a hedge of a portion of the Loan, which will expire on May 2, 2008. Under the terms of the Agreement, the Museum has agreed with a counterparty to exchange, at specified intervals and for a specified period, its floating interest obligation for fixed interest [4.53%] calculated on the notional value of the Loan. The use of the swap effectively enables the Museum to convert part of the floating rate interest obligation of the Loan into a fixed rate obligation and thus manage its exposure to interest rate risk. As at March 31, 2006, the Agreement qualified as an effective hedge transaction.

As at March 31, 2006, the notional value of the interest rate swap was \$20,000,000 [June 30, 2005 - \$20,000,000] and the fair value was a gain of \$308,000 [June 30, 2005 - loss of \$258,000].

- [c] The Museum has in place forward foreign currency contracts [the "Forward Contracts"] to manage foreign exchange risk on contractual obligations denominated in Euros. Under the terms of the Forward Contracts, the Museum will receive delivery of the foreign currency at various dates between May 2006 and December 2006 at contracted rates between 1.3744 and 1.4152. The use of the Forward Contracts enables the Museum to fix the exchange rate and reduce the risk of fluctuations in the rate. The Forward Contracts are marked to market.

The Royal Ontario Museum**NOTES TO FINANCIAL STATEMENTS**

March 31, 2006

As at March 31, 2006, the notional value of the forward exchange commitments totalled \$2,352,000 [June 30, 2005 - \$5,200,000] and the fair value was \$2,396,000 [June 30, 2005 - \$4,900,000], resulting in a gain of \$44,000 [June 30, 2005 - loss of \$300,000] recorded in the accounts.

[d] The fair values of financial instruments approximate their carrying values unless otherwise noted.

16. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 financial statements.

The Royal Ontario Museum

Schedule

SCHEDULE OF OPERATIONS BY FUND

	Nine-month period ended March 31, 2006				Year ended June 30, 2005			
	Fund	Restricted Fund	Capital Fund	Total	Operating Fund	Restricted Fund	Capital Fund	Total
	\$	\$	\$	\$	\$	\$	\$	\$
[000's]								
REVENUES								
Grants	15,258	3,400	—	18,658	21,469	3,799	—	25,268
Admission fees	2,223	—	—	2,223	3,024	—	—	3,024
Museum programs	1,241	—	—	1,241	1,898	—	—	1,898
Ancillary services	2,077	—	—	2,077	4,442	—	—	4,442
Investment income	32	7	—	39	72	10	—	82
Donations - Gifts in kind	—	1,184	—	1,184	—	790	—	790
Amortization of deferred capital contributions	—	—	2,456	2,456	—	—	2,400	2,400
Other	234	467	111	812	333	487	—	820
	21,065	5,058	2,567	28,690	31,238	5,086	2,400	38,724
EXPENSES								
Curatorial and collections management	6,521	1,317	—	7,838	8,135	1,568	—	9,703
Building, security and visitor services	5,196	493	—	5,689	6,254	497	—	6,751
Ancillary services	1,858	—	—	1,858	3,605	—	—	3,605
General and administration	2,877	2	—	2,879	2,689	1	—	2,690
Education and public programs	1,465	298	—	1,763	2,149	396	—	2,545
Library and information services	1,538	256	—	1,794	2,002	323	—	2,325
Exhibition and gallery development	1,412	—	—	1,412	1,447	—	—	1,447
Marketing and public relations	1,590	—	—	1,590	1,266	—	—	1,266
Temporary exhibitions	1,619	—	—	1,619	3,540	—	—	3,540
Artifacts and specimens								
Gifts in kind	—	1,184	—	1,184	—	790	—	790
Purchased	—	1,556	—	1,556	—	1,626	—	1,626
Amortization of capital assets	96	—	2,456	2,552	279	5	2,400	2,684
Other	—	—	111	111	—	16	—	16
	24,172	5,106	2,567	31,845	31,366	5,222	2,400	38,988
Deficiency of revenues over expenses for the period	(3,107)	(48)	—	(3,155)	(128)	(136)	—	(264)
Net assets (deficit), beginning of period	(1,755)	776	931	(48)	(1,627)	912	931	216
Net assets (deficit), end of period	(4,862)	728	931	(3,203)	(1,755)	776	931	(48)

Smart Systems for Health Agency

Management 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.

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.



WILLIAM ALBINO
Chief Executive Officer



SANDRA TYCHSEN
Chief Administrative Officer



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

June 19, 2007

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, 2007 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, 2007 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, Licensed Public Accountants

Smart Systems for Health Agency

Statement of Financial Position

As at March 31, 2007

	2007 \$	2006 \$
Assets		
Current assets		
Cash	2,307,669	674,703
Prepaid expenses	1,878,151	1,021,028
Due from the Province of Ontario	12,797,200	15,543,000
	16,983,020	17,238,731
Capital assets (note 4)	13,170,178	14,428,939
	30,153,198	31,667,670
Liabilities		
Current liabilities		
Accounts payable	1,515,920	4,706,707
Accrued liabilities		
Operating	14,276,318	9,018,686
Capital	1,166,573	3,165,044
Due to the Province of Ontario	-	5,021
	16,958,811	16,895,458
Deferred capital contributions (note 5)	13,170,178	14,428,939
	30,128,989	31,324,397
Fund Balance	24,209	343,273
	30,153,198	31,667,670
Commitments (notes 6 and 7)		

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, 2007

	2007 \$	2006 \$
Revenues		
Government funding (note 3)	118,424,765	102,631,334
Amortization of deferred capital contributions (note 5)	8,007,196	12,022,529
	<u>126,431,961</u>	<u>114,653,863</u>
Expenses		
Information technology operations		
Production	68,922,370	60,032,385
Development	27,330,638	23,178,583
Client support	4,266,345	4,594,530
	<u>100,519,353</u>	<u>87,805,498</u>
Privacy, security and standards	4,870,723	6,292,010
General and administrative	10,394,597	8,190,553
Transformation costs (note 9)	2,615,883	-
	<u>118,400,556</u>	<u>102,288,061</u>
Total operating expenses	118,400,556	102,288,061
Amortization	8,007,196	12,022,529
	<u>126,407,752</u>	<u>114,310,590</u>
Excess of revenues over expenses for the year	24,209	343,273
Fund balance - Beginning of year	343,273	5,021
Reimbursement of prior year's surplus (note 3)	<u>(343,273)</u>	<u>(5,021)</u>
Fund balance - End of year	<u>24,209</u>	<u>343,273</u>

Smart Systems for Health Agency

Statement of Cash Flows

For the year ended March 31, 2007

	2007 \$	2006 \$
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses for the year	24,209	343,273
Items not affecting cash		
Amortization of deferred capital contributions	(8,007,196)	(12,022,529)
Amortization	8,007,196	12,022,529
	<u>24,209</u>	<u>343,273</u>
Change in non-cash working capital items		
Due from the Province of Ontario	2,745,800	(8,800,000)
Prepaid expenses	(857,123)	(374,552)
Accounts payable	(3,190,787)	2,488,946
Accrued liabilities - operating	5,257,632	1,585,465
Due to the Province of Ontario	(5,021)	5,021
	<u>3,950,501</u>	<u>(5,095,120)</u>
	<u>3,974,710</u>	<u>(4,751,847)</u>
Investing activities		
Purchase of capital assets	<u>(8,746,906)</u>	<u>(8,507,569)</u>
Financing activities		
Deferred capital contributions received	6,748,435	8,868,666
Reimbursement of prior year's surplus (note 3)	<u>(343,273)</u>	<u>(5,021)</u>
	<u>6,405,162</u>	<u>8,863,645</u>
Increase (decrease) in cash during the year	<u>1,632,966</u>	<u>(4,395,771)</u>
Cash - Beginning of year	<u>674,703</u>	<u>5,070,474</u>
Cash - End of year	<u>2,307,669</u>	<u>674,703</u>

Smart Systems for Health Agency

Notes to Financial Statements

March 31, 2007

1 Nature of operations

On February 11, 2002, 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 (MOHLTC) under Section 8, the affairs of the Agency are under the management and control of the Board of Directors. The Lieutenant-Governor in Council can appoint up to 15 members to SSHA's Board of Directors.

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.

As required by the Management Board of Cabinet Directive, the Agency and the MOHLTC 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.

SSHA is fully funded by the Province of Ontario through the MOHLTC. As an agency of the MOHLTC, SSHA is exempt from income taxes.

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.

Revenue recognition

Government funding is recognized as revenue when received, or when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

SSHA follows the deferral method of accounting for contributions. Contributions with respect to the purchase of capital 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.

Smart Systems for Health Agency

Notes to Financial Statements

March 31, 2007

Expense recognition

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

Expense categories

Information technology (IT) 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; and
- 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

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 lease

Capital assets that no longer have any long-term service potential for the Agency are written down to residual value, if any. The excess of the carrying value over the residual value of such assets is recognized as amortization expense in the statement of operations and fund balance (note 4).

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 amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Smart Systems for Health Agency

Notes to Financial Statements

March 31, 2007

3 Government funding

The Agency obtained a funding commitment of \$125,173,200 (2006 - \$111,500,000) from the MOHLTC for the year, of which \$12,797,200 (2006 - \$15,543,000) was collected subsequent to year-end. This funding was accounted for in accordance with the Agency's accounting policies as follows:

	2007 \$	2006 \$
Committed funding	125,173,200	111,500,000
Amounts received and designated as deferred capital contributions (note 5)	(6,748,435)	(8,868,666)
Funding recognized in the statement of operations	118,424,765	102,631,334

During the year, the MOHLTC requested repayment of the prior fiscal year's surplus of \$343,273 (2006 - \$5,021). The amount was recorded as a reduction in fund balance in the year.

4 Capital assets

	2007		
	Cost \$	Accumulated amortization \$	Net \$
Computer hardware	33,074,943	25,512,194	7,562,749
Computer software	15,802,183	12,057,764	3,744,419
Furniture and office equipment	1,995,144	1,257,110	738,034
Leasehold improvements	1,956,446	831,470	1,124,976
	52,828,716	39,658,538	13,170,178
	2006		
	Cost \$	Accumulated amortization \$	Net \$
Computer hardware	29,484,282	20,740,074	8,744,208
Computer software	12,242,623	8,313,451	3,929,172
Licences	1,819,308	1,819,308	-
Furniture and office equipment	1,836,772	873,918	962,854
Leasehold improvements	1,368,098	575,393	792,705
	46,751,083	32,322,144	14,428,939

Smart Systems for Health Agency

Notes to Financial Statements

March 31, 2007

There are assets included in capital assets that have not been put in place and therefore have not been amortized for the year. The net book value of these assets is as follows:

	2007 \$	2006 \$
Computer hardware	2,255,641	1,600,464
Computer software	124,371	3,042,948

During the year, certain computer equipment, which was no longer in use with a net book value of \$158,447 (2006 - \$17,167), was written off and expensed as amortization.

5 Deferred capital contributions

	2007 \$	2006 \$
Balance - Beginning of year	14,428,939	17,582,802
Contributions received	6,748,435	8,868,666
Amortization	(8,007,196)	(12,022,529)
Balance - End of year	13,170,178	14,428,939

Amortization of deferred capital contributions is comprised of the following:

	2007 \$	2006 \$
Amortization of capital assets	7,848,749	12,005,362
Capital assets written off (note 4)	158,447	17,167
	8,007,196	12,022,529

6 Contractual commitments

SSHA has contractual commitments to fiscal 2009. The commitments are for space and services relating to highly secure data centres that are utilized to host client applications, as well as SSHA's ONE suite of products and services in support of Ontario's eHealth vision and strategy. Payments required on these commitments are as follows:

	\$
2008	6,225,000
2009	3,149,000

Smart Systems for Health Agency

Notes to Financial Statements

March 31, 2007

7 Operating lease commitments

Ontario Realty Corporation holds five 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:

	\$
2008	1,593,069
2009	1,593,069
2010	1,631,574
2011	1,383,505
2012	88,478
Thereafter	-

8 Employee benefits

The Agency has a defined contribution pension plan for its employees. Contributions to this plan during the year amounted to \$1,340,712 (2006 - \$1,148,091).

9 Transformation costs

The Minister of Health and SSHA's Board of Directors jointly retained a firm to conduct an extensive operational review in fiscal 2007. The review encompassed all areas of SSHA operations. The recommendations for enhancements to operations are being implemented by SSHA staff with the assistance of external expertise.

10 Comparative figures

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



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

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, 2007 and the statement of operations and retained earnings 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, 2007 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink, appearing to read 'G. Peall'.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
June 25, 2007

Toronto Area Transit Operating Authority

Balance Sheet

March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
<u>ASSETS</u>		
Current		
Due from Province of Ontario	—	7,963
Capital Assets (Note 3)	113,770	133,848
	113,770	141,811
<u>LIABILITIES AND EQUITY</u>		
Current Liabilities		
Current portion of long-term debt (Note 4)	—	353,325
Interest on long-term debt	—	7,963
	—	361,288
Retained Earnings (Deficiency)	113,770	(219,477)
	113,770	141,811

See accompanying notes to financial statements.

Approved by:



Chair



Board Member

Toronto Area Transit Operating Authority

Statement of Operations and Retained Earnings

For the Year Ended March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
Revenue		
Operating subsidies from the Province	335,390	44,932
Foreign exchange gain on long-term debt	25,896	56,130
	<u>361,286</u>	<u>101,062</u>
Expenses		
Amortization of capital assets	20,078	20,076
Interest on long-term debt	7,961	32,604
	<u>28,039</u>	<u>52,680</u>
Excess of Revenue over Expenses	333,247	48,382
Deficiency, beginning of year	(219,477)	(267,859)
Retained Earnings (Deficiency), end of year	<u>113,770</u>	<u>(219,477)</u>

Toronto Area Transit Operating Authority

Notes to Financial Statements

March 31, 2007 (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.

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 Canadian generally accepted accounting principles 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. This policy is consistent with that of the Province of Ontario's because these financial statements are consolidated into the Province's financial statements.

(C) ADMINISTRATIVE EXPENSES

Administrative services are provided by the Ministry of Transportation without charge.

Toronto Area Transit Operating Authority

Notes to Financial Statements

March 31, 2007 (dollars in thousands)

3. Capital Assets

The capital assets are comprised of locomotives and other railway rolling stock. On August 7, 1999, the Authority signed an equipment lease agreement leasing these locomotives and bi-level cars to the Greater Toronto Transit Authority (GTТА) at a nominal amount of one dollar annually. Under this equipment lease agreement, GTТА is liable for the maintenance and all other associated obligations. The Authority is in the process of deciding how best to transfer its assets to the GTТА.

	2007 (\$)			2006 (\$)
	Cost	Accumulated Amortization	Net	Net
Other Railway Rolling Stock	363,308	265,148	98,160	112,693
Locomotives	110,905	95,295	15,610	21,155
	474,213	360,443	113,770	133,848

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 5, 2006. The proceeds from the original transaction 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.

Since March 31, 1994, the Authority has been making semi-annual payments on the debt obligation. On July 5, 2006, the Authority made a final balloon payment of US\$304,095, including interest of US\$10,726, to fully discharge all obligations to the Asset Finance (Bermuda) Limited under the conditional sales agreements.

Pursuant to a Memorandum of Understanding with the Ministry of Finance, the Province provided the funds for all payments to Asset Finance (Bermuda) Limited.

To minimize the risk of fluctuations in foreign currency exchange rates to the Ontario government, the Province entered into a currency swap agreement in 1994. Approximately 74% of the balloon payment on July 5, 2006 was hedged by the currency swap and paid at a pre-determined exchange rate, and the remainder was paid at the exchange rate on July 5, 2006. As the Authority was not a party to the currency swap agreement, the effects of the agreement are not reflected in the financial statements.

Toronto Area Transit Operating Authority

Notes to Financial Statements

March 31, 2007 (dollars in thousands)

5. 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.



Management's Responsibility for the Financial Statements

March 31, 2007

The integrity and objectivity of the accompanying financial statements of the Toronto Waterfront Revitalization Corporation ("the Corporation") is the responsibility of management. These financial statements have been prepared in compliance with legislation and in accordance with Canadian generally accepted accounting principles for not-for-profit organizations established by the Canadian Institute of Chartered Accountants. Significant accounting policies of the Corporation are described in Note 2 to the financial statements.

Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded, and reliable financial information is available on a timely basis for the preparation of the financial statements. These systems are monitored and evaluated by management, the Audit Committee and the Corporation's internal auditors.

Management meets with the external auditors and the Board of Directors to review the financial statements and discuss any significant financial reporting or internal control matters prior to approval of the financial statements.

The financial statements have been audited by Deloitte & Touche LLP, independent external auditors appointed by the Board of Directors. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Corporation's financial statements.

A handwritten signature in black ink, appearing to read "John Lapine", written over a horizontal line.

President and CEO

A handwritten signature in black ink, appearing to read "Robert Hall", written over a horizontal line.

Chief Financial Officer



Deloitte & Touche LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-643-8998
www.deloitte.ca

Auditors' Report

To the Board of Directors of the
Toronto Waterfront Revitalization Corporation

We have audited the statement of financial position of the Toronto Waterfront Revitalization Corporation as at March 31, 2007 and the statements of financial activities and net assets and 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 March 31, 2007 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
Licensed Public Accountants

Toronto, Ontario
May 29, 2007

TORONTO WATERFRONT REVITALIZATION CORPORATION
Statement of Financial Position
March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 36,952,253	\$ 29,488,245
Contributions receivable (Note 3)	419,989	3,801,427
GST receivable (Note 2(g))	2,328,495	232,044
Accrued interest	111,945	98,193
Prepaid expenses and other assets	131,860	42,664
	39,944,542	33,662,573
 CAPITAL ASSETS (Note 4)	 27,071,288	 13,279,995
 OTHER ASSETS (Note 5)	 108,202	 122,672
	\$ 67,124,032	\$ 47,065,240
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable and accrued liabilities (Note 6)	\$ 12,754,132	\$ 15,251,286
Other liabilities (Note 7)	104,361	439,435
Accrued benefit liability (Note 11)	72,686	11,264
Deferred contributions (Note 8)	26,641,866	18,812,268
	39,573,045	34,514,253
 NET ASSETS	 27,550,987	 12,550,987
	\$ 67,124,032	\$ 47,065,240

COMMITMENTS (Note 12)

APPROVED BY THE BOARD

Vivien Dzau
 Director

Mark J. Wilson
 Director

TORONTO WATERFRONT REVITALIZATION CORPORATION
Statement of Financial Activities and Net Assets
Year ended March 31, 2007

	2007	2006
REVENUE		
Government contributions		
Government of Canada	\$ 27,648,747	\$ 35,375,466
Province of Ontario	23,381,112	12,462,283
City of Toronto	17,398,559	14,471,591
	68,428,418	62,309,340
Less contributions for land acquisition	(15,000,000)	(12,550,987)
Less increase in deferred contributions related to future periods	(7,829,598)	(3,541,655)
Net government contributions (Note 9)	45,598,820	46,216,698
Interest and other	1,540,035	591,079
	47,138,855	46,807,777
EXPENSES		
Eligible recipient costs (Note 10)		
Construction/implementation	19,568,115	25,520,168
Design, approvals and site preparation	2,030,634	2,202,249
Project management and other internal	1,480,423	1,710,634
Other	1,191,276	450,000
Property acquisition	995,722	2,778,324
	25,266,170	32,661,375
Corporation costs:		
Salaries, benefits and directors fees	4,248,181	2,998,910
Program manager fees	3,549,819	3,079,214
Construction/implementation	3,395,609	997,981
Design, approvals and site preparation	3,079,060	2,067,204
Communications and public consultation	2,150,434	604,340
Legal fees	2,102,928	1,838,262
Audit, finance and other professional fees	1,922,651	963,498
Occupancy, IT and office expenses	1,748,289	805,948
Amortization	267,640	222,232
	22,464,611	13,577,589
(Refundable) non-recoverable GST (Note 2(g))	(591,926)	568,813
	47,138,855	46,807,777
EXCESS OF REVENUE OVER EXPENSES	-	-
NET ASSETS, BEGINNING OF YEAR	12,550,987	-
ADD GOVERNMENT CONTRIBUTIONS FOR LAND ACQUISITION	15,000,000	12,550,987
NET ASSETS, END OF YEAR	\$ 27,550,987	\$ 12,550,987

TORONTO WATERFRONT REVITALIZATION CORPORATION
Statement of Cash Flows
Year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Excess of revenue over expenses	\$ -	\$ -
Amortization non-cash items		
Capital assets	267,640	222,232
Forgone lease revenue (Note 7)	414,567	256,565
	<u>682,207</u>	<u>478,797</u>
Changes in non-cash operating items		
Decrease (increase) in contributions receivable	3,381,438	(3,801,427)
(Increase) decrease in GST receivable	(2,096,451)	89,543
Increase in accrued interest, prepaid expenses and other assets	(88,478)	(210,401)
(Decrease) increase in accounts payable and accrued liabilities	(2,497,154)	6,115,131
(Decrease) increase in other liabilities	(335,074)	439,435
Increase in accrued benefit liability	61,422	31,174
Increase in deferred contributions	7,829,598	3,541,655
	<u>6,937,508</u>	<u>6,683,907</u>
INVESTING		
Acquisition of capital assets	(14,473,500)	(13,416,743)
FINANCING		
Government contributions for capital assets	15,000,000	12,550,987
NET INFLOW OF CASH	<u>7,464,008</u>	<u>5,818,151</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>29,488,245</u>	<u>23,670,094</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 36,952,253</u>	<u>\$ 29,488,245</u>
CASH AND CASH EQUIVALENTS ARE COMPRISED OF THE FOLLOWING:		
Cash	\$ 5,852,153	\$ 320,239
Short-term investments	31,100,100	29,168,006
	<u>\$ 36,952,253</u>	<u>\$ 29,488,245</u>

TORONTO WATERFRONT REVITALIZATION CORPORATION

Notes to the Financial Statements

March 31, 2007

1. DESCRIPTION OF THE CORPORATION

The Toronto Waterfront Revitalization Corporation (the "Corporation") was initially incorporated on November 1, 2001 under the Ontario Business Corporations Act with the Province of Ontario being its sole shareholder. The mandate of the Corporation is to develop and implement a long-term plan to environmentally improve and economically rejuvenate Toronto's waterfront.

Pursuant to the Toronto Waterfront Revitalization Corporation Act, 2002 (the "Act"), the Corporation was continued as a corporation without share capital on May 15, 2003. The Corporation does not have the capacity to act as an agent of Her Majesty The Queen, in right of Canada ("Government of Canada"), Her Majesty in right of Ontario ("Province of Ontario") or the City of Toronto (collectively, "the Governments"). If the Corporation is given express written authorization by either the Provincial government or city council then under legislation it can act as an agent for either government. The Corporation is deemed not to be a Crown Agency within the meaning of the Crown Agency Act.

Under the Act, the Corporation's objectives are to:

- (a) implement a plan that enhances the economic, social and cultural value of the land in the designated waterfront area and create an accessible and active waterfront for living, working and recreation and to do so in a fiscally and environmentally responsible manner;
- (b) ensure that ongoing development in the designated waterfront area can continue in a financially self-sustaining manner;
- (c) promote and encourage involvement of the private sector in the development of the designated waterfront area;
- (d) encourage public input into the development of the designated waterfront area; and
- (e) engage in such other activities as may be prescribed by regulation.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

(b) Revenue recognition

The Corporation follows the deferral method of accounting for contributions from the Governments. Under this method, restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

TORONTO WATERFRONT REVITALIZATION CORPORATION

Notes to the Financial Statements

March 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Contributions receivable and deferred contributions

Annual contribution commitments by the Governments under signed Contribution Agreements which have not been received by the Corporation are recorded as contributions receivable when the amount is determinable and the ultimate collection is likely.

Under the Contribution Agreement, contributions from the Governments can only be applied towards payments of Eligible Costs in respect of Project Activities, as defined in the Agreements. Accordingly, all unspent funds are recorded as deferred contributions.

Contributions from the Governments for the purchase of amortized capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets. Contributions for the purchase of non-amortized capital assets are recognized as a direct contribution to net assets.

(d) Recognition of expenditures incurred by Eligible Recipients

The Corporation has entered into agreements with Eligible Recipients responsible for managing various projects on Toronto's Waterfront. Expenditures related to these projects are recorded in the financial statements of the Corporation on an accrual basis based upon funding requests submitted by the Eligible Recipients in accordance with approved project work plans.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments with original terms of less than 90 days.

(f) Capital assets

Capital assets are recorded at cost less accumulated amortization. With the exception of land which is not amortized, capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	5 years
Furniture and fixtures	5 years
Computer hardware and software	3 years
Equipment	5 years

Betterments, which extend the estimated life of an asset, are capitalized. Repairs and maintenance costs are charged to expense. Capital costs incurred by the Corporation on assets for which the Corporation does not have legal title are charged to expense.

TORONTO WATERFRONT REVITALIZATION CORPORATION

Notes to the Financial Statements

March 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Taxes

The Corporation is exempt from income taxes pursuant to paragraph 149(1) (d.3) of the Income Tax Act (Canada).

On March 28, 2007, the Corporation received a ruling from the Federal Government allowing the Corporation to be eligible for a 100 percent rebate of the goods and services (GST) tax. In previous years the Corporation was allowed to claim a 50 percent GST rebate. As a result of this ruling, the Corporation has recorded an additional GST receivable for the remaining 50% rebate that was previously not eligible for rebate.

(h) President's pension plan

The Corporation accrues its obligations under the President's pension plan and the related costs, net of plan assets. The Corporation has adopted the following policies:

- The cost of pension benefits earned is actuarially determined using the projected unit credit method pro-rated on service and management's best estimate of expected plan performance, salary escalation and retirement age of the President.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for the year or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over 6 years.

(i) 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 revenue and expenses during the period. Actual results could differ from those estimates. The items subject to the most significant estimates are the amortization of capital assets, accrued liabilities and accrued benefit liability.

3. CONTRIBUTIONS RECEIVABLE

	<u>2007</u>	<u>2006</u>
Government of Canada	\$ -	\$ 3,801,427
Province of Ontario	419,989	-
	<u>\$ 419,989</u>	<u>\$ 3,801,427</u>

Contributions receivable from the Province of Ontario at March 31, 2007 relate to corporate costs.

TORONTO WATERFRONT REVITALIZATION CORPORATION

Notes to the Financial Statements

March 31, 2007

4. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 26,310,536	\$ -	\$ 26,310,536	\$ 12,990,422
Leasehold improvements	394,006	173,990	220,016	32,617
Furniture and fixtures	496,626	257,724	238,902	96,446
Computer hardware and software	509,338	291,559	217,779	143,337
Equipment	112,024	27,969	84,055	17,173
	\$ 27,822,530	\$ 751,242	\$ 27,071,288	\$ 13,279,995

5. OTHER ASSETS

Other assets of \$108,202 (2006 - \$122,672) represent the portion of environmental impairment liability insurance coverage paid in advance by the Corporation. The Corporation's coverage is for a ten year period ending September 22, 2015. The total cost is being amortized on a straight line basis over the term of the coverage.

	2007	2006
Total other assets	\$ 122,672	\$ 137,142
Less current portion	14,470	14,470
Long-term portion	\$ 108,202	\$ 122,672

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Accounts payable:		
Eligible Recipients	\$ 1,280,099	\$ 1,794,580
Other	2,618,321	614,895
Accrued liabilities:		
Eligible Recipients	7,468,880	10,004,517
Other	1,222,053	1,131,601
Holdbacks payable	164,779	1,705,693
Long-term portion	\$ 12,754,132	\$ 15,251,286

Eligible Recipient accrued liabilities include \$4,408,914 (2006 - \$4,408,914) for completion of a property acquisition related to the Front Street extension. Under the terms of the contribution agreement, the Corporation cannot release payment to the Eligible Recipient, City of Toronto, until completion of the Canadian Environmental Assessment Agency approval process.

TORONTO WATERFRONT REVITALIZATION CORPORATION

Notes to the Financial Statements

March 31, 2007

7. OTHER LIABILITIES

Other liabilities at March 31, 2007 represent the balance of the lease liability at 207 Queens Quay West and deferred parking revenue from 7 Queens Quay East.

	<u>2007</u>	<u>2006</u>
Forgone net lease revenue, opening balance	\$ 439,435	\$ -
Forgone net lease revenue upon acquisition of land	-	696,000
Lost net revenues reimbursed to tenant	(24,868)	-
Amortization to cost of land	(414,567)	(256,565)
Forgone net lease revenue, closing balance	-	439,435
Deferred revenue	83,131	-
Lease liability at cease-use date	118,553	-
Lease payments	(97,323)	-
Exit activity lease liability, closing balance	21,230	-
Total other liabilities	\$ 104,361	\$ 439,435

Forgone net lease revenue

As part of the Agreement of Purchase and Sale ("the Agreement") dated August 31, 2005 for property at 7 Queens Quay East, the Corporation entered into a ground lease to lease the property to the vendor (tenant) for a period of 17 months, ending February 21, 2007. Under the terms of the lease, for base rent of \$1 paid to the Corporation, the vendor (tenant) was entitled to collect all net revenues arising from the property and is responsible for all operating costs such as utilities and realty taxes. The total net revenues forgone by the Corporation of \$696,000 has been included in the cost of land in Capital Assets and also recognized as a liability in Other Liabilities. The liability represents the net revenue derived from the land prior to its readiness for use and is being amortized against the cost of the land over the period of the ground lease.

Deferred revenue

For the period from February 22 to March 31, 2007, the Corporation received \$83,131 in parking revenues that are recorded as deferred revenue in Other Liabilities. Under Bill 151 Section 3 (5), the Corporation is not entitled to raise revenue unless it has the consent of the Government of Canada, the Province of Ontario and the City of Toronto or unless it is authorized to do so by a regulation. The Corporation is in the process of obtaining a regulation to earn parking revenues subsequent to the fiscal year ended March 31, 2007.

Exit activity lease liability

On June 26, 2006 the Corporation moved office locations and ceased using its leased premises at 207 Queens Quay West. The Corporation continues to be responsible for the operating lease of these premises until May 31, 2007. A liability at fair value has been recognized at the cease-use date, determined based on the remaining lease rentals reduced by the estimated sub-lease rentals that could be reasonably obtained for the property and is being amortized against the remaining lease payments. In addition, the Corporation has fully amortized the leasehold improvements associated with the old premises.

TORONTO WATERFRONT REVITALIZATION CORPORATION

Notes to the Financial Statements

March 31, 2007

8. DEFERRED CONTRIBUTIONS

Deferred contributions represent contributions from the Government of Canada, the Province of Ontario and City of Toronto (collectively known as “the Governments”) which have not been applied to Eligible Costs at March 31, 2007, as well as contributions received for the purchase of capital assets.

	<u>2007</u>	<u>2006</u>
Expenses of Future Years		
Balance, beginning of year	\$ 18,083,260	\$ 14,928,564
Additional contributions received	54,394,353	49,149,162
Less amounts recognized as revenue	(45,331,180)	(45,994,466)
Balance, end of year	<u>27,146,433</u>	<u>18,083,260</u>
Capital Contributions		
Balance, beginning of year	729,008	342,049
Acquisition of capital assets	14,473,500	13,416,743
Less direct contribution to net assets	(15,000,000)	(12,550,987)
Net revenues reimbursed to tenant	(24,868)	-
Less amortization to cost of land	(414,567)	(256,565)
Less amount amortized to revenue	(267,640)	(222,232)
Balance, end of year	<u>(504,567)</u>	<u>729,008</u>
	<u>\$ 26,641,866</u>	<u>\$ 18,812,268</u>

TORONTO WATERFRONT REVITALIZATION CORPORATION

Notes to the Financial Statements

March 31, 2007

9. GOVERNMENT CONTRIBUTIONS

The Government of Canada, the Province of Ontario and the City of Toronto have agreed to provide the Corporation with funds to pay for Eligible Costs in respect to Project Activities. The table below sets out the Contribution Agreements in place since the inception of the Corporation:

Contribution Agreement	City of Toronto	Province of Ontario	Government of Canada	Total	Expiry Date
1. Priority Projects					
Development Plan & Business Strategy	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 3,000,000	31-Mar-2008
Front Street Extension	56,666,667	56,666,667	56,666,667	170,000,000	31-Mar-2008
Lower Don River Environmental Assessments	1,000,000	1,000,000	1,000,000	3,000,000	31-Mar-2008
Portlands Preparation	20,233,333	20,233,333	20,233,333	60,700,000	31-Mar-2008
Total Priority Projects	\$ 78,900,000	\$ 78,900,000	\$ 78,900,000	\$ 236,700,000	
2. Core Projects					
Harbourfront Water's Edge	\$ 6,200,000	\$ 6,200,000	\$ 6,200,000	\$ 18,600,000	30-Sep-2006
Mimico Park	2,166,667	2,166,667	2,166,667	6,500,000	31-Mar-2008
Port Union Waterfront	5,333,333	5,333,333	5,333,333	16,000,000	31-Mar-2008
Precinct Planning	2,352,333	2,352,333	2,352,333	7,057,000	31-Mar-2007
Total Core Projects	\$ 16,052,333	\$ 16,052,333	\$ 16,052,333	\$ 48,157,000	
3. Commissioners Park Land	\$ 3,333,333	\$ 3,333,333	\$ 3,333,333	\$ 10,000,000	31-Mar-2006
4. Western Beaches Watercourse Facility	-	-	200,000	200,000	30-Sep-2004
5. Western Beaches Watercourse Facility	4,000,000	4,000,000	19,000,000	27,000,000	30-Nov-2006
6. Shakespeare Works	-	-	1,446,884	1,446,884	31-Mar-2008
7. Tommy Thompson Park	-	-	8,000,000	8,000,000	31-Mar-2008
8. Lake Ontario Park Plan	-	-	1,000,000	1,000,000	31-Mar-2008
9. Port Lands Permanent Beautification	2,580,000	2,580,000	10,000,000	15,160,000	31-Mar-2008
10. West Don Lands Phase 1	54,410,000	24,290,000	-	78,700,000	31-Mar-2010
11. University for Peace	-	-	2,938,267	2,938,267	1-Dec-2006
12. Strategic Land Acquisition	-	-	13,237,906	13,237,906	31-Mar-2008
13. Port Lands Interim Sports Fields	-	-	5,000,000	5,000,000	30-Sep-2006
14. Don River Park Phase 1	-	-	2,204,809	2,204,809	31-Mar-2008
15. PL Regional Sports Complex Phase 1	-	-	200,000	200,000	31-Mar-2008
16. Union Station Second Platform	40,000,000	30,000,000	19,334,000	89,334,000	31-Mar-2012
17. Canada Square Feasibility	-	-	375,000	375,000	31-Mar-2008
18. Pier 4 Rehabilitation	1,500,000	-	-	1,500,000	31-Mar-2007
19. Central Waterfront Public Realm Design	-	-	5,725,025	5,725,025	31-Mar-2008
20. Corporate Costs	2,707,000	-	8,938,000	11,645,000	31-Mar-2007
21. EBF Parks & Water Edge Promenade	-	-	8,678,000	8,678,000	31-Mar-2007
22. Project E Land Acquisition	-	15,000,000	-	15,000,000	31-Mar-2008
	\$ 203,482,667	\$ 174,155,667	\$ 204,563,558	\$ 582,201,891	

TORONTO WATERFRONT REVITALIZATION CORPORATION**Notes to the Financial Statements****March 31, 2007****9. GOVERNMENT CONTRIBUTIONS (continued)**

Government contributions are based on each level of government contributing a share of Eligible Costs net of other revenue sources, in accordance with the Contribution Agreements.

	<u>2007</u>	<u>2006</u>
Government contributions		
Government of Canada	\$ 27,648,747	\$ 35,375,466
Province of Ontario	23,381,112	12,462,283
City of Toronto	17,398,559	14,471,591
	<u>68,428,418</u>	<u>62,309,340</u>
Add opening deferred contributions		
Government of Canada	4,709,800	4,634,859
Province of Ontario	5,546,784	5,285,081
City of Toronto	8,555,684	5,350,673
	<u>18,812,268</u>	<u>15,270,613</u>
Less contributions for land acquisition		
Government of Canada	-	(12,550,987)
Province of Ontario	(15,000,000)	-
Less closing deferred contributions		
Government of Canada	(11,613,854)	(4,709,799)
Province of Ontario	(5,622,836)	(5,546,784)
City of Toronto	(9,405,176)	(8,555,685)
	<u>(26,641,866)</u>	<u>(18,812,268)</u>
Government contributions recognized as revenue		
Government of Canada	20,744,693	22,749,539
Province of Ontario	8,305,060	12,200,580
City of Toronto	16,549,067	11,266,579
	<u>\$ 45,598,820</u>	<u>\$ 46,216,698</u>

TORONTO WATERFRONT REVITALIZATION CORPORATION

Notes to the Financial Statements

March 31, 2007

10. ELIGIBLE RECIPIENT COSTS

The Corporation has agreements with Eligible Recipients who are responsible for managing various projects on Toronto's waterfront. Under the terms of the agreements, the Corporation does not assume ownership or ongoing operational responsibility upon project completion.

The Corporation has paid or accrued Eligible Costs pursuant to agreements with Eligible Recipients as follows. These costs (recoveries) are exclusive of the Corporation's costs for these projects.

	<u>2007</u>	<u>2006</u>
City of Toronto		
Front street extension	\$ -	\$ (286,959)
Toronto Transit Commission		
Union station second platform	1,988,081	350,250
Transit Environmental Assessments	363,859	38,000
Toronto and Region Conservation Authority		
Lower Don river environmental assessments	606,423	447,243
Mimico park	1,388,259	2,594,481
Port Union waterfront park	3,190,076	2,656,129
Western Beaches Watercourse Facility	2,356,728	18,181,076
Tommy Thompson park	410,407	383,013
West Don Lands bridge design	9,688,231	1,530,090
Canada Lands Company		
Cherry beach improvements	-	(5,000)
Soil remediation framework	-	-
Toronto Economic Development Corporation		
Port Lands site preparation and cleanup	-	-
Port Lands permanent beautification	1,520,047	369,272
Harbourfront Corporation		
Harbourfront water's edge	2,586,368	5,026,739
Shakespeare Works	(13,741)	896,709
University of Peace	1,181,432	480,332
	\$ 25,266,170	\$ 32,661,375

TORONTO WATERFRONT REVITALIZATION CORPORATION

Notes to the Financial Statements

March 31, 2007

11. PRESIDENT'S PENSION PLAN

The Corporation maintains a registered pension plan known as "The Pension Plan for Presidents of TWRC (the Plan)". The Plan is a defined benefit plan and was transferred from the President's previous employer to the Corporation, pursuant to the President's employment contract. The Plan was registered in the Corporation's name April 21, 2003 with no assets or liabilities until January 1, 2005 when a transfer was affected from the President's previous employer. The Plan provides pension benefits based on length of service and final average earnings.

The Corporation measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial valuation of the plan was as of March 31, 2007. The last valuation for funding purposes was as of April 21, 2006.

A reconciliation of the funded status of the Plan to the amount recorded in the financial statements is as follows:

	<u>2007</u>	<u>2006</u>
Accrued benefit obligation	\$ 1,309,659	\$ 1,136,188
Fair value of plan assets	1,002,504	924,173
Funded status - plan deficit	(307,155)	(212,015)
Unamortized net actuarial loss	234,469	200,751
Accrued benefit liability	\$ (72,686)	\$ (11,264)

Details of the accrued benefit obligation are as follows:

	<u>2007</u>	<u>2006</u>
Accrued benefit obligation, beginning of year	\$ 1,136,188	\$ 850,706
Current service cost	35,751	31,886
Interest cost on accrued benefit obligation	52,737	39,717
Actuarial loss on accrued benefit obligation	84,983	213,879
Accrued benefit obligation, end of year	\$ 1,309,659	\$ 1,136,188

The Plan expense for the year is determined as follows:

	<u>2007</u>	<u>2006</u>
Current service cost	\$ 35,751	\$ 31,886
Interest cost on accrued benefit obligation	52,737	39,717
Expected return on plan assets	(41,588)	(40,429)
Amortization of net actuarial loss	14,522	-
Plan expense	\$ 61,422	\$ 31,174

TORONTO WATERFRONT REVITALIZATION CORPORATION

Notes to the Financial Statements

March 31, 2007

11. PRESIDENT'S PENSION PLAN (continued)

The significant actuarial assumptions adopted in measuring the accrued benefit obligation are as follows:

	<u>2007</u>	<u>2006</u>
Discount rate	4.50%	4.50%
Expected long-term rate of return on plan assets	4.50%	4.50%
Rate of salary escalation	2.50%	2.50%

12. COMMITMENTS

The Corporation is committed to payments under operating leases for equipment and office space through 2012 in the amount of \$2,229,762. Annual payments for the next five fiscal years and thereafter are as follows:

2008	\$ 536,523
2009	516,136
2010	517,607
2011	526,893
2012	132,603
	<u>\$ 2,229,762</u>

In addition, the Corporation has other commitments of \$21,843,182. These commitments comprise contracts directly entered into by the Corporation or delivery agreements with Eligible Recipients (2007 - \$18,202,436; 2006 - \$44,970,933) who are responsible for managing various projects on Toronto's waterfront.

TORONTO WATERFRONT REVITALIZATION CORPORATION

Notes to the Financial Statements

March 31, 2007

13. GUARANTEES

- (a) Under the Contribution Agreement the Corporation provides an indemnity to the City of Toronto, Province of Ontario and Government of Canada and their respective officers, employees and agents, from and against liability with respect to injury to persons, damage or loss of property, economic loss or infringement of rights arising directly or indirectly from:
- (i) a project,
 - (ii) the performance of a contract or breach of any term or condition, or
 - (iii) any omission or willful or negligent act of the Corporation's officers, employees or agents.

The indemnity extends to all costs and liabilities the level of government may incur as a result of appointing members to the board of directors of the Corporation where the Corporation is acting as an agent or incurring obligations on behalf of that level of government.

The Corporation requires all Eligible Recipients to indemnify the Corporation from and against liability on the same basis outlined above.

The Corporation requires all third party contractors to indemnify each level of government and the Corporation, its officers, employees and agents against all claims and liabilities caused by or arising from:

- (i) the breach of any term or condition of the contract by the third party contractor or its officers, employees or agents; or
 - (ii) any negligent or willful act or omission of the third party contractor or its officers, employees or agents, in relation to the applicable project.
- (b) Under the Delivery Agreement with each Eligible Recipient respectively, the Corporation provides an indemnity to the Eligible Recipient and its respective officers, employees and agents, from and against any claims with respect to direct loss arising from:
- (i) any breach by the Corporation of the Delivery Agreement or documents or certificates given pursuant to the Agreement, or
 - (ii) any negligent or willful acts or omissions of the Corporation, its officers, directors, employees or agents, in relation to the project.

The nature of the indemnifications prevents management of the Corporation from making a reasonable estimate of the maximum potential liability the Corporation could be exposed to. Management, however, attempts to limit the Corporation's exposure under these indemnifications through the purchase of directors and officers insurance, the allocation of risk to Eligible Recipients and contractors (outlined above) and through enforcing the Corporation's and Eligible Recipients policies and procedures, as well as intense oversight where appropriate.

14. COMPARATIVE FIGURES

Certain of the prior years' comparative figures have been reclassified to conform to the current year's financial statement presentation.

TORONTO WATERFRONT REVITALIZATION CORPORATION

Schedule A - Schedule of Financial Activities by Contribution Agreement

Year ended March 31, 2007

	PRIORITY PROJECTS ¹			CORE PROJECTS ²		
	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007
REVENUE						
Government contributions						
Government of Canada	\$ 1,007,762	\$ 2,285,412	\$ 12,954,777	\$ 2,669,114	\$ 3,179,426	\$ 13,748,487
Province of Ontario	471,768	(712,059)	11,512,462	409,905	5,131,687	13,441,540
City of Toronto	208,264	183,669	11,864,331	6,590,706	4,047,995	18,053,045
	1,687,794	1,757,022	36,331,570	9,669,725	12,359,108	45,243,072
Less contributions for non-amortized capital assets	-	-	-	-	-	-
Decrease/ (increase) in deferred contributions related to future periods	1,492,572	(313,785)	(1,380,922)	(2,574,264)	(701,803)	(6,420,002)
Net government contributions	3,180,366	1,443,237	34,950,648	7,095,461	11,657,305	38,823,070
Interest and other	-	-	-	-	-	-
	3,180,366	1,443,237	34,950,648	7,095,461	11,657,305	38,823,070
EXPENSES						
Eligible recipient costs						
Construction/ implementation	-	(17,115)	1,505,078	5,513,665	7,010,256	24,200,693
Design, approvals and site preparation	815,620	407,075	3,446,480	237,374	312,556	2,020,018
Project management and other internal	150,023	90,281	739,683	180,370	302,252	1,260,133
Other	4,640	-	95,754	-	-	-
Property acquisition	-	(286,959)	13,874,556	1,233,294	2,652,284	4,939,262
	970,283	193,282	19,661,551	7,164,703	10,277,348	32,420,106
Corporation costs:						
Salaries, benefits and directors fees	1,469	-	1,469	-	-	-
Program manager fees	488,905	513,202	5,338,950	163,418	278,312	1,443,089
Construction/ implementation	11,223	304,798	343,347	(95,114)	105,112	10,000
Design, approvals and site preparation	66,442	260,580	2,163,162	(87,896)	458,806	2,879,522
Communications and public consultation	1,530,951	131,157	2,116,273	11,355	56,767	343,623
Legal fees	11,914	3,064	595,125	(60,252)	169,052	346,209
Audit, finance and other professional fees	150,000	3,273	1,095,125	(9,763)	39,750	162,150
Occupancy, IT and office expenses	63,034	9,177	86,709	24,351	37,485	80,718
Amortization	-	-	-	-	-	-
Corporate allocation	-	-	3,110,548	-	-	525,162
	2,323,938	1,225,251	14,850,708	(53,901)	1,145,284	5,790,473
Non-recoverable (Refundable) GST	(113,855)	24,704	438,389	(15,341)	234,673	612,491
	3,180,366	1,443,237	34,950,648	7,095,461	11,657,305	38,823,070
EXCESS OF REVENUE OVER EXPENSES	-	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	-	-	-	-	-	-
ADD GOVERNMENT CONTRIBUTIONS FOR NON-AMORTIZED CAPITAL ASSETS	-	-	-	-	-	-
NET ASSETS, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

¹ Priority Projects includes Development Plan & Business Strategy, Front Street Extension, Lower Don River Environmental

² Core Projects includes Harbourfront Water's Edge, Mimico Park, Port Union Waterfront and Precinct Planning

³ Other Projects includes West Don Lands Phase 2 Planning, East Bayfront Implementation

⁴ Certain of the prior years' comparative figures have been reclassified to conform to the current year's financial statement

presentation

TORONTO WATERFRONT REVITALIZATION CORPORATION

Schedule A - Schedule of Financial Activities by Contribution Agreement

Year ended March 31, 2007

	COMMISSIONERS PARK LAND			WESTERN BEACHES WATERCOURSE		
	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007
REVENUE						
Government contributions						
Government of Canada	\$ 560,982	\$ 266,299	\$ 2,160,614	\$ 3,671,479	\$ 10,778,522	\$ 15,000,001
Province of Ontario	(338,057)	(21,992)	973,284	881,704	2,568,296	4,000,000
City of Toronto	-	-	3,333,333	-	4,000,000	4,000,000
	222,925	244,307	6,467,231	4,553,183	17,346,818	23,000,001
Less contributions for non-amortized capital assets	-	-	-	-	-	-
Decrease/ (increase) in deferred contributions related to future periods	50,604	(30,338)	(5,647,264)	(2,234,381)	1,634,346	(1,008,890)
Net government contributions	273,529	213,969	819,967	2,318,802	18,981,164	21,991,111
Interest and other	-	-	-	-	-	-
	273,529	213,969	819,967	2,318,802	18,981,164	21,991,111
EXPENSES						
Eligible recipient costs						
Construction/ implementation	-	-	-	2,084,016	17,431,002	19,515,019
Design, approvals and site preparation	-	-	-	60,882	181,738	242,620
Project management and other internal	-	-	-	211,830	536,599	760,880
Other	-	-	-	-	-	37,549
Property acquisition	-	-	-	-	31,738	31,738
	-	-	-	2,356,728	18,181,077	20,587,806
Corporation costs:						
Salaries, benefits and directors fees		-	-	-	-	-
Program manager fees	153,051	48,635	288,017	16,159	73,484	164,213
Construction/ implementation	3,020	4,430	7,450	-	58	58
Design, approvals and site preparation	27,613	57,207	138,213	(11,904)	577,952	1,096,119
Communications and public consultation	3,954	6,736	12,388	-	32,366	36,746
Legal fees	97,041	115,733	337,072	410	70,707	73,698
Audit, finance and other professional fees	-	(33,637)	8,163	-	-	-
Occupancy, IT and office expenses	2,151	3,878	4,511	-	8,950	10,774
Amortization	-	-	-	-	-	-
Corporate allocation	-	-	24,153	-	-	21,697
	286,830	202,982	819,967	4,665	763,517	1,403,305
Non-recoverable (Refundable) GST	(13,301)	10,987	-	(42,591)	36,569	-
	273,529	213,969	819,967	2,318,802	18,981,164	21,991,111
EXCESS OF REVENUE OVER EXPENSES	-	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	-	-	-	-	-	-
ADD GOVERNMENT CONTRIBUTIONS FOR NON-AMORTIZED CAPITAL ASSETS	-	-	-	-	-	-
NET ASSETS, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

1 Priority Projects includes Development Plan & Business Strategy, Front Street Extension, Lower Don River Environmental

2 Core Projects includes Harbourfront Water's Edge, Mimico Park, Port Union Waterfront and Precinct Planning

3 Other Projects includes West Don Lands Phase 2 Planning, East Bayfront Implementation

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presentation

TORONTO WATERFRONT REVITALIZATION CORPORATION

Schedule A - Schedule of Financial Activities by Contribution Agreement

Year ended March 31, 2007

	SHAKESPEARE WORKS			TOMMY THOMPSON PARK		
	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007
REVENUE						
Government contributions						
Government of Canada	\$ 82,339	\$ 775,576	\$ 1,357,915	\$ 309,521	\$ 867,861	\$ 1,877,382
Province of Ontario	-	-	-	-	-	-
City of Toronto	-	-	-	-	-	-
	82,339	775,576	1,357,915	309,521	867,861	1,877,382
Less contributions for non-amortized capital assets	-	-	-	-	-	-
Decrease/ (increase) in deferred contributions related to future periods	(96,080)	121,132	(124,772)	103,527	(480,187)	(1,069,677)
Net government contributions	(13,741)	896,708	1,233,143	413,048	387,674	807,705
Interest and other	-	-	-	-	-	-
	(13,741)	896,708	1,233,143	413,048	387,674	807,705
EXPENSES						
Eligible recipient costs						
Construction/ implementation	(74,061)	835,837	1,098,352	323,173	107,316	430,488
Design, approvals and site preparation	58,600	33,959	92,559	87,300	-	87,300
Project management and other internal	1,720	26,912	42,232	(9,044)	275,697	266,654
Other	-	-	-	8,977	-	8,977
Property acquisition	-	-	-	-	-	-
	(13,741)	896,708	1,233,143	410,406	383,013	793,419
Corporation costs:						
Salaries, benefits and directors fees	-	-	-	-	-	-
Program manager fees	-	-	-	2,899	(3,015)	6,867
Construction/ implementation	-	-	-	-	-	-
Design, approvals and site preparation	-	-	-	-	-	-
Communications and public consultation	-	-	-	-	979	979
Legal fees	-	-	-	-	6,440	6,440
Audit, finance and other professional fees	-	-	-	-	-	-
Occupancy, IT and office expenses	-	-	-	-	-	-
Amortization	-	-	-	-	-	-
Corporate allocation	-	-	-	-	-	-
	-	-	-	2,899	4,404	14,286
Non-recoverable (Refundable) GST	-	-	-	(257)	257	-
	(13,741)	896,708	1,233,143	413,048	387,674	807,705
EXCESS OF REVENUE OVER EXPENSES	-	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	-	-	-	-	-	-
ADD GOVERNMENT CONTRIBUTIONS FOR NON-AMORTIZED CAPITAL ASSETS	-	-	-	-	-	-
NET ASSETS, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

1 Priority Projects includes Development Plan & Business Strategy, Front Street Extension, Lower Don River Environmental

2 Core Projects includes Harbourfront Water's Edge, Mimico Park, Port Union Waterfront and Precinct Planning

3 Other Projects includes West Don Lands Phase 2 Planning, East Bayfront Implementation

4 Certain of the prior years' comparative figures have been reclassified to conform to the current year's financial statement

presentation

TORONTO WATERFRONT REVITALIZATION CORPORATION

Schedule A - Schedule of Financial Activities by Contribution Agreement

Year ended March 31, 2007

	LAKE ONTARIO PARK PLAN			PORT LANDS PERMANENT BEAUTIFICATION		
	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007
REVENUE						
Government contributions						
Government of Canada	\$ 287,355	\$ 262,260	\$ 549,615	\$ 4,115,405	\$ 1,635,698	\$ 5,751,103
Province of Ontario	-	-	-	377,475	547,691	925,166
City of Toronto	-	-	-	1,292,031	547,690	1,839,720
	287,355	262,260	549,615	5,784,911	2,731,079	8,515,989
Less contributions for non-amortized capital assets	-	-	-	-	-	-
Decrease/ (increase) in deferred contributions related to future periods	184,618	(112,645)	71,973	(1,044,369)	(1,555,863)	(2,600,234)
Net government contributions	471,973	149,615	621,588	4,740,542	1,175,216	5,915,755
Interest and other	-	-	-	-	-	-
	471,973	149,615	621,588	4,740,542	1,175,216	5,915,755
EXPENSES						
Eligible recipient costs						
Construction/ implementation	-	-	-	1,374,158	122,540	1,496,698
Design, approvals and site preparation	-	-	-	31,403	212,732	244,135
Project management and other internal	-	-	-	99,563	34,000	133,563
Other	-	-	-	14,923	-	14,923
Property acquisition	-	-	-	-	-	-
	-	-	-	1,520,047	369,272	1,889,319
Corporation costs:						
Salaries, benefits and directors fees	-	-	-	-	-	-
Program manager fees	10,031	118,690	128,721	305,535	205,983	511,518
Construction/ implementation	15,942	-	15,942	2,829,152	334,258	3,163,409
Design, approvals and site preparation	378,137	24,601	402,738	84,269	217,280	301,549
Communications and public consultation	37,832	6,187	44,019	12,501	12,861	25,362
Legal fees	-	-	-	3,104	18,671	21,773
Audit, finance and other professional fees	-	-	-	-	-	-
Occupancy, IT and office expenses	30,157	11	30,168	1,559	1,266	2,825
Amortization	-	-	-	-	-	-
Corporate allocation	-	-	-	-	-	-
	472,099	149,489	621,588	3,236,120	790,319	4,026,436
Non-recoverable (Refundable) GST	(126)	126	-	(15,625)	15,625	-
	471,973	149,615	621,588	4,740,542	1,175,216	5,915,755
EXCESS OF REVENUE OVER EXPENSES	-	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	-	-	-	-	-	-
ADD GOVERNMENT CONTRIBUTIONS FOR NON-AMORTIZED CAPITAL ASSETS	-	-	-	-	-	-
NET ASSETS, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

1 Priority Projects includes Development Plan & Business Strategy, Front Street Extension, Lower Don River Environmental

2 Assessments and Portlands Preparation
3 Core Projects includes Harbourfront Water's Edge, Mimico Park, Port Union Waterfront and Precinct Planning

4 Other Projects includes West Don Lands Phase 2 Planning, East Bayfront Implementation

5 Certain of the prior years' comparative figures have been reclassified to conform to the current year's financial statement

presentation

TORONTO WATERFRONT REVITALIZATION CORPORATION

Schedule A - Schedule of Financial Activities by Contribution Agreement

Year ended March 31, 2007

	WEST DON LANDS PHASE 1			UNIVERSITY FOR PEACE		
	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007
REVENUE						
Government contributions						
Government of Canada	\$ -	\$ (223,000)	\$ -	\$ 358,758	\$ 527,792	\$ 1,386,550
Province of Ontario	6,226,437	3,842,165	10,291,602	-	-	-
City of Toronto	6,600,880	4,533,399	11,226,368	-	-	-
	12,827,317	8,152,564	21,517,970	358,758	527,792	1,386,550
Less contributions for non-amortized capital assets	-	-	-	-	-	-
Decrease/ (increase) in deferred contributions related to future periods	(1,067,520)	(4,062,498)	(5,626,132)	822,844	(50,817)	275,454
Net government contributions	11,759,797	4,090,066	15,891,838	1,181,602	476,975	1,662,004
Interest and other	-	-	-	-	-	-
	11,759,797	4,090,066	15,891,838	1,181,602	476,975	1,662,004
EXPENSES						
Eligible recipient costs						
Construction/ implementation	8,571,365	-	8,571,365	(30,332)	30,332	-
Design, approvals and site preparation	717,629	755,909	1,473,537	-	-	-
Project management and other internal	685,836	392,921	946,923	-	-	-
Other	(49,029)	-	82,805	1,211,764	450,000	1,661,764
Property acquisition	(237,571)	381,261	143,690	-	-	-
	9,688,230	1,530,091	11,218,320	1,181,432	480,332	1,661,764
Corporation costs:						
Salaries, benefits and directors fees	61	232	293	-	-	-
Program manager fees	966,513	1,391,445	2,375,353	-	-	-
Construction/ implementation	72,705	204,622	277,327	-	-	-
Design, approvals and site preparation	149,705	181,736	340,041	-	-	-
Communications and public consultation	60,130	54,722	114,852	-	(3,338)	-
Legal fees	533,581	518,073	1,051,654	-	-	-
Audit, finance and other professional fees	302,406	141,564	445,719	-	-	-
Occupancy, IT and office expenses	21,044	33,065	54,110	170	(16)	240
Amortization	-	-	-	-	-	-
Corporate allocation	-	-	14,169	-	-	-
	2,106,145	2,525,459	4,673,518	170	(3,354)	240
Non-recoverable (Refundable) GST	(34,578)	34,516	-	-	(3)	-
	11,759,797	4,090,066	15,891,838	1,181,602	476,975	1,662,004
EXCESS OF REVENUE OVER EXPENSES	-	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	-	-	-	-	-	-
ADD GOVERNMENT CONTRIBUTIONS FOR NON-AMORTIZED CAPITAL ASSETS	-	-	-	-	-	-
NET ASSETS, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

1 Priority Projects includes Development Plan & Business Strategy, Front Street Extension, Lower Don River Environmental

2 Core Projects includes Harbourfront Water's Edge, Mimico Park, Port Union Waterfront and Precinct Planning

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presentation

TORONTO WATERFRONT REVITALIZATION CORPORATION

Schedule A - Schedule of Financial Activities by Contribution Agreement

Year ended March 31, 2007

	STRATEGIC LAND ACQUISITION			TRANSITIONAL (INTERIM) SPORTS FIELDS		
	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007
REVENUE						
Government contributions						
Government of Canada	\$ (490,647)	\$ 13,217,579	\$ 12,726,932	\$ 471,446	\$ 1,078,554	\$ 1,575,000
Province of Ontario	-	-	-	-	-	-
City of Toronto	-	-	-	-	-	-
	(490,647)	13,217,579	12,726,932	471,446	1,078,554	1,575,000
Less contributions for non-amortized capital assets	-	(12,550,987)	(12,550,987)	-	-	-
Decrease/ (increase) in deferred contributions related to future periods	967,397	(526,253)	441,342	546,351	(1,029,276)	(504,465)
Net government contributions	476,750	140,339	617,287	1,017,797	49,278	1,070,535
Interest and other	-	-	-	-	-	-
	476,750	140,339	617,287	1,017,797	49,278	1,070,535
EXPENSES						
Eligible recipient costs						
Construction/ implementation	-	-	-	-	-	-
Design, approvals and site preparation	-	-	-	-	-	-
Project management and other internal	-	-	-	-	-	-
Other	-	-	-	-	-	-
Property acquisition	-	-	-	-	-	-
	-	-	-	-	-	-
Corporation costs:						
Salaries, benefits and directors fees	-	-	-	-	-	-
Program manager fees	20,082	-	20,082	66,709	17,679	87,847
Construction/ implementation	572	-	572	556,131	-	556,131
Design, approvals and site preparation	296,136	(1,138)	294,999	370,486	31,533	402,019
Communications and public consultation	806	9,393	10,197	5,516	-	5,516
Legal fees	89,220	120,492	209,712	15,098	-	15,098
Audit, finance and other professional fees	13,450	-	13,450	-	-	-
Occupancy, IT and office expenses	60,363	8,769	69,331	3,859	64	3,924
Amortization	-	-	-	-	-	-
Corporate allocation	-	-	-	-	-	-
	480,629	137,516	618,343	1,017,799	49,276	1,070,535
Non-recoverable (Refundable) GST	(3,879)	2,823	(1,056)	(2)	2	-
	476,750	140,339	617,287	1,017,797	49,278	1,070,535
EXCESS OF REVENUE OVER EXPENSES	-	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	12,550,987	-	-	-	-	-
ADD GOVERNMENT CONTRIBUTIONS FOR NON-AMORTIZED CAPITAL ASSETS	-	12,550,987	12,550,987	-	-	-
NET ASSETS, END OF YEAR	\$ 12,550,987	\$ 12,550,987	\$ 12,550,987	\$ -	\$ -	\$ -

1 Priority Projects includes Development Plan & Business Strategy, Front Street Extension, Lower Don River Environmental

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presentation

TORONTO WATERFRONT REVITALIZATION CORPORATION

Schedule A - Schedule of Financial Activities by Contribution Agreement

Year ended March 31, 2007

	DON RIVER PARK PHASE 1			PORT LANDS REGIONAL SPORTS COMPLEX PHASE 1		
	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007
REVENUE						
Government contributions						
Government of Canada	\$ 1,040,392	\$ 241,000	\$ 1,281,392	\$ -	\$ (100,000)	\$ 200,000
Province of Ontario	-	-	-	-	-	-
City of Toronto	-	-	-	-	-	-
	1,040,392	241,000	1,281,392	-	(100,000)	200,000
Less contributions for non-amortized capital assets	-	-	-	-	-	-
Decrease/ (increase) in deferred contributions related to future periods	95,898	(92,424)	3,475	194,945	102,196	441
Net government contributions	1,136,290	148,576	1,284,867	194,945	2,196	200,441
Interest and other	-	-	-	-	-	-
	1,136,290	148,576	1,284,867	194,945	2,196	200,441
EXPENSES						
Eligible recipient costs						
Construction/ implementation	-	-	-	-	-	-
Design, approvals and site preparation	-	-	-	-	-	-
Project management and other internal	-	-	-	-	-	-
Other	-	-	-	-	-	-
Property acquisition	-	-	-	-	-	-
	-	-	-	-	-	-
Corporation costs:						
Salaries, benefits and directors fees	-	-	-	-	-	-
Program manager fees	140,492	95,772	236,264	40,406	2,196	45,902
Construction/ implementation	-	-	-	-	-	-
Design, approvals and site preparation	863,364	42,803	906,168	150,000	-	150,000
Communications and public consultation	64,485	9,245	73,730	-	-	-
Legal fees	177	-	177	-	-	-
Audit, finance and other professional fees	-	-	-	-	-	-
Occupancy, IT and office expenses	67,984	544	68,528	4,539	-	4,539
Amortization	-	-	-	-	-	-
Corporate allocation	-	-	-	-	-	-
	1,136,502	148,364	1,284,867	194,945	2,196	200,441
Non-recoverable (Refundable) GST	(212)	212	-	-	-	-
	1,136,290	148,576	1,284,867	194,945	2,196	200,441
EXCESS OF REVENUE OVER EXPENSES	-	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	-	-	-	-	-	-
ADD GOVERNMENT CONTRIBUTIONS FOR NON-AMORTIZED CAPITAL ASSETS	-	-	-	-	-	-
NET ASSETS, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

1 Priority Projects includes Development Plan & Business Strategy, Front Street Extension, Lower Don River Environmental

2 Core Projects includes Harbourfront Water's Edge, Mimico Park, Port Union Waterfront and Precinct Planning

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presentation

TORONTO WATERFRONT REVITALIZATION CORPORATION

Schedule A - Schedule of Financial Activities by Contribution Agreement

Year ended March 31, 2007

	UNION STATION SECOND PLATFORM			CANADA SQUARE FEASIBILITY STUDY		
			Nov 1, 2001 to Mar 31, 2007			Nov 1, 2001 to Mar 31, 2007
	2007	2006 (unaudited)		2007	2006 (unaudited)	
REVENUE						
Government contributions						
Government of Canada	\$ 4,489,841	\$ (27,991)	\$ 5,699,446	\$ 137,000	\$ -	\$ 137,000
Province of Ontario	239,165	(675,865)	568,766	-	-	-
City of Toronto	-	1,376,110	2,365,372	-	-	-
	4,729,006	672,254	8,633,584	137,000	-	137,000
Less contributions for non-amortized capital assets	-	-	-	-	-	-
Decrease/ (increase) in deferred contributions related to future periods	(2,669,946)	(315,275)	(3,622,821)	(137,000)	-	(137,000)
Net government contributions	2,059,060	356,979	5,010,763	-	-	-
Interest and other	-	-	-	-	-	-
	2,059,060	356,979	5,010,763	-	-	-
EXPENSES						
Eligible recipient costs						
Construction/ implementation	1,806,130	-	1,806,130	-	-	-
Design, approvals and site preparation	21,826	298,280	1,933,960	-	-	-
Project management and other internal	160,125	51,971	559,478	-	-	-
Other	-	-	-	-	-	-
Property acquisition	-	-	-	-	-	-
	1,988,081	350,251	4,299,568	-	-	-
Corporation costs:						
Salaries, benefits and directors fees	-	-	-	-	-	-
Program manager fees	59,981	5,203	411,915	-	-	-
Construction/ implementation	-	-	-	-	-	-
Design, approvals and site preparation	-	-	-	-	-	-
Communications and public consultation	4,869	-	4,869	-	-	-
Legal fees	8,168	1,473	38,896	-	-	-
Audit, finance and other professional fees	-	-	-	-	-	-
Occupancy, IT and office expenses	37	-	37	-	-	-
Amortization	-	-	-	-	-	-
Corporate allocation	-	-	245,377	-	-	-
	73,055	6,676	701,094	-	-	-
Non-recoverable (Refundable) GST	(2,076)	52	10,101	-	-	-
	2,059,060	356,979	5,010,763	-	-	-
EXCESS OF REVENUE OVER EXPENSES	-	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	-	-	-	-	-	-
ADD GOVERNMENT CONTRIBUTIONS FOR NON-AMORTIZED CAPITAL ASSETS	-	-	-	-	-	-
NET ASSETS, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

1 Priority Projects includes Development Plan & Business Strategy, Front Street Extension, Lower Don River Environmental

2 Core Projects includes Harbourfront Water's Edge, Mimico Park, Port Union Waterfront and Precinct Planning

3 Other Projects includes West Don Lands Phase 2 Planning, East Bayfront Implementation

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TORONTO WATERFRONT REVITALIZATION CORPORATION

Schedule A - Schedule of Financial Activities by Contribution Agreement

Year ended March 31, 2007

	PROJECT E			CENTRAL WF PUBLIC REALM DESIGN		
	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007
REVENUE						
Government contributions						
Government of Canada	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Province of Ontario	15,000,000	-	15,000,000	-	-	-
City of Toronto	-	-	-	-	-	-
	15,000,000	-	15,000,000	-	-	-
Less contributions for non-amortized capital assets	(15,000,000)	-	(15,000,000)	-	-	-
Decrease/ (increase) in deferred contributions related to future periods	103,855	-	103,855	741,283	-	741,283
Net government contributions	103,855	-	103,855	741,283	-	741,283
Interest and other	-	-	-	-	-	-
	103,855	-	103,855	741,283	-	741,283
EXPENSES						
Eligible recipient costs						
Construction/ implementation	-	-	-	-	-	-
Design, approvals and site preparation	-	-	-	-	-	-
Project management and other internal	-	-	-	-	-	-
Other	-	-	-	-	-	-
Property acquisition	-	-	-	-	-	-
	-	-	-	-	-	-
Corporation costs:						
Salaries, benefits and directors fees	-	-	-	-	-	-
Program manager fees	103,464	-	103,464	27,037	-	27,037
Construction/ implementation	-	-	-	-	-	-
Design, approvals and site preparation	-	-	-	622,125	-	622,125
Communications and public consultation	39	-	39	30,539	-	30,539
Legal fees	-	-	-	456	-	456
Audit, finance and other professional fees	-	-	-	-	-	-
Occupancy, IT and office expenses	352	-	352	61,126	-	61,126
Amortization	-	-	-	-	-	-
Corporate allocation	-	-	-	-	-	-
	103,855	-	103,855	741,283	-	741,283
Non-recoverable (Refundable) GST	-	-	-	-	-	-
	103,855	-	103,855	741,283	-	741,283
EXCESS OF REVENUE OVER EXPENSES	-	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	-	-	-	-	-	-
ADD GOVERNMENT CONTRIBUTIONS FOR NON-AMORTIZED CAPITAL ASSETS	15,000,000	-	15,000,000	-	-	-
NET ASSETS, END OF YEAR	\$ 15,000,000	\$ -	\$ 15,000,000	\$ -	\$ -	\$ -

1 Priority Projects includes Development Plan & Business Strategy, Front Street Extension, Lower Don River Environmental

2 Assessments and Portlands Preparation
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4 Other Projects includes West Don Lands Phase 2 Planning, East Bayfront Implementation

5 Certain of the prior years' comparative figures have been reclassified to conform to the current year's financial statement presentation

TORONTO WATERFRONT REVITALIZATION CORPORATION

Schedule A - Schedule of Financial Activities by Contribution Agreement

Year ended March 31, 2007

	OTHER PROJECTS ³			CORPORATE		
	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007	2007	2006 (unaudited)	Nov 1, 2001 to Mar 31, 2007
REVENUE						
Government contributions						
Government of Canada	\$ -	\$ -	\$ -	\$ 8,938,000	\$ 610,478	\$ 13,384,273
Province of Ontario	112,853	-	112,853	(138)	1,782,687	5,584,000
City of Toronto	-	-	-	2,706,678	(217,271)	5,716,729
	112,853	-	112,853	11,644,540	2,175,894	24,685,002
Less contributions for non-amortized capital assets	-	-	-	-	-	-
Decrease/ (increase) in deferred contributions related to future periods	1,729,377	472,445	2,231,002	(5,039,304)	3,399,061	(2,368,510)
Net government contributions	1,842,230	472,445	2,343,855	6,605,236	5,574,955	22,316,492
Interest and other	-	-	-	1,540,035	591,079	2,719,401
	1,842,230	472,445	2,343,855	8,145,271	6,166,034	25,035,893
EXPENSES						
Eligible recipient costs						
Construction/ implementation	-	-	-	-	-	-
Design, approvals and site preparation	-	-	-	-	-	-
Project management and other internal	-	-	-	-	-	-
Other	-	-	-	-	-	-
Property acquisition	-	-	-	-	-	-
	-	-	-	-	-	-
Corporation costs:						
Salaries, benefits and directors fees	-	-	-	4,246,652	2,998,678	12,152,764
Program manager fees	746,802	59,151	834,074	238,339	272,478	1,996,257
Construction/ implementation	1,978	42,968	44,945	-	1,735	1,735
Design, approvals and site preparation	110,778	89,517	200,295	59,805	126,326	853,544
Communications and public consultation	82,313	12,492	93,213	305,144	274,773	1,326,306
Legal fees	799,960	246,780	1,046,741	604,052	567,776	3,861,059
Audit, finance and other professional fees	107,995	-	107,995	1,358,562	812,548	4,195,939
Occupancy, IT and office expenses	3,733	11,472	16,592	1,403,831	691,284	3,742,924
Amortization	-	-	-	267,640	222,232	857,128
Corporate allocation	-	(661)	-	-	661	(3,941,106)
	1,853,559	461,719	2,343,855	8,484,024	5,968,491	25,046,550
Non-recoverable (Refundable) GST	(11,329)	10,727	-	(338,753)	197,543	(10,655)
	1,842,230	472,445	2,343,855	8,145,271	6,166,034	25,035,893
EXCESS OF REVENUE OVER EXPENSES	-	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	-	-	-	-	-	-
ADD GOVERNMENT CONTRIBUTIONS FOR NON-AMORTIZED CAPITAL ASSETS	-	-	-	-	-	-
NET ASSETS, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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TORONTO WATERFRONT REVITALIZATION CORPORATION

Schedule A - Schedule of Financial Activities by Contribution Agreement

Year ended March 31, 2007

	GRAND TOTAL		
	2007	2006	Nov 1, 2001 to Mar 31, 2007
REVENUE			
Government contributions			
Government of Canada	\$ 27,648,747	\$ 35,375,466	\$ 89,790,488
Province of Ontario	23,381,112	12,462,283	62,409,673
City of Toronto	17,398,559	14,471,591	58,398,898
	68,428,418	62,309,340	210,599,059
Less contributions for non-amortized capital assets	(15,000,000)	(12,550,987)	(27,550,987)
Decrease/ (increase) in deferred contributions related to future periods	(7,829,598)	(3,541,655)	(26,641,866)
Net government contributions	45,598,820	46,216,698	156,406,206
Interest and other	1,540,035	591,079	2,719,401
	47,138,855	46,807,777	159,125,609
EXPENSES			
Eligible recipient costs			
Construction/ implementation	19,568,115	25,520,168	58,623,823
Design, approvals and site preparation	2,030,634	2,202,249	9,540,609
Project management and other internal	1,480,423	1,710,634	4,709,545
Other	1,191,276	450,000	1,901,771
Property acquisition	995,722	2,778,324	18,989,246
	25,266,170	32,661,375	93,764,994
Corporation costs:			
Salaries, benefits and directors fees	4,248,181	2,998,910	12,154,526
Program manager fees	3,549,819	3,079,214	14,019,570
Construction/ implementation	3,395,609	997,981	4,420,916
Design, approvals and site preparation	3,079,060	2,067,204	10,750,494
Communications and public consultation	2,150,434	604,340	4,238,651
Legal fees	2,102,928	1,838,262	7,604,110
Audit, finance and other professional fees	1,922,651	963,498	6,028,541
Occupancy, IT and office expenses	1,748,289	805,948	4,237,409
Amortization	267,640	222,232	857,128
Corporate allocation	-	-	-
	22,464,611	13,577,589	64,311,345
Non-recoverable (Refundable) GST	(591,926)	568,813	1,049,270
	47,138,855	46,807,777	159,125,609
EXCESS OF REVENUE OVER EXPENSES	-	-	-
NET ASSETS, BEGINNING OF YEAR	12,550,987	-	-
ADD GOVERNMENT CONTRIBUTIONS FOR NON-AMORTIZED CAPITAL ASSETS	15,000,000	12,550,987	27,550,987
NET ASSETS, END OF YEAR	\$ 27,550,987	\$ 12,550,987	\$ 27,550,987

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presentation

**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 consolidated 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.



Andy Poprawa, CA
President & CEO



James Maxwell
*Chief Administrative
and Financial Officer*

Toronto, Canada
January 30, 2007

DEPOSIT INSURANCE CORPORATION OF ONTARIO

auditors' report



KPMG LLP

To the Board of Directors of Deposit Insurance Corporation of Ontario

We have audited the Consolidated Statement of Financial Position of Deposit Insurance Corporation of Ontario as at December 31, 2006 and the Consolidated Statement of Operations and Changes in the Deposit Insurance Reserve Fund and the Consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada
January 30, 2007

Deposit Insurance Corporation of Ontario

consolidated statement of financial position

December 31, 2006, with comparative figures for 2005 (in thousands of dollars)

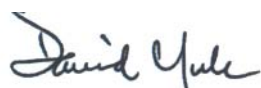
	2006	2005
	Consolidated	
Assets		
Cash and short-term investments (note 2)	\$ 24,599	\$ 3,838
Investments (note 3)	82,637	88,289
Loans (net of allowance of \$1,642 (2005 - \$1,828)) (note 4)	307	335
Premiums receivable	2,590	2,608
Interest and other receivables	315	150
Capital assets (net of accumulated amortization of \$3,405 (2005 - \$3,338))	239	198
	\$110,687	\$95,418
Liabilities		
Payables and accruals	\$ 2,940	\$ 2,087
Member Shares and Deposits of institutions in liquidation (note 5)	116	694
Deferred premium income	2,821	2,772
Accrual for deposit insurance losses (note 6)	4,790	4,861
Total Liabilities	10,667	10,414
Deposit Insurance Reserve Fund	100,020	85,004
	\$110,687	\$95,418

Lease Commitments (note 7)

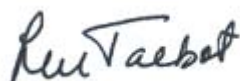
Contingencies (note 12)

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

Deposit Insurance Corporation of Ontario

consolidated statement of operations and changes in the deposit insurance reserve fund

Year ended December 31, 2006, with comparative figures for 2005 (in thousands of dollars)

	2006	2005
	Consolidated	
Income		
Premium income	\$ 16,845	\$16,513
Other income	4,177	2,460
	<u>21,022</u>	<u>18,973</u>
Expenses		
Provision for losses	288	2,689
Salaries and benefits	3,505	3,436
Operating expenses	2,270	2,263
Recovery of operating expenses	(57)	(68)
	<u>6,006</u>	<u>8,320</u>
Excess of income over expenses	15,016	10,653
Deposit Insurance Reserve Fund, beginning of year	85,004	74,351
Deposit Insurance Reserve Fund, end of year	<u>\$100,020</u>	<u>\$85,004</u>

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

consolidated statement of cash flows

Year ended December 31, 2006, with comparative figures for 2005 (in thousands of dollars)

	2006	2005
	Consolidated	
Cash received from (applied to):		
Operations:		
Excess of income over expenses	\$ 15,016	\$ 10,653
Items charged to operations not affecting cash		
Provision for losses	288	2,689
(Gain)/loss on disposal of capital assets	(4)	21
Amortization	118	122
	15,418	13,485
Changes in:		
Premiums receivable	18	(226)
Loans	38	130
Interest and other receivables	(165)	359
Payables and accruals	853	(68)
Membership shares and deposits of institutions in liquidation	(578)	-
Deferred premium income	49	147
	215	342
Changes in cash balances of institutions in liquidation	576	-
Net advances by deposit insurer	115	(86)
Net deposit insurance advances (note 6)	(1,060)	136
	(369)	50
	15,264	13,877
Investing activities:		
Purchase of investments	(82,637)	(88,289)
Proceeds on sale of investments	88,289	49,855
Purchase of capital assets	(163)	(61)
Proceeds on sale of capital assets	8	86
	5,497	(38,409)
Increase/(decrease) in cash position during the year	20,761	(24,532)
Cash position, beginning of year	3,838	28,370
Cash position, end of year	\$ 24,599	\$ 3,838
Supplementary cash flow information:		
Loan guarantee fee paid during the year	\$ 14	\$ 16
Interest received during the year	\$ 4,069	\$ 2,711

Cash position is defined as cash and short - term investments less any borrowings

See accompanying notes to financial statements.

notes to consolidated financial statements

Year ended December 31, 2006

General

Deposit Insurance Corporation of Ontario ("DICO" or "the Corporation") 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 Act").

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 and financial 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.

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. The Corporation has in place a revolving credit facility with a Canadian chartered bank in the amount of \$10 million, approved by the Ontario Financing Authority which administers the Minister's guarantee. The standby fee charged by the Chartered bank is 3 basis points on average unused portion of the credit facility, payable in arrears quarterly.

1. Summary of Significant Accounting Policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). To facilitate a better understanding of our consolidated financial statements, the Corporation has disclosed its significant accounting policies as follows:

(a) Variable Interest Entities

In 2005 the Corporation adopted the Canadian Institute of Chartered Accountants' (CICA) accounting guideline on the consolidation of variable interest entities ("VIEs"). VIEs include entities in which the equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support by other parties. AcG-15 requires the consolidation of a VIE by its primary beneficiary defined as the party that receives the majority of expected residual returns and/or that absorbs the majority of the entity's expected losses. As liquidator of the estates of credit unions in liquidation, it has been determined that these rules require the Corporation to consolidate credit unions in liquidation if claims by DICO against the estate represent more than 50% of the total liabilities of the credit unions during the year. The assets and liabilities of the credit unions which meet the criteria for consolidation were recorded in the Corporation's books at their respective fair values as of December 31, 2006 and 2005.

(b) 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.

(c) 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 Consolidated 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 Consolidated 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.

(d) Pension Benefits:

Pension benefits include a defined contribution pension plan covering all of its regular, non-contractual employees as well as supplemental arrangements, which provide pension benefits in excess of registered pension plan limits. 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.

(e) 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 Accrued benefits obligation is actuarially determined using the projected benefit method prorated on service. Cumulative gains and losses in excess of the accrued benefit obligation at the beginning of the year are amortized over the expected average remaining service of active members.

(f) 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.

(g) Capital Assets:

Capital assets are recorded at cost less accumulated amortization. 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.

(h) Income Taxes:

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the date of enactment or substantive enactment.

2. Cash and Short-term Investments:

The short-term investments have a term to maturity of less than 90 days on the date of purchase. All investments are highly liquid fixed rate contracts.

	December 31, 2006			December 31, 2005		
	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	\$ 22,984	4.35%	68	\$1,989	3.32%	49
Cash	763			951		
Cash of institutions in liquidation	852			898		
Total	\$24,599			\$3,838		

3. Investments:

The Corporation has contracted the Ontario Financing Authority to manage its investment portfolio. The composition of DICO's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under both the Income Tax Act and Regulation 78/95 of the Credit Unions and Caisses Populaires Act, 1994. Investments have terms to maturity of 90 days or greater on the date of purchase. They have a weighted-average yield of 4.20% (2005: 3.40%).

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, 2006			December 31, 2005		
	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	\$61,587	4.16%	95	\$46,609	3.39%	96
Bankers' acceptances/ Deposit Notes	12,253	4.31%	31	23,334	3.43%	73
Structured Securities	8,797	4.36%	36	18,346	3.36%	55
Total	\$82,637	4.20%	75	\$88,289	3.40%	81

4. Loans (net of allowance):

Loans (net of allowance) of \$307,000 (2005 - \$335,000) are comprised of loans of credit unions in liquidation of \$235,000 (2005 - \$273,000) and loans purchased from the estate of credit unions in liquidation of \$72,000 (2005 - \$62,000).

5. Member Shares and Deposits of institutions in Liquidation:

Member shares and deposits of institutions in liquidation of \$116,000 (2005 - \$694,000) are comprised of \$103,000 (2005 - \$680,000) in member shares and \$13,000 (2005 - \$14,000) in deposits. DICO has an obligation to insure the amounts on deposit up to the prescribed amounts. DICO has no obligation to insure member shares but as liquidator has the responsibility to distribute any residual funds to members once the liquidation is complete.

6. Accrual for deposit insurance losses:

The provision for losses includes specific provisions for known or likely losses from specific member institutions and a general accrual 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 Consolidated Statement of Financial Position as "Accrual for deposit insurance losses".

	2006	2005
	(thousands)	
Accrual for deposit insurance losses, beginning of year	\$ 4,861	\$ 2,217
Increase in accrual for current year's deposit insurance losses	500	3,054
Decrease in accrual for prior year's deposit insurance losses	(212)	(365)
Decrease in deposit insurance advances recoverable	-	(845)
Increase in advances from DICO	10	86
Consolidation of advances from DICO	-	6,861
Deficits of institutions in consolidation	-	(6,197)
Accrual for deposit insurance losses, end of year	(4,790)	(4,861)
Net deposit insurance advances/(recoveries)	\$ 369	\$ (50)

The general accrual for losses included in "Accrual for deposit insurance losses" amounted to \$1,750,000 (2005 - \$1,750,000) and is calculated in accordance with the methodology as described in note 1(c).

7. Lease Commitments:

The operating lease for the Corporation's premises is for the term commencing January 1, 1998 and ending August 5, 2007. For the balance of the current lease, the future minimum rent is \$83,000 and the property taxes and common area maintenance costs approximates \$190,000. The Corporation is currently negotiating with the current landlord and other locations for a new lease commencing August 6, 2007.

8. Income Taxes:

The Corporation is subject to income taxes on its income as defined under the Income Tax Act. It has accumulated losses for income tax purposes of \$26,229,000. They expire as follows:

Originating Taxation Year	Expiring Taxation Year	Amount (thousands)
2000	2007	\$ 4,992
2001	2008	4,191
2002	2009	5,161
2003	2010	4,124
2004	2014	3,790
2005	2015	2,833
2006	2026	1,138
		<u>\$ 26,229</u>

The Corporation has determined that realization of the future income tax assets does not meet the more-likely-than-not criterion for recognition and, therefore, a valuation allowance has been recorded against future income tax assets.

9. Pension Plan:

The Corporation implemented a defined contribution pension plan effective January 1, 1999. The pension expense (including supplementary pension) charged to income for 2006 was \$310,000 (2005 - \$306,000).

10. Future non-pension post-retirement benefits:

The Corporation accounts for the current value of future non-pension post-retirement benefits. The accrued benefit liability as at December 31, 2006, as actuarially determined, is \$1,122,000 (2005 - \$967,000). Current service costs, including interest, were \$194,000 (2005 - \$124,000). Actuarial valuation for the Corporation's plan is required every three years. The most recent actuarial valuation was conducted as of September 30, 2005 and the date of the next required valuation is September 30, 2008.

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: interest rate of 5.25% (2005 - 5.25%), rate of compensation increase of 3.5% (2005 - 3.5%) and initial weighted average trend rate in health and dental costs of 6.0% (2005 - 6.2%), grading down to 5% per annum by 2016. The Corporation measures its accrued benefit obligations as at September 30 of each year.

RECONCILIATION OF ACCRUED BENEFIT OBLIGATION TO THE ACCRUED BENEFIT LIABILITY	FISCAL YEAR ENDING DECEMBER 31, 2006 (THOUSANDS)	FISCAL YEAR ENDING DECEMBER 31, 2005 (THOUSANDS)
Accrued benefit obligation	\$1,868	\$1,755
Employer contributions during year	(10)	(9)
Unamortized net actuarial loss	(736)	(779)
Accrued benefit liability	\$1,122	\$967

CHANGE IN BENEFIT OBLIGATIONS	FISCAL YEAR ENDING DECEMBER 31, 2006 (THOUSANDS)	FISCAL YEAR ENDING DECEMBER 31, 2005 (THOUSANDS)
Balance beginning of the year	\$1,755	\$1,023
Current service cost	53	53
Interest cost	94	69
Actuarial losses	4	641
Benefit payments	(38)	(31)
Balance end of year	\$1,868	\$1,755

11. Directors' Expense:

During the year the directors received an aggregate remuneration of \$83,000 (2005 - \$51,000). Total directors' expenses were \$35,000 (2005 - \$36,000). The fixed per diem rate for the Chair is \$500 (minimum \$2,000 per month) and for all other board members is \$350. In addition, directors, other than the Chair, receive an annual retainer of \$3,500.

12. 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.

13. Fair Value Disclosure:

The fair value of financial assets and liabilities which include cash and short-term investments, investments, loans (net of allowance), premiums receivable, interest and other receivables, payables and accruals, member shares and deposits approximate their carrying amounts. The fair value of the accrual for deposit insurance losses have not been determined because it is not practicable to determine fair value with sufficient reliability.

14. 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	\$152,700	\$8,691
Burgman, John	Chief Information Officer	\$117,446	\$12,457
Dale, Richard	Regional Manager, Insurance & Risk Management	\$106,500	\$1,567
D'Errico Tony	Regional Manager, Insurance & Risk Management	\$103,938	\$1,517
Foster, C.William D.	Vice President Asset Management & Recoveries	\$158,500	\$9,446
Hutton, John	Regional Manager, Insurance & Risk Management	\$105,438	\$1,517
Maxwell, James	Chief Administrative & Financial Officer	\$137,662	\$15,024
Poprawa, Andrew	President and CEO	\$209,600	\$6,355
White, Richard	Manager, Policy & Research	\$104,500	\$3,131

* Includes taxable group life insurance, parking and use of company vehicle.

MOTOR VEHICLE ACCIDENT CLAIMS FUND

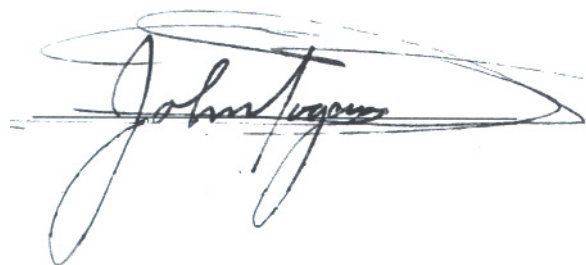
Management's Responsibility for Financial Information

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.

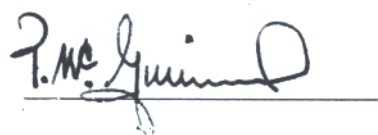
Management agrees with the work of the specialists in evaluating the Unpaid Claims amount and has adequately considered the qualifications of the specialist in determining amounts and disclosures used in the notes to financial statements. Management did not give any, nor cause any, instructions to be given to 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 Auditor General, 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.

A handwritten signature in blue ink, appearing to read "John Avgeris", written over a horizontal line.

John Avgeris
Senior Manager
Motor Vehicle Accident Claims Fund

A handwritten signature in blue ink, appearing to read "P. McGuinness", written over a horizontal line.

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

Auditors' Report

To the Audit Committee of the Financial Services Commission of Ontario and the Auditor General 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 Auditor General of Ontario, we have audited the statement of financial position of the Fund as at March 31, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A stylized, handwritten signature of "Deloitte & Touche LLP" in dark ink.

Chartered Accountants

Toronto, Ontario
June 15, 2007

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF FINANCIAL POSITION

	As at March 31, 2007 \$	Restated (Ref Note 4) As at March 31, 2006 \$
<u>ASSETS</u>		
Funds on Deposit	28,536,531	24,114,515
Accounts Receivable - License Fees	2,211,763	2,653,211
Accounts Receivable - Debtors	42,211,934	44,761,307
Less: Allowance for Doubtful Accounts	26,516,964	30,395,591
	<u>15,694,970</u>	<u>14,365,716</u>
Leasehold Improvement	500,000	500,000
Less: Accumulated Amortization	100,000	-
	<u>400,000</u>	<u>500,000</u>
Computer Equipment	45,445	68,713
Less: Accumulated Amortization	40,294	55,282
	<u>5,151</u>	<u>13,431</u>
Furniture and Fixtures	16,416	-
Unpaid Claims Recoverable (Note 5)	6,867,698	7,243,822
Total Assets	<u><u>53,732,529</u></u>	<u><u>48,890,695</u></u>

LIABILITIES & FUND DEFICIT

Accounts Payable and Accrued Expenses	1,870,762	2,187,321
Employee Future Benefit Obligations (Note 4)	429,720	394,667
Deferred Revenue	54,963,437	44,625,559
Unpaid Claims and Adjustment Expenses (Note 5)	174,545,555	141,177,118
	<u>231,809,474</u>	<u>188,384,665</u>
Fund Deficit	(178,076,945)	(139,493,970)
	<u>(178,076,945)</u>	<u>(139,493,970)</u>
Total Liabilities & Fund Deficit	<u><u>53,732,529</u></u>	<u><u>48,890,695</u></u>

APPROVED:


Bob Christie
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, 2007 \$	Restated (Ref Note 4) Year ended March 31, 2006 \$
<u>REVENUE</u>		
Fee on Issue or Renewal of Driver's Licences	26,513,868	26,175,001
Change in Deferred Revenue	(10,337,879)	(13,606,960)
Fees Earned	16,175,989	12,568,041
Prior Year Recoveries	605,816	865,404
Other Revenue	552	15,764
Total Revenue	16,782,357	13,449,209
<u>EXPENSES</u>		
Change in Net Unpaid Claims and Adjustment Expenses	33,744,561	14,314,849
Accident Benefits Claims Payments	13,348,394	5,064,648
Administrative Expenses		
Salaries and Wages	1,394,221	1,300,667
Employees' Benefits	216,694	210,661
Transportation and Communication	27,538	33,828
Services:		
Claims (Solicitors' Fees etc.)	2,048,979	2,005,176
Accident Benefit Claims Expense	1,568,127	1,208,662
Other Services	1,093,262	944,699
Bad Debts Expense	1,790,004	3,595,979
Supplies and Equipment	20,121	19,153
Amortization Expense	113,431	22,904
Total Expenses	55,365,332	28,721,226
Excess of Expenses over Revenue	(38,582,975)	(15,272,017)
Fund Deficit, Beginning of Year	(139,493,970)	(124,221,953)
Fund Deficit, End of Year	(178,076,945)	(139,493,970)

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF CASH FLOWS

	Year ended March 31, 2007 \$	Restated (Ref Note 4) Year ended March 31, 2006 \$
<u>OPERATING ACTIVITIES</u>		
Cash Inflows		
Fee on Issue or Renewal of Driver's Licences	26,955,315	25,792,503
Repayment by Debtors	1,496,470	1,647,223
Prior Year Recoveries	605,816	3,085,381
Other Revenue	552	15,764
Cash Outflows		
Statutory Payments	(18,325,135)	(8,532,439)
Payments to Employees	(1,568,537)	(1,460,828)
Administrative Expenses	(4,720,898)	(4,100,610)
Net Cash Outflow from Operating Activities	<u>4,443,583</u>	<u>16,446,994</u>
<u>INVESTING ACTIVITIES</u>		
Cash Outflows		
Acquisition of Equipment	(5,151)	-
Acquisition of Furniture	(16,416)	-
Acquisition of Leasehold Improvement	-	(500,000)
Net Cash Outflow from Investing Activities	<u>(21,567)</u>	<u>(500,000)</u>
Net Increase in Funds on Deposit with Minister of Finance	4,422,016	15,946,994
Funds on Deposit with Minister of Finance, Beginning of Year	<u>24,114,515</u>	<u>8,167,521</u>
Funds on Deposit with Minister of Finance, End of Year	<u><u>28,536,531</u></u>	<u><u>24,114,515</u></u>

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2007

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 Financial Services Commission of Ontario ("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

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2007

2. FUND OPERATIONS (continued)

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.

The Fund operates administratively under the direction the FSCO and reimburses the 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) Leasehold Improvements

Leasehold Improvements are carried at cost, less accumulated amortization. The Fund provides for amortization on a straight line basis over the term of the lease.

Leasehold Improvements	5 years

b) 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.

Computer equipment	3 years

c) Furniture & Fixtures

Furniture and Fixtures are carried at cost, less accumulated amortization. The Fund provides for amortization on a straight-line basis over the estimated useful life of the assets.

Furniture & Fixtures	5 years

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) 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.

e) Accounts Receivable – Fees

Under the *Act* 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.

f) 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 \$ 6.2 million (2006 - \$ 5.2 million) were processed. Additionally, in the current year \$0.6M of the Accounts Receivable was reinstated through the bad debt expense account.

g) 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.

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Prior Year Recoveries (continued)

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 the FSCO, where the legal proceedings are deemed frivolous and the Fund is awarded costs by the courts.

h) 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.

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 life 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 Assuris, 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, 2007. 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.

i) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that The Fund's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates.

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2007

4. CHANGE IN ACCOUNTING POLICY

a) Employee Future Benefits Obligation

In prior years, the Fund did not record the liabilities pertaining to the legislative severance and compensated absences components of its employee future benefits costs because these liabilities had been determined and recognized by the Province in its financial statements. While the Province continues to accrue for these costs each year and to fund them annually when due, the Auditor General has requested and management has agreed that the Fund also recognize the liability for these costs in these financial statements. This change in accounting policy was implemented in the current year and has been applied retroactively.

The effect of this change is as follows:

	2006		2006
	Previously Stated	Increase (Decrease)	Restated
		(\$000)	
Employee Future Benefits Obligations	-	395	395
Employee Benefits Expense	166	45	211

b) Employee Benefits

The Fund's employees are entitled to benefits that have been negotiated centrally for Ontario Public Service employees. The future liability for benefits earned by the Fund's employees is recognized in the Province's consolidated financial statements. These benefits are accounted for by the Fund as follows:

Employee Future Benefits Obligation

The costs of any legislated severance and unused vacation entitlements earned by employees are recognized when earned by eligible employees. Legislated severance was non-actuarially estimated based on one week pay for every year of service for those employees with a minimum of five years of service. These costs for the year amount to \$108K, (2006 - \$108k) and are included in salaries and employee benefits in operating expenses.

Other Non-Pension Post-Employment Benefits

The cost of other non-pension post-employment benefits is determined and funded on an ongoing basis by the Ontario Ministry of Government Services and accordingly is not included in these financial statements.

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2007

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

- a) The Fund's unpaid claims and adjustment expenses consist of the following:

	March 31, 2007		March 31, 2006	
	Gross	Recoverable	Gross	Recoverable
	(000's)	(000's)	(000's)	(000's)
ACCIDENT BENEFITS				
Statutory accident benefits	\$ 98,093	\$ -	\$ 72,368	\$ -
THIRD PARTY LIABILITY (TPL)				
Property damage	1,115	60	1,027	71
Bodily injury	75,338	6,808	67,782	7,173
Total TPL	76,453	6,868	68,809	7,244
Totals	\$ 174,546	\$ 6,868	\$ 141,177	\$ 7,244

- b) The change in gross provision for claims and adjustment expenses is as follows:

	March 31, 2007	March 31, 2006
	(000's)	(000's)
Unpaid claims and adjustment expenses, beginning of year	\$ 141,177	\$ 128,490
Increase (decrease) in provision for losses that occurred in prior years	23,887	(1,374)
Amounts paid during the year on claims of prior years		
Statutory Payments	(17,388)	(8,377)
Claims Expenses	(6,130)	(5,598)
Amount paid during the year on claims of the current year		
Statutory Payments	(576)	(815)
Claims Expenses	(203)	(545)
Provision for losses on claims that occurred in the current year	33,779	29,396
Unpaid claims and adjustment expenses, end of year	\$ 174,546	\$ 141,177

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2007

6. ROLE OF THE ACTUARY AND AUDITOR

The FSCO 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 Auditor General of Ontario 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 consider 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, 2007 for information purposes.

As at March 31, 2007, the amount paid out of the Fund for accident benefit claims in the form of structured settlements was approximately \$ 12.4 million (2006 - \$ 9.0 million) with applicable reversionary interest of approximately \$ 8.7 million (2006- \$ 4.9 million).

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 are 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 OPB.

The Board of Directors ("Board") is ultimately responsible for the consolidated financial statements of OPB. 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 28, 2007



Karen Kojima, CA
Treasurer & 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 excess of Ontario Pension Board ("OPB") as at December 31, 2006, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in excess (deficit) for the year then ended. These consolidated financial statements are the responsibility of 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 OPB as at December 31, 2006 and the results of its operations and the changes in its financial position, accrued pension benefits and excess (deficit) for the year then ended in accordance with Canadian generally accepted accounting principles.



Toronto, Canada
February 28, 2007

Consolidated Statement of Net Assets Available for Benefits, and Accrued Pension Benefits and Excess

As at December 31

(in thousands of dollars)

	2006	2005
Assets		
Investments (Note 4)	\$16,148,351	\$ 14,329,822
Investment-related receivables (Note 4)	60,662	21,375
Contributions receivable (Note 5)	37,510	41,120
Capital assets (Note 6)	1,265	1,160
Total assets	16,247,788	14,393,477
Liabilities		
Investment-related liabilities (Note 4)	475,870	179,106
Accounts payable and accrued charges	15,627	12,635
Income taxes withheld on pension payments	9,802	9,908
Contributions payable	1,210	–
Total liabilities	502,509	201,649
Net assets available for benefits	15,745,279	14,191,828
Actuarial asset value adjustment (Note 7)	487,337	606,523
Actuarial value of net assets available for benefits	\$16,232,616	\$ 14,798,351
Accrued pension benefits and excess		
Accrued pension benefits (Note 7)	\$15,317,628	\$ 14,674,380
Excess (Note 8)	914,988	123,971
Total accrued pension benefits and excess	\$16,232,616	\$ 14,798,351

See accompanying notes

On behalf of the Board:



John E. Richardson
Director



Mary Tate
Director

Consolidated Statement of Changes in Net Assets Available for Benefits

ONTARIO PENSION BOARD

For the Year Ended December 31

*(in thousands of dollars)***2006**

2005

Increase in net assets

Net investment income (Note 9)

\$ 1,887,015

\$ 1,502,231

Contributions (Note 10)

424,909

340,704

Transfers from other plans

85,337

93,502

Increase in net assets

2,397,261

1,936,437

Decrease in net assets

Pension payments

766,144

750,107

Termination payments and transfers

55,476

43,352

Operating expenses (Note 11)

22,190

19,507

Decrease in net assets

843,810

812,966

Net increase in net assets for the year

1,553,451

1,123,471

Net assets, at beginning of year

14,191,828

13,068,357

Net assets, at end of year

\$15,745,279

\$ 14,191,828

See accompanying notes

Consolidated Statement of Changes in Accrued Pension Benefits

For the Year Ended December 31

(in thousands of dollars)

	2006	2005
Accrued pension benefits, at beginning of year	\$14,674,380	\$ 13,893,721
Increase in accrued pension benefits		
Interest on accrued pension benefits	892,289	856,193
Benefits accrued		
Service accrual	394,872	321,459
Transfer of service from other plans	85,337	93,502
Past service buybacks	10,200	9,744
Change in actuarial assumptions	–	303,826
Change in <i>Income Tax Act</i> maximum pension	–	18,426
Experience losses	82,170	–
Total increase	1,464,868	1,603,150
Decrease in accrued pension benefits		
Benefits paid	821,620	793,460
Experience gains	–	29,031
Total decrease	821,620	822,491
Net increase in accrued pension benefits	643,248	780,659
Accrued pension benefits, at end of year	\$15,317,628	\$ 14,674,380

Consolidated Statement of Changes in Excess (Deficit)

For the Year Ended December 31

(in thousands of dollars)

	2006	2005
Excess (deficit), at beginning of year	\$ 123,971	\$ (110,598)
Increase in net assets available for benefits	1,553,451	1,123,471
Change in actuarial asset value adjustment	(119,186)	(108,243)
Increase in actuarial value of net assets available for benefits	1,434,265	1,015,228
Net increase in accrued pension benefits	(643,248)	(780,659)
Net increase	791,017	234,569
Excess, at end of year	\$ 914,988	\$ 123,971

See accompanying notes

Notes to the Consolidated Financial Statements

ONTARIO PENSION BOARD

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 ("PSPP") are stated in Schedule 1 to the PSPAct. Ontario Pension Board ("OPB") is the administrator of the PSPP.

Note 2 Description of PSPP

The following is a brief description of the PSPP. For more complete information, reference should be made to the PSPAct.

a) General

The PSPP is a contributory defined benefit pension plan. Membership is mandatory for most employees who satisfy the eligibility requirements provided in the PSPAct. Under the PSPP, both the members and the employers make contributions. The PSPP 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 PSPP 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.

Ontario Provincial Police ("OPP") officers are required to contribute to the PSPP 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 that exceeds *Income Tax Act* limits is 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 PSPP 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 PSPP to provide for an enhanced early retirement opportunity for members of the Plan whose age and service in the Plan total at least 80 years ("Factor 80"). The Factor 80 program ended on March 31, 2002. The PSPP was again amended to permit those members who are deemed to be surplus by their employer to retire upon attaining Factor 80. To qualify, certain conditions must be satisfied by both the employer and the member. The surplus program expired March 31, 2006. OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death Benefits

Upon the death of the member or pensioner, benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or pensioner's estate.

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 PSPP. The amount of the disability pension is dependent on years of credit and average salary.

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%.

Notes to the Consolidated Financial Statements (continued)

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 PSPP 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, including accrued income. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value of investments is determined as follows:

- (i) Short-term money market securities are recorded at cost that, together with accrued interest or discount earned, approximates fair value.
- (ii) Bonds and real estate debt are valued at quoted market prices where available. For those instruments where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.
- (iii) Special Province of Ontario Debentures (the "Special Debentures"), which are non-marketable, are recorded at cost.
- (iv) Equities are valued at quoted market prices.
- (v) Real estate, consisting primarily of income-producing properties, is valued at estimated fair value determined annually by independent appraisals. The purchase price plus closing costs approximate the fair value of properties acquired and held for less than six months.
- (vi) Participating mortgages are recorded at cost, subject to an annual assessment of recoverable value based on independent appraisals of the securitized properties.

Investment transactions are recorded as of the trade date, which is the date upon which the substantial risks and rewards have been transferred. Interest and real estate income from operations are recognized on an accrual basis. Since real estate is valued on a fair value basis, depreciation and amortization are not charged to income. Dividend income is recognized on the ex-dividend date. Income from participating mortgages is accrued at the rate stated in the instrument and any participation income is recorded when realized. Net investment income also includes realized gains and losses from the sale of investments and unrealized gains and losses determined from the change in the difference between cost and fair value at year-end, including appraisal adjustments on real estate valuations and fair value adjustments on real estate debt.

ONTARIO PENSION BOARD

d) Actuarial Asset Value Adjustment

The actuarial asset value adjustment reflects the amount required to adjust the Special Debentures to an actuarial value. The amount is the difference between the recorded value of the Special Debentures, at cost, and an actuarial value determined by discounting cash flows at the same investment return rate assumed in the Plan's accounting basis valuation. OPB does not use asset smoothing.

e) Accrued Pension Benefits

The value of accrued pension benefits is based on an actuarial valuation prepared by an independent firm of actuaries. This valuation uses the projected benefit method pro-rated on services and management's best estimate of various economic and non-economic assumptions.

f) Contributions

Contributions due to the PSPP at year-end are recorded as receivable. Transfers and purchases of prior service are recorded after cash is received and the case is processed.

g) Pension Payments

Payments of pensions, refunds and transfers are recorded in the year in which they are made.

h) Capital Assets

Capital assets are carried at cost less accumulated depreciation. Depreciation 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

i) 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.

Notes to the Consolidated Financial Statements (continued)

Note 4 Investments

As at December 31 (in thousands of dollars)	Fair Value	2006 Cost	Fair Value	2005 Cost
Cash and short-term investments				
Canada	\$ 803,403	\$ 802,758	\$ 511,114	\$ 510,791
United States and other international	299,175	297,929	233,212	235,025
	1,102,578	1,100,687	744,326	745,816
Fixed income				
Special Province of Ontario Debentures	2,713,358	2,713,358	2,922,442	2,922,442
Bonds				
Canada	2,726,915	2,689,671	2,532,134	2,469,132
United States and other international	517,545	489,528	302,906	316,010
	5,957,818	5,892,557	5,757,482	5,707,584
Equities				
Canada	2,308,650	1,369,074	2,405,466	1,510,786
United States	2,502,621	2,188,605	1,962,253	1,910,987
Other international	1,979,987	1,546,920	1,341,706	1,139,764
	6,791,258	5,104,599	5,709,425	4,561,537
Real estate	2,253,108	1,771,809	2,076,816	1,746,713
Participating mortgages	43,589	43,589	41,773	41,773
Total investments	16,148,351	13,913,241	14,329,822	12,803,423
Investment-related receivables				
Pending trades	60,662	60,662	13,846	13,846
Forward exchange contracts, net	–	–	7,529	–
	60,662	60,662	21,375	13,846
Investment-related liabilities				
Real estate debt	133,082	129,404	159,922	149,526
Pending trades	308,087	308,087	19,184	19,184
Forward exchange contracts, net	34,701	–	–	–
	475,870	437,491	179,106	168,710
Net investments	\$15,733,143	\$13,536,412	\$ 14,172,091	\$ 12,648,559

a) Asset Mix

OPB'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%

This asset mix was adopted after evaluating the risk characteristics of alternative policies, considering the liquidity requirements and the economic assumptions employed for actuarial valuation purposes.

b) Investment Risk

The Plan is subject to risks that could impact its cash flows, income, and assets available to meet benefit obligations. Investment risk management is the process of understanding the risks associated with the Plan and its operating environment, and the strategies for dealing with those risks.

OPB has adopted a Statement of Investment Policies and Procedures, which prescribes the asset mix policy, diversification requirements, performance expectations, limits on individual investments, valuation standards, and guidelines for the management of the Plan.

- (i) Interest Rate Risk – Interest rate risk refers to the effect on the fair value of the Plan's assets and liabilities due to fluctuations in market interest rates. The value of the Plan's investments is affected by short-term changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates and inflation. The Plan has established an asset mix policy that balances interest-sensitive investments with other investments, and that addresses the impact on benefit obligations. Duration and weighting for the fixed income portfolio are actively managed. See the Schedule of Fixed Income Maturities for further information.
- (ii) Credit Risk – The Plan is exposed to the risk of loss arising from a default or insolvency of a securities issuer. As at December 31, 2006, the Plan's greatest credit exposure is with the Province of Ontario, with Special Debentures valued at \$2.713 billion and bonds and short-term investments valued at \$361 million. At December 31, 2006, 98% of bonds held had at least an "A" rating.
- (iii) Foreign Currency Risk – Exposure arises from the Plan's holdings of foreign currency denominated investments. Fluctuations in the value of the Canadian dollar against foreign currencies can have an impact on the fair value of investments. In Canadian dollars, the net currency exposure is as follows:

As at December 31
(in thousands of dollars)
Currency

		2006		2005
Canadian dollar	\$11,712,235	74.4%	\$ 11,036,407	77.9%
United States dollar	2,798,899	17.8	2,186,938	15.4
Euro	528,767	3.4	369,030	2.6
Japanese yen	256,188	1.6	172,482	1.2
British pound sterling	253,490	1.6	286,723	2.0
Swiss franc	109,560	0.7	60,406	0.5
Other	74,004	0.5	60,105	0.4
	\$15,733,143	100.0%	\$ 14,172,091	100.0%

The OPB has entered into various forward exchange contracts to limit exposure to foreign currency fluctuations. The total fair value of contracts payable is \$1.676 billion (2005 – \$1.271 billion) and the total fair value of contracts receivable is \$1.641 billion (2005 – \$1.279 billion).

Notes to the Consolidated Financial Statements (continued)

- (iv) Liquidity Risk – Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and operating expenses as they become due. Cash sources include investment income, proceeds of sales of investments, and member and employer contributions. The largest single source of cash was the interest and principal payments from the Special Province of Ontario Debentures, which provided \$529.2 million (2005 – \$529.9 million) to the Plan.

c) Cash and Short-Term Investments

As at December 31 (in thousands of dollars)	Fair Value	2006 Cost	Fair Value	2005 Cost
Canada				
Cash	\$ 90,207	\$ 90,207	\$ 14,099	\$ 14,099
Short-term notes and treasury funds	666,275	665,666	464,709	464,386
Term deposits	44,186	44,150	30,839	30,839
Accrued interest	2,735	2,735	1,467	1,467
	\$ 803,403	\$ 802,758	\$ 511,114	\$ 510,791
United States and other international				
Cash	\$ 46,537	\$ 46,537	\$ 8,580	\$ 8,580
Short-term notes and treasury funds	32,049	31,872	176,034	177,473
Term deposits	60,153	60,153	28,247	28,247
Pooled funds	160,334	159,265	19,902	20,276
Accrued interest	102	102	449	449
	\$ 299,175	\$ 297,929	\$ 233,212	\$ 235,025

d) Fixed Income and Equities

The Special Debentures are recorded at their aggregate cost of \$2.713 billion (2005 – \$2.922 billion). By discounting cash flows based on year-end market yields of comparable bonds, a value of \$3.420 billion (2005 – \$3.813 billion) could be determined. There are currently eight Special Debentures maturing over the next eight years with a weighted average interest rate of 11.96% (2005 – 12.10%).

Included in the fixed income and equities totals are the following amounts related to pooled funds:

As at December 31 (in thousands of dollars)	Fair Value	2006 Cost	Fair Value	2005 Cost
Bonds – Canada	\$ 252,759	\$ 255,222	\$ 208,384	\$ 208,551
Equities – Canada	117,139	62,288	137,132	90,361
Equities – United States	–	–	8,029	8,113

See the schedules of Fixed Income Maturities and Investments over \$20 Million for further information.

ONTARIO PENSION BOARD

e) Real Estate

As at December 31 (in thousands of dollars)	Fair Value	2006 Cost	Fair Value	2005 Cost
Real estate properties	\$ 2,215,108	\$ 1,733,809	\$ 2,040,769	\$ 1,710,666
Other assets	38,000	38,000	36,047	36,047
Total assets	2,253,108	1,771,809	2,076,816	1,746,713
Debt on real estate properties	(133,082)	(129,404)	(159,922)	(149,526)
Net investment in real estate	\$ 2,120,026	\$ 1,642,405	\$ 1,916,894	\$ 1,597,187

Debt includes mortgages and other secured debt with various terms to maturity up to 2018 and a weighted average interest rate of 6.56%. A specific asset secures each debt instrument.

The following schedule shows the total principal payments related to this debt:

For the Year Ending December 31
(in thousands of dollars)

2007	\$ 4,899
2008	11,174
2009	33,735
2010	7,646
2011	16,843
2012 and thereafter	55,107

f) Securities Lending

At year-end, \$1.476 billion (2005 – \$815 million) of OPB's securities were on loan to third parties. Pursuant to a securities lending agreement, OPB's custodian arranges the loans and OPB earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with comparable securities.

Note 5 Contributions Receivable

As at December 31 (in thousands of dollars)	2006	2005
Members	\$ 15,181	\$ 14,685
Employers	22,329	26,435
Total contributions receivable	\$ 37,510	\$ 41,120

Note 6 Capital Assets

As at December 31 (in thousands of dollars)	Cost	Accumulated Depreciation	2006 Net Book Value	2005 Net Book Value
Computer equipment	\$ 2,656	\$ 2,166	\$ 490	\$ 224
Leasehold improvements	2,067	1,738	329	548
Furniture and fixtures	1,150	704	446	388
Total capital assets	\$ 5,873	\$ 4,608	\$ 1,265	\$ 1,160

Notes to the Consolidated Financial Statements (continued)

Note 7 Accrued Pension Benefits

a) Accounting Basis

The value of accrued pension benefits is an estimate of pension benefit obligations of the PSPP accrued to date for members and pensioners of the PSPP. The accounting valuation uses the projected benefit method (pro-rated on service), which is required under Canadian generally accepted accounting principles. Under this method, the accrued pension benefits are based on service earned up to the reporting date.

The accounting valuation at December 31, 2006 is computed by extrapolating data used for the December 31, 2005 funding valuation.

- (i) Actuarial Assumptions – The assumptions used for the accounting valuation 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 and inflation.

The key economic assumptions used for accounting valuation purposes are as follows:

	2006	2005
Investment return	6.15%	6.15%
Inflation	2.50%	2.50%
Real rate of return	3.65%	3.65%
Salary increases	3.50%	3.50%
	+promotional scale	+promotional scale

- (ii) Actuarial Asset Value Adjustment – The Special Debentures discounted at the assumed investment return rate are valued at \$3.201 billion, resulting in an actuarial asset value adjustment of \$487.3 million (2005 – \$606.5 million).

b) Funding Basis

The funding valuation of the PSPP is based on methods required under the *PSP Act*. The *Pension Benefits Act (Ontario)* and the *Income Tax Act* require that an actuarial funding valuation of the PSPP be completed, and filed with the regulatory authorities, at least every three years.

The funding valuation is used as a basis for funding and plan design decisions.

OPB filed a funding valuation as at December 31, 2005 with the Financial Services Commission of Ontario ("FSCO"). That valuation disclosed a funding shortfall of \$587 million.

Note 8 Excess

The primary difference between the accounting and funding valuations is the cost allocation method that is prescribed for each. The accounting valuation reflects only the accrued pension benefits on service earned, as well as assets accumulated, up to the reporting date. By contrast, the funding valuation also considers future service. The funding valuation includes the amount by which the present value of liabilities for future service accruals exceeds the present value of future contributions, whereas the accounting valuation does not reflect this additional funding obligation of the Plan.

In these financial statements, the amount by which the actuarial value of net assets available for benefits exceeds the accrued pension benefits based on accounting valuation is represented by the Excess, which as at December 31, 2006 is \$915.0 million (2005 – \$124.0 million).

ONTARIO PENSION BOARD

Note 9 Net Investment Income

For the year ended December 31 (in thousands of dollars)	Investment Income ¹	Realized Gain (Loss)	Unrealized Gain (Loss)	2006 Total	Investment Income ¹	Realized Gain (Loss)	Unrealized Gain (Loss)	2005 Total
Cash and short-term investments								
Canada	\$ 30,993	\$ (1,532)	\$ 323	\$ 29,784	\$ 21,625	\$ (2,135)	\$ 1,751	\$ 21,241
United States and other international	5,469	(44,713)	(39,171)	(78,415)	3,232	74,813	42,214	120,259
	36,462	(46,245)	(38,848)	(48,631)	24,857	72,678	43,965	141,500
Fixed income								
Special Province of Ontario Debentures	320,089	–	–	320,089	343,800	–	–	343,800
Bonds								
Canada	130,789	2,663	(25,758)	107,694	120,762	36,069	(20,607)	136,224
United States and other international	20,410	(5,670)	41,121	55,861	11,188	10,509	(52,703)	(31,006)
	471,288	(3,007)	15,363	483,644	475,750	46,578	(73,310)	449,018
Equities								
Canada	44,136	301,982	44,895	391,013	42,624	228,798	215,025	486,447
United States	40,962	51,861	262,751	355,574	35,483	(5,794)	(5,469)	24,220
Other international	43,938	156,981	231,125	432,044	35,841	108,856	11,147	155,844
	129,036	510,824	538,771	1,178,631	113,948	331,860	220,703	666,511
Real estate	133,014	–	157,915	290,929	114,977	–	145,448	260,425
Participating mortgages	1,817	–	–	1,817	1,817	–	–	1,817
Total investment income	\$ 771,617	\$ 461,572	\$ 673,201	\$1,906,390	\$ 731,349	\$ 451,116	\$ 336,806	\$1,519,271
Investment management and custodial fees				(19,375)				(17,040)
Net investment income				\$1,887,015				\$1,502,231

¹ Investment income includes interest on cash and short-term investments, fixed income and participating mortgages, dividend income on equities, and real estate operating income.

Notes to the Consolidated Financial Statements (continued)

a) Interest Income

For the Year Ended December 31

(in thousands of dollars)

	2006	2005
Cash and short-term investments		
Canada		
Cash	\$ 1,577	\$ 1,281
Short-term notes and treasury funds	28,123	19,088
Term deposits	1,293	1,256
	\$ 30,993	\$ 21,625
United States and other international		
Cash	\$ 163	\$ 52
Short-term notes and treasury funds	3,527	1,242
Term deposits	1,779	1,938
	\$ 5,469	\$ 3,232

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds.

Canadian bond interest includes \$11.295 million (2005 – \$11.169 million) from pooled bond funds.

b) Dividend Income

Canadian dividend income includes \$1.853 million (2005 – \$1.083 million) from pooled equity funds. United States dividend income includes \$118 thousand (2005 – \$90 thousand) from pooled equity funds.

c) Real Estate

The following is selected information from the operations of the subsidiary OPB Realty Inc.:

For the Year Ended December 31

(in thousands of dollars)

	2006	2005
Revenue		
Rental	\$ 246,317	\$ 211,275
Other income	5,534	5,121
	251,851	216,396
Expenses		
Operating expenses	93,481	84,330
General, administrative and other	18,286	15,408
	111,767	99,738
Operating income, before interest	140,084	116,658
Interest expense	9,148	2,964
Net operating income	130,936	113,694
Appraisal adjustment	151,196	155,844
Fair value adjustment on debt	6,719	(10,396)
	157,915	145,448
Net income of OPB Realty Inc.	\$ 288,851	\$ 259,142

ONTARIO PENSION BOARD

d) Investment Management and Custodial Fees

For the Year Ended December 31

(in thousands of dollars)

	2006	2005
Portfolio fund management	\$ 15,836	\$ 13,904
Custody	1,872	1,750
Real estate	1,354	1,083
Consulting	313	303
	\$ 19,375	\$ 17,040

Note 10 Contributions

For the Year Ended December 31

(in thousands of dollars)

	2006	2005
Members		
Current service	\$ 178,521	\$ 166,863
Prior service	7,082	6,337
	185,603	173,200
Employers		
Current service		
Regular contributions	180,943	167,288
PSSBA transfer	(10,010)	(8,352)
Long Term Income Protection	4,740	5,161
	175,673	164,097
Prior service	3,117	3,407
Special Payments	60,516	–
	239,306	167,504
Total contributions	\$ 424,909	\$ 340,704

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 contributions to the PSPP paid by their employers.

The Province contributes Special Payments towards the funding shortfall identified in the filed funding valuation as at December 31, 2005.

Notes to the Consolidated Financial Statements (continued)

Note 11 Operating Expenses

For the Year Ended December 31
(in thousands of dollars)

	2006	2005
Salaries and benefits	\$ 10,909	\$ 10,415
Agency services	388	340
	11,297	10,755
Information technology and project management	3,891	2,941
Office premises and operations	3,130	2,833
Professional services	1,294	1,120
Staff development and support	891	320
Communication	649	466
Depreciation	508	580
Audit	213	195
Board remuneration	154	145
Travel	88	77
Registration and filing fees	75	75
Total operating expenses	\$ 22,190	\$ 19,507

a) Audit Fees

Fees for services provided by the firm of Ernst & Young LLP include:

For the Year Ended December 31
(in thousands of dollars)

	2006	2005
Audit and related services provided to Ontario Pension Board	\$ 175	\$ 195
Audit and related services provided to OPB Realty Inc.	149	153
Total fees	\$ 324	\$ 348

Note 12 Compensation

Compensation to the senior management team includes base salary, bonuses, insured benefits and supplementary retirement incentives. Compensation totals, excluding retirement benefits, for the five highest-paid members of the senior management team were as follows:

For the year ended December 31, 2006	Base Salary	Bonus	Taxable Benefits & Allowances ¹	Total
1. Donald D. Weiss, President & CEO	\$ 333,742	\$ 125,625	\$ 15,915	\$ 475,282
2. Mark J. Fuller, Executive Vice-President & COO	299,032	112,551	13,561	425,144
3. Linda J. Bowden, Senior Vice-President, Corporate Services	232,976	87,715	9,965	330,656
4. Peter Shena, Vice-President, Policy & Communications	189,256	57,000	2,615	248,871
5. Thomas Choi, Vice-President, IT Services & PMO	165,426	49,811	275	215,512

¹ Includes life insurance, car allowance and parking

The above-noted individuals are entitled to benefits from both the PSPP and the PSSBA.

ONTARIO PENSION BOARD

The President & CEO, the Executive Vice-President & COO, the Senior Vice-President, Corporate Services and the Senior Vice-President, Investments also participate in a Supplemental Executive Retirement Plan ("SERP") that provides additional retirement benefits equal to 1.5% of the best five-year average annual base salary for each year of service with the Ontario Pension Board. All the other provisions of the SERP mirror the provisions of the PSPP, including the exclusion of bonuses from the pension entitlement calculation. The SERP is an unregistered arrangement that is non-contributory and not funded.

Note 13 Comparative Figures

Certain comparative figures have been restated to conform with the financial statement presentation adopted in the current year.

Fixed Income Maturities

As at December 31 (in thousands of dollars)	Fair Value	2006 Effective Yield %	Fair Value	2005 Effective Yield %
Special Province of Ontario Debentures				
0 – 1 year	\$ 163,772	15.38	\$ 141,575	11.16 – 13.33
1 – 5 years	1,157,406	11.55 – 13.33	1,039,540	12.79 – 15.38
5 – 10 years	1,235,096	10.38 – 11.19	1,571,324	10.38 – 11.55
Accrued interest	157,084		170,003	
	2,713,358		2,922,442	
Bonds				
Canada				
0 – 1 year	34,774	3.01 – 6.74	87,742	3.01 – 9.76
1 – 5 years	682,711	3.58 – 8.22	638,743	2.81 – 7.75
5 – 10 years	959,483	3.93 – 7.41	936,085	3.93 – 8.15
> 10 years	771,704	4.04 – 6.32	638,679	3.03 – 6.93
PH&N Bond Fund: 1 – 30 years	252,759	4.62	208,384	4.40
Accrued interest	25,484		22,501	
	2,726,915		2,532,134	
United States and other international				
0 – 1 year	84,575	2.64 – 7.12	64,083	2.00 – 7.29
1 – 5 years	163,281	3.08 – 6.00	151,334	2.63 – 6.86
5 – 10 years	211,082	2.81 – 6.80	40,951	2.67 – 6.38
> 10 years	49,589	4.30 – 5.28	41,972	3.95 – 6.47
Accrued interest	9,018		4,566	
	517,545		302,906	
	\$ 5,957,818		\$ 5,757,482	

Investments over \$20 Million

As at December 31, 2006

(in thousands of dollars)

	Maturities	Coupon %	Fair Value ¹
Cash and short-term investments			
Canada			
Government of Canada			\$ 466,466
Royal Bank of Canada			31,322
Bay Street Trust			30,676
Bank of Montreal			28,476
United States and other international			
GE Short Term Investment			160,334
Barclays Bank			58,311
Boston Safe Deposit and Trust			32,049
Fixed income			
Special Province of Ontario Debentures ²	2007 – 2014	10.38 – 15.38	2,556,274
Bonds			
Canada			
Government of Canada	2007 – 2037	3.00 – 10.35	919,636
Province of Ontario	2009 – 2037	4.40 – 9.50	350,769
Phillips, Hager & North High Grade Corporate Bond Fund	2007 – 2036	3.70 – 8.00	252,759
Province of Quebec	2010 – 2036	4.50 – 6.25	99,998
Royal Bank of Canada	2009 – 2053	4.18 – 7.10	61,751
Bank of Montreal	2009 – 2021	4.30 – 6.90	54,553
Bank of Nova Scotia	2008 – 2013	3.99 – 6.62	54,213
Toronto-Dominion Bank	2009 – 2105	4.31 – 7.60	50,654
Sun Life Financial Inc.	2015 – 2036	4.80 – 6.65	50,319
Manulife Financial Corporation	2012 – 2016	4.67 – 6.70	44,321
Merrill Lynch	2008 – 2037	2.69 – 5.00	37,627
Woodbine Entertainment Group	2011	8.58	36,256
Canadian Imperial Bank of Commerce	2008 – 2014	4.40 – 5.89	35,952
Enbridge Inc.	2010 – 2036	3.95 – 6.90	29,677
Power Corporation	2011 – 2033	6.14 – 7.11	27,735
Milit-Air Inc.	2019	5.75	25,457
Loblaw Companies Limited	2010 – 2036	5.90 – 7.10	24,700
Ontario Hydro	2014 – 2025	8.50 – 10.00	24,546
Citigroup	2011 – 2036	4.65 – 5.36	24,244
Wells Fargo Financial	2009 – 2015	3.60 – 6.05	23,523
Province of British Columbia	2013 – 2028	5.15 – 8.50	23,304
GE Capital	2011 – 2016	4.65 – 6.25	22,263
Greater Toronto Airports Authority	2008 – 2030	4.40 – 7.05	21,210
United States and other international			
U.K. Treasury	2007 – 2014	5.00 – 8.00	196,184
Federal Republic of Germany	2007 – 2034	2.62 – 5.62	93,301
Government of France	2007 – 2025	3.00 – 6.00	85,439
Kingdom of Belgium	2010 – 2015	3.00 – 8.00	58,871
Santander International Debt	2011	3.81	21,460

ONTARIO PENSION BOARD

As at December 31, 2006

(in thousands of dollars)

	Maturities	Coupon %	Fair Value ¹
Real estate			
OPB Realty Inc. (holding company, 100% owned)			\$ 2,082,026
Participating mortgages	2009 – 2019	5.00	36,331

(in thousands)

	Shares/Units ³	Fair Value ³
Equities		
Canada		
Royal Bank of Canada	2,706	\$ 150,181
Manulife Financial Corporation	3,387	133,282
Toronto-Dominion Bank	1,738	121,201
Bank of Nova Scotia	1,973	102,767
Sceptre Small Cap Fund	867	100,966
EnCana Corporation	1,763	94,590
Canadian Imperial Bank of Commerce	859	84,400
Power Corporation of Canada	2,339	83,077
Bank of Montreal	1,044	72,067
Suncor Energy Inc.	710	65,149
Canadian National Railway Company	1,284	64,304
Alcan Inc.	1,005	57,041
Talisman Energy Inc.	2,818	55,789
Rogers Communications Inc.	1,606	55,742
BCE Inc.	1,632	50,763
Petro-Canada	997	47,621
TELUS Corporation	888	47,069
Teck Cominco Limited	531	46,687
Great-West Lifeco Inc.	1,314	44,401
Nexen Inc.	664	42,616
Potash Corporation of Saskatchewan, Inc.	228	38,076
TransCanada Corp.	934	37,923
Thomson Corporation	780	37,724
Sun Life Financial Inc.	633	31,240
Cameco Corporation	647	30,548
Shoppers Drug Mart Corporation	506	25,361
Loblaw Companies Limited	477	23,263
Goldcorp Inc.	701	23,202
Brookfield Asset Management Inc.	389	21,935
Shaw Communications Inc.	594	21,917
Magna International Inc.	232	21,759
CanWest Global Communications Corp.	1,960	21,658
Canadian Pacific Railway Ltd.	348	21,392

Investments over \$20 Million (continued)

As at December 31, 2006

(in thousands)

	Shares/Units ³	Fair Value ³
United States		
American International Group, Inc.	1,048	\$ 87,412
Pfizer Inc	2,307	69,524
Procter & Gamble Co.	862	64,451
General Electric Co.	1,472	63,739
Wal-Mart Stores Inc.	1,067	57,329
Exxon Mobil Corp.	615	54,798
Citigroup Inc.	791	51,297
CVS Corp	1,284	46,182
Microsoft Corp.	1,280	44,491
Chevron Corporation	511	43,682
Bank of America	588	36,501
JPMorgan Chase & Co.	624	35,073
Altria Group, Inc.	342	34,175
Emerson Electric Co.	637	32,673
The Allstate Corporation	423	32,058
Johnson & Johnson	389	29,871
Alcoa Inc.	855	29,855
Cisco Systems, Inc.	921	29,295
Berkshire Hathaway Inc.	7	28,882
Fannie Mae	416	28,778
Illinois Tool Works, Inc.	519	27,918
PepsiCo, Inc.	383	27,893
The Home Depot, Inc.	590	27,568
Wachovia Corp.	414	27,455
Kimberly-Clark Corporation	343	27,098
Wells Fargo & Co.	654	27,059
3M Company	295	26,715
Comcast Corp.	540	26,605
Colgate-Palmolive Company	334	25,380
Time Warner Inc.	997	25,279
ConocoPhillips	301	25,169
Intel Corp.	1,067	25,153
The Hartford Financial Services Group, Inc.	230	24,964
Abbott	432	24,487
CDW Corp.	285	23,346
Anheuser-Busch Cos., Inc.	396	22,673
Merrill Lynch & Co., Inc.	206	22,329
Fifth Third Bancorp	459	21,848
St. Paul Travelers Cos. Inc.	349	21,805
UnitedHealth Group	345	21,571
Aramark Corp.	532	20,693
Sprint Nextel Corp.	940	20,666
Liz Claiborne Inc.	399	20,179

ONTARIO PENSION BOARD

As at December 31, 2006

(in thousands)

	Shares/Units ³	Fair Value ³
Other international		
Total S.A.	620	\$ 51,961
Roche Holdings	233	48,446
Royal Bank of Scotland	949	43,057
ING Groep N.V.	797	41,073
Barclays	2,010	33,417
Eni	785	30,712
Toyota Motor Corporation	384	29,826
Renault S.A.	201	28,073
Vodafone Group Plc	8,675	27,957
E.ON AG	165	25,997
Fortis Inc.	524	25,978
HSBC Holdings	1,223	25,940
AstraZeneca	407	25,458
Mittal Steel Company N.V.	510	25,042
sanofi-aventis	232	24,946
Nestlé	60	24,669
BNP Paribas	189	24,008
Royal Dutch Shell plc	282	23,247
Nokia	977	23,207
Bayer	368	22,980
Credit Suisse Group	270	21,902
Munchener Ruckversicherungs-G	105	21,094
Siemens	180	20,852
Banco Santander Central	927	20,117

¹ Excludes accrued income, includes guaranteed instruments issued by subsidiaries/agencies² At cost³ Includes all share classes and American Depositary Receipts

Real Estate Properties

As at December 31, 2006

All properties are 100% owned by Ontario Pension Board either directly or through its subsidiary OPB Realty Inc.

<i>(in thousands of square feet)</i>	Location	Area
Retail		
Hillside Centre	Victoria	425
Brentwood Town Centre	Burnaby	516
Lougheed Town Centre	Burnaby	654
Aberdeen Village Centre	Kamloops	104
Christy's Corner	Edmonton	111
170 Street Plaza	Edmonton	23
Marlborough Mall	Calgary	510
Portland Place	Calgary	149
Gaetz Avenue Crossing	Red Deer	177
St. Vital Centre	Winnipeg	918
Pen Centre	St. Catharines	1,009
Pickering Town Centre	Pickering	886
Carlingwood Shopping Centre	Ottawa	511
Halifax Shopping Centre	Halifax	526
Halifax Shopping Centre Annex	Halifax	421
2003 Gottingen Street	Halifax	25
215 Chain Lake Drive	Halifax	65
		7,030
Office		
Marlborough Professional Bldg.	Calgary	51
One Queen Street East/20 Richmond Street East	Toronto	502
Halifax Office Complex	Halifax	114
		667
Industrial		
Mississauga Industrial	Mississauga	2,885
Burnside Industrial Park	Halifax	498
		3,383
Land held for development		36
Total properties		11,116

Financial Services
Commission
of Ontario

Commission des
services financiers
de l'Ontario



June 1, 2007

Pension Benefit Guarantee Fund
Management's Responsibility for Financial Information

The Superintendent of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* is responsible for the administration of the Pension Benefit Guarantee Fund.

Under the direction of the Superintendent, Management of FSCO 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.

Management of FSCO, in the administration of 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'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.

A handwritten signature in black ink, appearing to read 'K. David Gordon'.

K. David Gordon
Deputy Superintendent, Pensions

A handwritten signature in black ink, appearing to read 'Darinka Pejic'.

Darinka Pejic
Chief Accountant



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

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, 2007 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 pension benefits guarantee fund as at March 31, 2007 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink, appearing to read 'G. Peall'.

Toronto, Ontario
June 1, 2007, except as to Note 8
which is as of June 13, 2007

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Balance Sheet

As at March 31, 2007

	2007 (\$ 000)	2006 (\$ 000)
ASSETS		
Current		
Cash	66	158
Accounts receivable	54,151	63,977
Investments (Note 4)	98,026	79,093
	<u>152,243</u>	<u>143,228</u>
LIABILITIES AND FUND DEFICIT		
Current		
Accounts payable and accrued liabilities	5,499	5,402
Current portion of loan payable	11,000	11,000
Claims payable	99,138	104,064
	<u>115,637</u>	<u>120,466</u>
Loan payable (Note 3(c) & 5)	<u>149,447</u>	<u>297,000</u>
	265,084	417,466
Fund deficit (Note 3(c))	<u>(112,841)</u>	<u>(274,238)</u>
	<u>152,243</u>	<u>143,228</u>

Contingencies Note (8)

See accompanying notes to financial statements

Approved by:



Chief Executive Officer
and Superintendent of Financial Services
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, 2007

	2007 (\$ 000)	2006 (\$ 000)
Revenue		
Premium revenue	45,571	54,068
Investment income (Note 4)	4,254	5,580
Recoveries (Note 6)	8,125	6,652
	<u>57,950</u>	<u>66,300</u>
Expenses		
Claims	31,995	96,090
Pension management fees (Note 6)	859	5,887
Investment management fees	42	70
Administration fee (Note 7)	370	407
	<u>33,266</u>	<u>102,454</u>
Excess / (deficiency) of revenue over expenses before the following:	24,684	(36,154)
Unrealized gain / (losses) in the market value of investments	160	(646)
Amortization of loan discount	<u>(8,221)</u>	<u>-</u>
Excess / (deficiency) of revenue over expenses for the year	16,623	(36,800)
Fund deficit, beginning of year as previously stated	(274,238)	(237,438)
Prospective change in accounting policy for loan payable (Note 3(c))	<u>144,774</u>	<u>-</u>
Fund deficit, beginning of year as restated	(129,464)	(237,438)
Fund deficit, end of year	<u><u>(112,841)</u></u>	<u><u>(274,238)</u></u>

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, 2007

	2007 (\$ 000)	2006 (\$ 000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess / (Deficiency) of revenue over expenses	16,623	(36,800)
Less items not affecting cash		
Unrealized (gain) loss on investments	(160)	646
Amortization of loan discount	8,221	-
	<u>24,684</u>	<u>(36,154)</u>
Changes in non cash working capital		
Accounts receivable	9,826	4,442
Accounts payable	97	(349)
Claims payable	(4,926)	(100,560)
	<u>29,681</u>	<u>(132,621)</u>
Cash flows from investing activities		
Purchases of investments	(1,624,425)	(1,166,405)
Proceeds from sale of investments	1,605,652	1,309,827
	<u>(18,773)</u>	<u>143,422</u>
Cash flows from financing activities		
Loan repayment	(11,000)	(11,000)
	<u>(11,000)</u>	<u>(11,000)</u>
Change in cash position	(92)	(199)
Cash position, beginning of year	158	357
Cash position, end of year	<u><u>66</u></u>	<u><u>158</u></u>

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO**Pension Benefits Guarantee Fund****Notes to the Financial Statements****March 31, 2007**

1. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the “Fund”) is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the “Act”).

2. FUND OPERATIONS

The purpose of the Fund is to guarantee payment of certain pension benefits of certain defined benefit pension plans wound up under conditions specified in the *Act* and regulations thereto. The regulations also prescribe an assessment payable into the Fund by plan registrants.

The 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.

The Superintendent of the Financial Services Commission of Ontario (“FSCO”) pursuant to the *Financial Services Commission of Ontario Act, 1997* is responsible for the administration and the investment of the assets of the Fund. The Fund reimburses FSCO for the cost of the services provided.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared by the management of FSCO 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. Investments have been classified as held for trading. Realized and unrealized gains or losses are recognized as investment income as they arise.

FINANCIAL SERVICES COMMISSION OF ONTARIO**Pension Benefits Guarantee Fund****Notes to the Financial Statements****March 31, 2007**

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(b) Claims payable**

Claims payable are liabilities to those defined benefit pension plans prescribed by the Act that are wound up or in the process of being ordered wound up under conditions specified in the Act, and the amounts can be reasonably estimated. Claims payable are established according to accepted actuarial practices in Canada through an actuarial valuation using the best estimates of the management of FSCO 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 provision for claims in the year when the actual amounts are determined.

(c) Loan Payable – Change in Accounting Policy

Effective April 1, 2006, the Fund adopted the new CICA standard on Financial Instruments. The new standard requires that loans payable be reflected at their fair value. As the loan from the Province (see note 5) confers a benefit to the Fund in that it is interest free, a fair value is determined by discounting future cash flows using the Provincial cost of borrowing (5.04%). The resulting benefit (the difference between the face value of the loan and the net present value) is accounted for as a grant in the year the loan was received and is amortized to loan discount expense over the term of the loan.

As required by the standard, this accounting change was applied prospectively from April 1, 2006; therefore, comparative amounts have not been restated. Accordingly, as of April 1, 2006, the carrying value of Loan Payable was decreased by \$144,774 thousand to recognize the amount of the unamortized discount, and the opening balance of the Fund Deficit was decreased by the same amount. The effect of the accounting change on 2007 operating results was an increase in expenses of \$8,221 thousand representing the amortization of the loan discount. As at March 31, 2007, the net impact of the accounting change is a reduction in the loan payable and fund deficit of \$136,553 thousand.

FINANCIAL SERVICES COMMISSION OF ONTARIO**Pension Benefits Guarantee Fund****Notes to the Financial Statements****March 31, 2007**

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(d) Premium revenue**

An estimate of the premium revenue due from defined benefit pension plans at rates prescribed by the Act is recorded until receipt of the 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 revenue in the year when the actual amounts are determined.

(e) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that FSCO's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates.

(f) Financial Instruments

It is the opinion of the management of FSCO 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. The impact of fluctuations in interest rates on the Funds Investments is described in note 4.

4. INVESTMENTS

As administrator of the investment assets of the Fund, FSCO has formed a PBGF Management Committee, developed a statement of Investment Policies and Guidelines and appointed the Ontario Financing Authority as investment manager. The statement provides operational objectives, investment principles, policies and guidelines for the management of the investments and is reviewed bi-annually.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2007

4. INVESTMENTS (cont'd)

Investments consist of:

	2007 (\$'000)		2006 (\$'000)	
	Market Value	Cost	Market Value	Cost
Short term deposits	89,824	89,824	19,484	19,484
Government and corporate bonds	<u>8,202</u>	<u>8,200</u>	<u>59,609</u>	<u>59,767</u>
	<u>98,026</u>	<u>98,024</u>	<u>79,093</u>	<u>79,251</u>

Investment Risk and Income:

Short term deposits have yields in the range of 4.2% to 4.6% (2006 – average yield of 3.9 %) and government and corporate bonds have yields in the range of 4.4% to 4.5% (2006 – yields in the range of 3.3% to 5.8%). At March 31, 2007, a 1% move in interest rates could impact the market value by approximately \$200 thousand.

Investment income includes interest earned from interest bearing securities and realized gains/losses from the sale of securities. The realized gain on the sale of securities amounted to \$304 thousand (2006 – realized loss of \$4 thousand). Unrealized changes in the market value of investments are reflected separately on the statement of operations and fund deficit.

Maturity Profile of the Investments is as follows:

Investment Maturity	2007 (\$'000)	2006 (\$'000)
< 1 year	98,026	40,662
1 – 3 years		19,874
3 – 5 years		13,298
5+ years		5,259
	<u>98,026</u>	<u>79,093</u>

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2007

5. LOAN PAYABLE

On March 31, 2004, the Fund obtained a \$330 million loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of \$11 million. 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 total \$55 million.

As disclosed in note 3(c) the face value of this non-interest bearing loan has been discounted to reflect its fair value outstanding as of March 31, 2007 as follows:

	(\$'000)
Face value	297,000
less: Discount	<u>(136,553)</u>
Fair value	<u>160,447</u>
Classified as:	
Current portion	11,000
Long term portion	<u>149,447</u>
Balance	<u>160,447</u>

The discount will be amortized to loan discount expense over the term of the loan based on the effective interest rate method. Amortization for the current year and estimated for the subsequent four fiscal years is as follows:

	(\$'000)
2007	8,221
2008	8,081
2009	7,934
2010	7,780
2011	7,618

FINANCIAL SERVICES COMMISSION OF ONTARIO**Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2007**

6. PENSION MANAGEMENT FEES AND RECOVERIES

The Fund periodically engages the services of experts to represent the Fund's interests with respect to companies which have made claims against the Fund. During fiscal 2007, \$859 thousand (2006 - \$5,887 thousand) was paid to such experts related to negotiations involving three companies.

Following distribution of claims and submission of a final wind up report any remaining funds are recovered by the Fund. During fiscal 2007, \$8,125 thousand (2006 - \$6,652 thousand) in recoveries were made by the Fund.

7. ADMINISTRATION FEE AND RELATED PARTY TRANSACTIONS

For fiscal 2007, an administration fee of \$370 thousand (2006 - \$407 thousand) was incurred and has been paid to FSCO for management salaries and benefits, accounting, audit, information technology, legal, pension and other services. The Fund and FSCO are related parties.

The costs of processing of premium revenue provided by the Ministry of Finance are absorbed by FSCO without charge to the Fund.

8. CONTINGENCIES AND SUBSEQUENT EVENT

In the ordinary course of the Fund's business, there are a number of companies operating under CCAA protection whose plans could make claims upon the Fund of which the outcome and the amount of such potential claims are not determinable at this time.

As well, on June 13, 2007 the Fund was notified that a \$28.6 million recovery would be forthcoming from a previous allocation from the Fund.



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'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, 2007. 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 changes in fund balance for the year ended March 31, 2007 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.

A handwritten signature in dark ink, appearing to read 'G. Peall'.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
April 20, 2007

Provincial Judges Pension Fund

Statement of Changes in Fund Balance For the Year Ended March 31, 2007

	2007 \$	2006 \$
Deposits		
Contributions		
Participants	3,977	3,748
Province of Ontario (Note 4)	22,652	20,791
Interest earned	33,527	31,639
	<u>60,156</u>	<u>56,178</u>
Payments		
Pension payments and survivor allowances	21,675	20,007
Refund of contributions	—	251
	<u>21,675</u>	<u>20,258</u>
Net increase in the Fund	38,481	35,920
Fund Balance on deposit with the Minister of Finance (Note 4)		
Beginning of year	428,984	393,064
End of year	<u>467,465</u>	<u>428,984</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:



Chair

Provincial Judges Pension Fund

Notes to Financial Statement

March 31, 2007

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, 2007

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 (7.77% on the April 1, 2006 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.

(J) ESCALATION OF ENTITLEMENTS

Entitlements are adjusted annually based on changes in the weekly wages and salaries of the Industrial Aggregate in Canada 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 \$44,574,945.37 which should have been paid from the supplementary account. Once the account is established, there will be a settlement 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 Policies

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, 2007

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 Ontario Regulation 407/93 under the *Courts of Justice Act* to conduct an independent process to determine the salary, benefits and pensions for all provincial judges. The Commission's salary and benefits recommendations are binding; pensions recommendations are non-binding.

The Sixth Triennial Provincial Judges Remuneration Commission is currently in progress and will make recommendations regarding the salaries, benefits and pensions of judges for the three-year period from April 1, 2004 to March 31, 2007. The Plan provides that pensioners receive increases in their pensions based on the same percentage increases in active judges salaries. As a result, once the report of the Commission is released, there may be retroactive pension payments owing to pensioners and a revision to the contribution from the Province to the Fund. In addition, any changes in the Plan provisions may have an impact on the Province's contribution to the Fund.

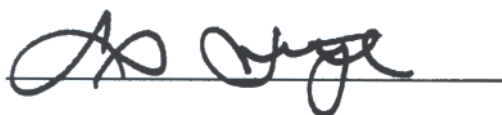
The most recent actuarial valuation of the Plan for funding purposes on data as at March 31, 2006, prior to the report of the Sixth Triennial Provincial Judges Remuneration Commission, determined that the expected present value of future government contributions was \$236,207,000, and recommended the Province contribute 36.6 percent of the payroll of sitting judges until the next valuation. The valuation estimated the Province's contribution for the fiscal year ended March 31, 2007 to be \$22,652,000. Upon receiving and considering the report of the Sixth Triennial Provincial Judges Remuneration Commission, the Province will prepare another actuarial valuation of the Plan as at March 31, 2006.

OFFICE OF THE PUBLIC GUARDIAN AND TRUSTEE**Management's Responsibility for Financial Information**

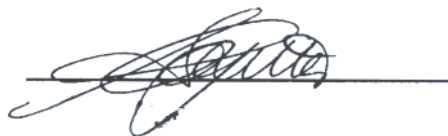
Management is responsible for the financial statements and all other information presented in the financial statements. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and, where appropriate, include amounts based on Management's 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 management 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

May 25, 2007



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

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, 2007 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, 2007, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink, appearing to read 'G. Peall', is positioned above the printed name of the Deputy Auditor General.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
May 25, 2007

**The Public Guardian and Trustee
for the Province of Ontario**
Balance Sheet
(in thousands of dollars)

March 31, 2007

	Estates and Trusts		Administration Fund	
	2007	2006	2007	2006
Assets				
Cash and cash equivalents	\$ 2,443	\$ 5,617	\$ 47	\$ 135
Accounts receivable	3,707	3,260	1,882	3,472
Bonds and other debt issues	29,888	24,507	-	-
Fixed income funds (Schedule A)	953,585	919,238	11,227	3,942
Diversified fund (Schedule B)	60,186	59,545	55,793	65,937
Canadian income and dividend fund (Schedule C)	19,586	-	15,864	-
Stocks and other securities	49,821	56,012	-	-
Real estate	68,271	68,412	-	-
Other assets	13,453	12,948	-	-
	1,200,940	1,149,539	84,813	73,486
Deferred special project charges	-	-	6,703	5,463
	\$ 1,200,940	\$ 1,149,539	\$ 91,516	\$ 78,949
Liabilities and Fund Balances				
Accounts payable and accrued liabilities	22,290	22,032	2,415	421
Fund balances	1,178,650	1,127,507	89,101	78,528
	\$ 1,200,940	\$ 1,149,539	\$ 91,516	\$ 78,949

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

2007

2006

Revenue

Pension	\$ 64,232	\$ 61,609
Social benefits	56,429	52,517
Investment (Schedule E)	42,393	33,566
Other	25,862	22,145
Net unrealized investment appreciation	4,871	7,932
Realized investment appreciation	6,317	100
	200,104	177,869

Expenses

Accommodation	77,167	74,890
Allowances	23,882	23,585
Public Guardian and Trustee fees (Schedule D)	21,774	20,820
Other	9,532	8,350
Living	8,840	8,340
Taxes	7,248	10,466
Funeral	4,420	4,214
Medical	3,946	3,817
Utilities	2,374	2,269
Real estate	2,118	6,424
Insurance	785	808
	162,086	163,983

Excess of revenue over expenses

\$ 38,018	\$ 13,886

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	2007	2006
Revenue		
Investments - fixed income funds (Schedule A)	\$ 1,734	\$ 1,214
Investments - diversified fund (Schedule B)	2,460	6,158
Investments - Canadian income and dividend fund (Schedule C)	772	-
Net realized investment appreciation	1,898	192
	6,864	7,564
Fees collected (net) (Schedule D)	20,644	19,727
	27,508	27,291
Expenses		
Salaries and wages	22,124	21,514
Employee benefits (Note 3)	2,740	2,741
Services (Note 3)	2,913	2,724
Transportation and communication	1,257	1,184
Supplies and equipment	696	639
	29,730	28,802
Amount recovered from the Ministry of the Attorney General (Note 3)	(13,193)	(12,271)
	16,537	16,531
Claims (recoveries)	398	(64)
	16,935	16,467
Excess of revenue over expenses	\$ 10,573	\$ 10,824

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, 2007

		Client Trusts	Minors	Litigants	Deceased Estates (note 1)	Cemetery Trusts	Forfeited Corporate Assets	Corporate Trusts	Land Titles	Total 2007	Total 2006
Balance, beginning of year	\$	415,202	380,586	191,979	104,479	22,008	8,072	3,066	2,115	\$ 1,127,507	\$ 1,091,094
Excess (deficiency) of revenue over expenses		13,557	18,397	6,250	(689)	158	255	12	78	38,018	13,886
Net client capital contribution (distribution)		9,828	(19,588)	17,349	7,870	(1,614)	(22)	-	(698)	13,125	22,527
Balance, end of year	\$	438,587	379,395	215,578	111,660	20,552	8,305	3,078	1,495	\$ 1,178,650	\$ 1,127,507

**Statement of Changes in Fund Balances - Administration Fund
(in thousands of dollars)**

For the year ended March 31, 2007

		Special Projects Fund	Assurance Fund	Litigation Reserve Fund	Allowance for Doubtful Accounts Fund	Capacity Assessment Fund	Unappro- priated Fund	Total 2007	Total 2006
Balance, beginning of year	\$	20,701	\$ 5,000	\$ 3,000	\$ 100	\$ 100	49,627	\$ 78,528	\$ 67,704
Excess (deficiency) of revenue over expenses		4,358	(258)	(116)	-	(24)	6,613	10,573	10,824
Interfund transfers		-	6,258	116	-	24	(6,398)	-	-
Balance, end of year	\$	25,059	\$ 11,000	\$ 3,000	\$ 100	\$ 100	49,842	\$ 89,101	\$ 78,528

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		Administration Fund	
	2007	2006	2007	2006
Cash was provided by (used in)				
Operating activities				
Excess of revenue over expenses	\$ 38,018	\$ 13,886	\$ 10,573	\$ 10,824
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities				
Unrealized appreciation of investments	(4,871)	(7,932)	(1,726)	(4,563)
Accounts receivable	(447)	2,245	1,590	(1,864)
Other assets	(505)	(1,097)	-	-
Accounts payable	258	8,933	1,994	(2,364)
	<u>32,453</u>	<u>16,035</u>	<u>12,431</u>	<u>2,033</u>
Investing activities				
Net acquisition/redemption of				
Bond and other debt issues	(5,381)	(739)	-	-
Fixed income fund investments	(34,347)	(37,269)	(7,285)	(605)
Stocks and other securities	7,139	(1,816)	-	-
Diversified fund investments	2,884	2,639	11,266	(1,141)
Canadian income and dividend fund	(19,188)	-	(15,260)	-
Real estate	141	474	-	-
Deferred special project charges	-	-	(1,240)	(247)
Net client capital contribution	13,125	22,527	-	-
	<u>(35,627)</u>	<u>(14,184)</u>	<u>(12,519)</u>	<u>(1,993)</u>
Net (decrease) increase in cash and cash equivalents	(3,174)	1,851	(88)	40
Cash and cash equivalents, beginning of the year	5,617	3,766	135	95
Cash and cash equivalents, end of the year	\$ 2,443	\$ 5,617	\$ 47	\$ 135

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, 2007

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 <i>Substitute Decisions Act</i>, the <i>Public Guardian and Trustee Act</i>, the <i>Crown Administration of Estates Act</i>, the <i>Estates Act</i> 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 <i>The Public Guardian and Trustee Act</i> 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. A portion of the income earned from the Unappropriated Fund, invested in the Diversified Fund, Canadian Income and Dividend Fund, and Fixed Income Funds, is included in revenue for the Special Projects Fund. To date, about \$12 million of the funding has been allocated 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 \$258,058 (2006 - \$30,788) and increased by transfer of an additional \$6,000,000 (2006 - \$2,800,000) from the Unappropriated Fund.

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.

The Public Guardian and Trustee for the Province of Ontario

Summary of Significant Accounting Policies

March 31, 2007

During the year, legal costs incurred on behalf of clients of \$115,721 (2006 –recoveries exceeded legal costs by \$113,866) were reimbursed from 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 \$24,309 (2006 - \$18,630) 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.

Valuation of Financial Instruments

The Public Guardian and Trustee considers Bonds and Other Debt Issues, the Diversified and Canadian Income and Dividend 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. In determining fair values, adjustments have not been made for transaction costs, as they are not considered to be significant. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statements of revenue and expenses.

The Public Guardian and Trustee considers Fixed Income funds which are funds invested in money market instruments and in bonds under a laddered buy-and-hold strategy as financial instruments held to maturity. These financial instruments are reflected in these statements at cost adjusted for the amortization of premiums or discounts on purchase over the period to maturity.

Purchases and sales of these financial instruments are recognized at the settlement date.

The Public Guardian and Trustee is exposed to financial risk as follows:

- Investments are subject to the risk that values will fluctuate due to changes in market interest rates.
- Investments are subject to the risk that values will fluctuate due to changes in foreign exchange rates.
- These risks are mitigated by investing in a diversified portfolio.

The Public Guardian and Trustee for the Province of Ontario

Summary of Significant Accounting Policies

March 31, 2007

Bonds and other debt issues and Stocks and other securities	Bonds and other debt issues and Stocks and other securities of Estates and Trusts, which are owned by individual clients rather than part of the Public Guardian and Trustee's investment funds, are recorded at year-end quoted market prices where available or the most recently available values received from third parties.
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 Special Project Charges	Costs of a special project for the development and implementation of a new trust management technology system incurred from 2002 to 2007 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, 2007 The Public Guardian and Trustee held only US dollars in foreign currency.
Revenue Recognition	Revenues of Estates and Trusts from Pension, Social Benefits, Investment, Other and Realized Investment Appreciation are 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, Canadian Income and Dividend Fund, and Stocks and Other Securities.
Use of Estimates	The preparation of financial statements 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, 2007

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*. After a period of ten years, any property so received by The Public Guardian and Trustee, which remains unclaimed, is required to be 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 \$1,571,914 (2006 - \$2,118,963) 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. The Ministry of Government Services (MGS) funds the employer's contribution to the Pension Funds.
- The cost of post-retirement, non-pension employee benefits are paid by MGS.
- The Public Guardian and Trustee occupies leased premises paid for by the Ministry of the Attorney General.
- MGS 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 \$690,000 (2006 - \$1,045,850) and miscellaneous securities and documents having a face value of \$3,706,946 (2006 - \$3,841,250). 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. Settlements, if any, are accounted for in the period in which the settlements occur.

Subsequent to year end, a matter was brought to our attention involving some account irregularities of some clients of a former employee. A police investigation and an internal control review is underway. At this preliminary stage, the outcome is not determinable, however, there will be a full reimbursement by The Public Guardian and Trustee of any losses.

6. Comparative Figures

Certain prior year amounts have been restated to conform to current year presentation.

**The Public Guardian and Trustee
for the Province of Ontario**
Schedule A - Fixed Income Funds
(in thousands of dollars)

March 31	2007	2006
INVESTMENTS		
Cash	\$ 787	\$ 2,117
Accrued interest	11,362	10,472
Short term investments	<u>539,604</u>	<u>525,251</u>
	<u>551,753</u>	<u>537,840</u>
Mid term investments		
Corporate Bonds (i)	18,150	24,883
Federal Government (ii)	37,209	98,688
Provincial Governments (iii)	169,238	99,977
Financial Institutions (iv)	<u>188,462</u>	<u>161,792</u>
	<u>413,059</u>	<u>385,340</u>
	<u>\$ 964,812</u>	<u>\$ 923,180</u>
Allocated as follows		
Estates and Trusts	\$ 953,585	\$ 919,238
Administration	<u>11,227</u>	<u>3,942</u>
	<u>\$ 964,812</u>	<u>\$ 923,180</u>
INCOME		
Allocated as follows		
Estates and Trusts	\$ 34,431	\$ 27,930
Administration	<u>1,734</u>	<u>1,214</u>
	<u>\$ 36,165</u>	<u>\$ 29,144</u>

Short term investments at March 31, 2007 bear interest at annual rates ranging from 2.60% to 7.25% (2006 - from 2.60% to 7.75%), with maturity dates ranging from 2 days to 303 days (2006 - from 1 day to 259 days)

Mid term investments at March 31, 2007		Interest Rates		Carrying Value	Fair Value
(i)	Corporate Bonds				
	1 - 3 years	4.00 - 6.00%	\$	18,150	\$ 18,023
				<u>18,150</u>	<u>18,023</u>
(ii)	Federal Government				
	1 - 3 years	4.10 - 6.00%		37,209	37,042
				<u>37,209</u>	<u>37,042</u>
(iii)	Provincial Governments				
	1 - 3 years	4.00 - 6.50%		169,238	168,634
				<u>169,238</u>	<u>168,634</u>
(iv)	Financial Institutions				
	1 - 3 years	3.50 - 10.85%		120,392	120,271
	3 years +	3.96 - 6.75%		68,070	67,810
				<u>188,462</u>	<u>188,081</u>
			\$	<u>413,059</u>	<u>\$ 411,780</u>

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 limitation 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.

Interest income is distributed to participants by a prescribed interest rate approved by The Public Guardian and Trustee's Investment Advisory Committee. During the year, the prescribed rate for the Canadian Funds ranged from 3.50% to 4.00% (2006 - 3.25%), and for the U.S. Funds ranged from 3.75% to 4.75% (2006 ranged from 2% to 3%).

The Public Guardian and Trustee for the Province of Ontario

Schedule B - Diversified Fund

(in thousands of dollars)

March 31	2007	2006
INVESTMENTS		
Cash	\$ 49	\$ 83
Net other (liabilities) assets	(172)	169
Short term notes	1,916	2,002
	1,793	2,254
Bonds	43,946	44,039
Canadian equity	45,094	39,146
Foreign equity	25,146	40,043
	\$ 115,979	\$ 125,482
Allocated as follows		
Estates and Trusts	\$ 60,186	\$ 59,545
Administration Fund	55,793	65,937
	\$ 115,979	\$ 125,482
INCOME		
Estates and Trusts		
Investment earnings	\$ 1,884	\$ 1,824
Unrealized appreciation	2,736	4,864
Net unrealized foreign exchange appreciation/(depreciation)	788	(468)
Net unrealized appreciation	3,524	4,396
Realized investment appreciation	7,244	164
Net realized foreign exchange depreciation	(927)	(64)
Net realized investment appreciation	6,317	100
	\$ 11,725	\$ 6,320
Administration		
Investment earnings	\$ 1,339	\$ 1,595
Unrealized appreciation	314	5,513
Net unrealized foreign exchange appreciation/(depreciation)	807	(950)
Net unrealized appreciation	1,121	4,563
Realized investment appreciation	2,848	258
Net realized foreign exchange depreciation	(950)	(66)
Net realized investment appreciation	1,898	192
	\$ 4,358	\$ 6,350

The Short term Notes and Bonds at March 31, 2007 bear interest at annual rates ranging from 3.75% to 12.20% (2006 - from 3.00% to 11.45%), with maturity dates ranging from 11 days to 99 years (2006 - from 6 days to 43 years)

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 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 fair value.

**The Public Guardian and Trustee
for the Province of Ontario**
Schedule C - Canadian Income and Dividend Fund
(in thousands of dollars)

March 31	2007	2006
INVESTMENTS		
Cash	\$ 11	\$ -
Net other assets	532	-
Short term notes	945	-
	<u>1,488</u>	<u>-</u>
Bonds	16,049	-
Canadian equity	17,913	-
	<u>\$ 35,450</u>	<u>\$ -</u>
Allocated as follows		
Estates and Trusts	\$ 19,586	\$ -
Administration Fund	15,864	-
	<u>\$ 35,450</u>	<u>\$ -</u>
INCOME		
Estates and Trusts		
Investment earnings	\$ 209	\$ -
Unrealized appreciation	399	-
	<u>\$ 608</u>	<u>\$ -</u>
Administration		
Investment earnings	\$ 167	\$ -
Unrealized appreciation	605	-
	<u>\$ 772</u>	<u>\$ -</u>

The Short term Notes and Bonds at March 31, 2007 bear interest at annual rates ranging from 3.70% to 7.60%, with maturity dates ranging from 47 days to 29 years.

Canadian Income and Dividend Fund

Effective October 1st, 2006, The Public Guardian and Trustee added a new Canadian Income and Dividend Fund to the investment options available to its clients. This fund consists of a balanced portfolio of high quality income-producing Canadian securities which include dividend-paying common and preferred equities and fixed-income securities designed to generate a consistent stream of income and long-term capital appreciation. 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. The Administration Fund also participates in the Canadian Income and Dividend Fund.

Income earned in this fund may be distributed to the participants monthly or reinvested in this fund.

**The Public Guardian and Trustee
for the Province of Ontario**
Schedule D - Public Guardian and Trustee Fees
(in thousands of dollars)

For the year ended March 31	2007	2006
Client trusts	\$ 14,057	\$ 12,805
Minors	2,911	2,687
Deceased estates	3,164	3,750
Litigants	1,166	1,139
Court-appointed litigation guardian legal services	116	102
Cemetery trusts	166	188
Charity trusts	147	121
Forfeited corporate assets/corporate trusts	47	28
Public Guardian and Trustee Fees - Estates and Trusts	21,774	20,820
less: Costs of fee services	(1,130)	(1,093)
Fees collected (net) - Administration Fund	\$ 20,644	\$ 19,727

Schedule E - Estates and Trusts Investment Income
(in thousands of dollars)

For the year ended March 31	2007	2006
Fixed income funds (Schedule A)	\$ 34,431	\$ 27,930
Diversified fund (Schedule B)	1,884	1,824
Canadian income and dividend fund (Schedule C)	209	-
Income from other investments held for clients	5,869	3,812
	\$ 42,393	\$ 33,566

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 and Finance Committee to ensure that management fulfils these responsibilities. The Audit and Finance 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.

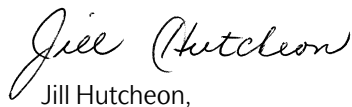
The Internal Audit Branch performs audits designed to test the adequacy and consistency of the WSIB's internal controls, practices, and procedures.

Role of the actuary

With respect to the preparation of these financial statements, the actuary 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, the actuary 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 at the balance sheet date. The work to form that opinion includes an examination of the sufficiency and reliability of data, and a review of the valuation processes. The 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 valuation of these liabilities, 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 future claim categories not sufficiently recognized in the claims experience and inventories. The actuary's report outlines the scope of the valuation and his opinion.

Role of the external auditors

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 actuary and his report on the benefit liabilities of the WSIB. The external auditors have full and unrestricted access to the board of directors and the Audit and Finance 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,
President & CEO



Malen Ng,
Chief Financial Officer

March 23, 2007

Auditors' report



To the Workplace Safety and Insurance Board, the Minister of Labour, and the Provincial Auditor

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, 2006, 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 consolidated financial statements present fairly, in all material respects, the financial position of the WSIB as at December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered accountants
Toronto, Canada

March 23, 2007

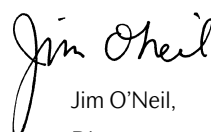
CONSOLIDATED BALANCE SHEET
as of December 31

(\$ millions)	2006	2005
Assets		
Cash and cash equivalents	\$161	\$53
Receivables	848	764
Investments (note 3)	14,311	12,827
Loss of Retirement Income Fund (note 4)	872	735
Property, equipment, and other assets (note 5)	206	168
	\$16,398	\$14,547
Liabilities		
Payables and accruals	\$679	\$592
Long-term debt (note 6)	92	70
Loss of Retirement Income Fund (note 4)	872	735
Employee benefit plans (note 7)	452	410
Benefit liabilities (note 8)	20,300	19,250
	22,395	21,057
Unfunded liability (note 9)		
Accumulated excess of expenses over revenues	(8,371)	(8,229)
Accumulated other comprehensive income	2,374	1,719
	(5,977)	(6,510)
	\$16,398	\$14,547

Commitments and contingencies (note 12)

On behalf of the board of directors:


 Jill Hutcheon, President and CEO,
 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)	2006	2005
Gross revenue	\$4,686	\$4,012
Current operations		
Revenues		
Premiums for the year	\$2,385	\$2,256
Investments (note 3)	1,298	819
Other income	3	3
	3,686	3,078
Expenses		
Benefit costs (note 8)	4,330	4,037
Loss of Retirement Income Fund (note 4)	69	66
Administrative and other expenses (note 10)	221	203
Legislated obligations and commitments (note 11)	208	200
	4,828	4,506
Excess of expenses over revenues from current operations	(1,142)	(1,428)
Premiums for unfunded liability	1,000	934
Excess of expenses over revenues	\$(142)	\$(494)

CONSOLIDATED STATEMENT OF CHANGES IN UNFUNDED LIABILITY**For the years ended December 31**

(\$ millions)	2006	2005
Accumulated excess of expenses over revenues		
Balance at beginning of year	\$(8,229)	\$(7,735)
Excess of expenses over revenues	(142)	(494)
Balance at end of year	(8,371)	(8,229)
Accumulated other comprehensive income		
Balance at beginning of year	1,719	1,315
Unrealized gains on investments net of amounts realized	655	404
Balance at end of year	2,374	1,719
Unfunded liability at end of year	\$(5,997)	\$(6,510)

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)**For the years ended December 31**

(\$ millions)	2006	2005
Excess of expenses over revenues	\$(142)	\$(494)
Other comprehensive income		
Unrealized net gains on available-for-sale financial assets arising during the year	1,569	865
Realized gains included in income	(914)	(461)
Unrealized gains on investments, net of amounts realized	655	404
Comprehensive income (loss)	\$513	\$(90)

CONSOLIDATED STATEMENT OF CASH FLOWS**For the years ended December 31**

(\$ millions)	2006	2005
Operating cash flows		
Cash received from:		
Premiums for the year	\$2,392	\$2,264
Premiums for unfunded liability	1,004	931
Investment income	420	343
	3,816	3,538
Cash paid to:		
Claimants, survivors, and care providers	(2,977)	(2,905)
Loss of Retirement Income Fund	(64)	(66)
Employees and suppliers for administrative goods and services	(532)	(465)
Legislated obligations and commitments	(208)	(202)
	(3,781)	(3,638)
Net cash provided (required) by operating activities	35	(100)
Investing cash flows		
Sale of investments	18,168	13,560
Purchase of investments	(18,095)	(13,561)
Net cash provided (required) by investing activities	73	(1)
Increase (decrease) in cash and cash equivalents	108	(101)
Cash and cash equivalents, beginning of year	53	154
Cash and cash equivalents, end of year	\$161	\$53

The accompanying notes form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

December 31, 2006

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 as 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 and has prepared projections that indicate that liabilities can be met as they fall due.

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 revenues and expenses during the year. Actual results could differ from these estimates.

WSIB’s subsidiaries are consolidated at cost. Investments in entities in which WSIB exercises a significant influence are reported at cost and income is reported using the equity method.

The significant accounting policies are summarized as follows:

<i>Cash and cash equivalents</i>	Cash and cash equivalents are funds consisting of cash and money market instruments with initial maturities up to three months.
<i>Receivables</i>	Receivables consist of premiums receivable from stakeholders. The balance is shown net of allowance for doubtful accounts.
<i>Investments</i>	Investments in short-term securities, bonds, and equities are classified as either held-for-trading or available for sale, based on management's intention. Investment 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. Available-for-sale securities are assessed regularly to determine whether there is other than temporary impairment. Write downs to reflect other than temporary impairment are included in investment income and removed from accumulated other comprehensive income. 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. The WSIB is party to forward foreign exchange contracts that are designated as held for trading and are carried at fair value. Changes in the fair value of forward foreign exchange contracts are recognized in income in the period in which they arise.
<i>Real estate investments</i>	Investments in real estate are carried at cost plus move-to-market adjustments recorded to the end of 2003, less accumulated depreciation recorded after 2003. Prior to 2004, the carrying value of real estate investments was amortized towards appraised market value at 10 per cent annually. Beginning in 2004, new investments in real estate are initially recorded at cost and the carrying value of all buildings is amortized over the estimated useful life of 40 years on the straight-line basis.
<i>Fair value of financial instruments</i>	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 at 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 at the balance sheet date. 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.

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 The Loss of Retirement Income Fund is invested in short-term securities, bonds, equities and pooled funds. These investments are carried at estimated fair value. 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, amortization commences. Capital assets are amortized 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 Each year, the board of directors approves preliminary and final premium rates. The preliminary rates are recalibrated annually with current economic and actuarial assumptions and are used to solicit feedback from stakeholders in the development of the final premium rates. Premium rates are established to cover all expected claims and operating costs for the upcoming injury year. To stabilize premium rates, there are rules in place to govern the amount of increase and to moderate any excessive changes from year to year. Premium rates include a component that is applied to reduce the unfunded liability. The WSIB may also levy a special premium when it is considered appropriate. In advance of the year, Schedule 1 employers are notified of their final premium rates to be paid for the upcoming injury year. Premium revenue is determined by applying premium rates to Schedule 1 employers' insurable payrolls.

Schedule 2 employers are individually liable to pay all insurance benefits and administration costs with respect to their workers' claims. Reimbursements for claims paid and the cost of administration are included in their premium assessment.

- Benefit liabilities*** Benefit liabilities are determined annually through an actuarial valuation that 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 at December 31 and 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 that 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 assets or obligations. 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 accrued benefit liability in the balance sheet. The cumulative excess of pension benefit expense over pension fund contributions is reported in the employee benefit plan 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 insurance benefits is recognized in the year the gain or loss occurs and is included in other benefit plans (note 7).

Other defined-contribution plan costs are recognized in income for services rendered by employees during the year.

3. Investments and investment revenue

Investments by category are as follows:

(\$ millions)	2006			2005	
	Amortized cost	Carrying value adjustments	Net unrealized gains/(losses)	Carrying value	Carrying value
Held for trading:					
Foreign exchange contracts	\$ -	\$ (2)	\$ -	\$ (2)	\$ (2)
Available for sale:					
Fixed income securities					
Bonds	3,930	-	139	4,069	3,637
Equities					
Domestic	1,691	84	874	2,649	3,302
Foreign - U.S.	3,352	10	486	3,848	3,129
- Global	2,677	19	875	3,571	2,550
	7,720	113	2,235	10,068	8,981
Real estate	176	-	-	176	211
	11,826	113	2,374	14,313	12,829
Total investments	\$ 11,826	\$ 111	\$ 2,374	\$ 14,311	\$ 12,827

Included in the above is an accrued income of \$63 million (2005: \$57 million).

Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates versus 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's 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 2006 mature in the first three months of 2007.

At December 31, 2006, the notional value of outstanding foreign currency contracts was \$405 million (2005: \$283 million). Outstanding contracts in a favourable position had a fair value of \$2 million (2005: \$1 million) and those in an unfavourable position had a fair value of negative \$4 million (2005: negative \$3 million). Unrealized losses on foreign exchange contracts of \$2 million (2005: \$2 million) were included in investment income.

The fair value of the investment portfolio includes \$7,419 million (2005: \$5,679 million) of securities denominated in foreign currency. The major holdings are as follows: 52 per cent (2005: 55 per cent) in U.S. dollar, 17 per cent (2005: 16 per cent) in euros, 12 per cent (2005: 12 per cent) in British pound sterling, nine per cent (2005: nine per cent) in Japanese yen and 10 per cent (2005: eight per cent) in other currencies.

Bonds by term to maturity as of December 31:

(\$ millions)	2006					2005
	Term to maturity (years)					
	Up to 1	1 – 5	5 – 10	Over 10	Total	Total
Government bonds						
Fair value	–	\$1,270	\$641	\$916	\$2,827	\$2,554
Yield %*	–	4.1	4.2	4.4	4.2	4.1
Corporate bonds						
Fair value	–	\$497	\$374	\$371	\$1,242	\$1,069
Yield %*	–	4.4	4.7	5.2	4.7	4.5
Total						
Fair value	–	\$1,767	\$1,015	\$1,287	\$4,069	\$3,601
Yield %*	–	4.2	4.4	4.6	4.4	4.2

*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)	2006	2005
Short-term securities	\$9	\$7
Bonds	196	196
Equities and real estate	1,123	639
	1,328	842
Investment expenses	(30)	(23)
Net investment revenue	\$1,298	\$819

Revenue from bonds includes \$19 million (2005: \$37 million) of net realized gains. Revenue from equities and real estate includes \$895 million (2005: \$424 million) of net realized gains. During the year, \$37 million (2005: \$102 million) was assessed as other than temporarily impairment and recognized in investment income. The remaining unrealized losses on available-for-sale securities of \$54 million (2005: \$160 million) are not considered to be other than temporarily impaired as at December 31, 2006, as WSIB has the intent and ability to hold them for a reasonable period of time until the recovery of fair value.

Securities lending

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 Canadian financial institution. At December 31, 2006, the fair value of securities on loan was \$1,741 million (2005: \$1,718 million). The collateral held with respect to these securities was \$1,876 million (2005: \$1,827 million).

4. Loss of Retirement Income Fund

For injuries and illnesses that occurred prior to January 1, 1998, the WSIB sets aside funds equal to 10 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)	2006	2005
Cash and cash equivalents	\$31	\$47
Bonds	170	141
Equities	261	207
Investment in pooled fund	410	340
	\$872	\$735

The underlying securities in the pooled fund include fixed-income securities valued at \$109 million (2005: \$89 million), equities valued at \$292 million (2005: \$236 million), and money market instruments valued at \$9 million (2005: \$15 million).

The change in net assets is as follows:

(\$ millions)	2006	2005
Funds set aside under the Act	\$69	\$66
Investment income	96	76
Benefit costs paid	(28)	(27)
Increase in net assets	137	115
Net assets, beginning of year	735	620
Net assets, end of year	\$872	\$735

5. Property, equipment, and other assets

(\$ millions)	2006		2005
	Cost	Net carrying value	Net carrying value
Land	\$29	\$29	
Buildings and leasehold improvements	196	101	\$108
Office equipment	111	1	2
Computer equipment	140	23	14
	476	154	124
Other assets	52	52	44
	\$528	\$206	\$168

Amortization expense in 2006 was \$13 million (2005: \$18 million).

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 land and building at 200 Front Street West, Toronto. The building and leasehold improvements of \$101 million represent WSIB's 75 per cent share of the co-ownership.

The land under capital lease represents the land on which WSIB's head-office building was constructed.

6. Long-term debt	(\$ millions)	2006	2005
	Mortgage payable	\$69	\$70
	Obligation under capital lease	23	–
		\$92	\$70

Mortgage payable To fund part of the development and construction of the building at 200 Front Street West, Toronto (note 5) 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, 2006, was \$74 million (2005: \$79 million), with a book value of \$69 million (2005: \$70 million). The \$7-million mortgage interest expense for the year was included in occupancy costs (note 10) (2005: \$7 million).

Obligation under capital lease This amount represents the balance of the lease obligation for the land at 200 Front Street West on which the WSIB's head-office building is located. The WSIB, through its wholly owned subsidiary, 799549 Ontario Inc, makes annual lease payments of \$4 million under a capital lease.

During 2006, the WSIB negotiated an amendment to this lease to accelerate the lease expiry from 2087 to 2027, and to provide the WSIB with an option to purchase a 75 per cent interest in the land at the expiry date of May 31, 2027, for \$1.5 million. This option price is considered by management to be advantageous and it is expected that the option will be exercised.

The fair value of the lease obligation at December 31, 2006, was \$39 million, with a book value of \$23 million. Interest on lease obligation for the year of \$0.7 million was included in occupancy cost.

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 benefit obligation is as of December 31, 2006. The most recent and next actuarial valuations for funding purposes are as of December 31, 2006 and 2007, 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	
	2006	2005	2006	2005	2006	2005	2006	2005
Accrued benefit obligation								
Beginning of year	1,607.3	1,302.2	12.5	10.7	469.8	376.7	2,089.6	1,689.6
Current service cost	50.6	35.3	0.2	0.1	14.7	11.6	65.5	47.0
Interest cost	87.4	81.9	0.7	0.7	25.4	23.6	113.5	106.2
Benefits paid	(53.9)	(45.2)	(0.4)	(0.4)	(16.1)	(15.1)	(70.4)	(60.7)
Employee past service contributions	3.3	4.4	-	-	-	-	3.3	4.4
Employee current service contributions	21.6	20.9	0.3	0.3	-	-	21.9	21.2
Past service benefit cost	-	-	-	-	-	4.4	-	4.4
Actuarial (gain) loss	65.2	207.8	1.5	1.1	31.8	68.6	98.5	277.5
End of year	1,781.5	1,607.3	14.8	12.5	525.6	469.8	2,321.9	2,089.6
Plan assets								
Fair value at beginning of year	1,474.5	1,309.4	2.4	2.3	-	-	1,476.9	1,311.7
Actual return on plan assets	234.4	158.3	0.1	-	-	-	234.5	158.3
Employer contributions	28.0	26.7	0.2	0.2	16.1	15.1	44.3	42.0
Employee current service contributions	21.6	20.9	0.3	0.3	-	-	21.9	21.2
Employee past service contributions	3.3	4.4	-	-	-	-	3.3	4.4
Benefits paid	(53.9)	(45.2)	(0.4)	(0.4)	(16.1)	(15.1)	(70.4)	(60.7)
Fair value at end of year	1,707.9	1,474.5	2.6	2.4	-	-	1,710.5	1,476.9
Funded status								
Funded status, plan surplus (deficit)	(73.6)	(132.8)	(12.2)	(10.1)	(525.6)	(469.8)	(611.4)	(612.7)
Unamortized net actuarial (gain) loss	96.2	178.4	2.8	1.4	121.6	93.7	220.6	273.5
Unamortized past service costs	15.5	17.0	(0.1)	(0.1)	6.1	6.6	21.5	23.5
Unamortized transitional obligation	(82.6)	(94.3)	-	-	-	-	(82.6)	(94.3)
Accrued benefit liability	(44.5)	(31.7)	(9.5)	(8.8)	(397.9)	(369.5)	(451.9)	(410.0)
Accrued benefit obligation, end of year	1,781.5	1,607.3	14.8	12.5	525.6	469.8	2,321.9	2,089.6
Fair value of plan assets, end of year	1,707.9	1,474.5	2.6	2.4	-	-	1,710.5	1,476.9
Funded status, plan surplus (deficit)	(73.6)	(132.8)	(12.2)	(10.1)	(525.6)	(469.8)	(611.4)	(612.7)
Net benefit plan expense								
Current service cost	50.6	35.3	0.2	0.1	14.7	11.6	65.5	47.0
Interest cost	87.4	81.9	0.7	0.7	25.4	23.6	113.5	106.2
Expected return on plan assets	(96.1)	(85.8)	(0.1)	(0.1)	-	-	(96.2)	(85.9)
Amortization of past service costs	1.5	1.5	-	-	0.6	0.6	2.1	2.1
Amortization of transitional obligation	(11.8)	(11.8)	-	-	-	-	(11.8)	(11.8)
Amortization of net loss (gain)	9.1	-	-	-	3.8	0.9	12.9	0.9
Net benefit plan expense	40.7	21.1	0.8	0.7	44.5	36.7	86.0	58.5

(\$ millions)	Employees' Pension Plan				Employees' Supplementary Pension Plan	
	2006		2005		2006	2005
	\$	%	\$	%	\$	\$
Plan assets by major category						
Equity securities	1,167.1	68.3	962.8	65.3	-	-
Debt securities	477.1	28.0	446.0	30.2	-	-
Real estate	44.4	2.6	38.0	2.6	-	-
Accrued investment income	6.9	0.4	6.7	0.5	-	-
Other	12.4	0.7	21.0	1.4	2.6	2.4
Total	1,707.9	100.0	1,474.5	100.0	2.6	2.4

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	
	2006	2005	2006	2005	2006	2005
Discount rate, plan expenses	5.40%	6.25%	5.40%	6.25%	5.40%	6.25%
Discount rate, accrued benefit obligations	5.15%	5.40%	5.15%	5.40%	5.15%	5.40%
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	13	13	13	13	13

Health-care cost trend rates at December 31

	2006	2005
Medical cost		
General inflation rate		
Initial rate	10.0%*	10.0%*
Ultimate rate	4.0%	4.0%
Year ultimate rate reached	2013	2012
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 future benefit payments are discounted to the valuation date at the assumed net discount rates shown below. Estimates of future benefit payments apply to both reported and unreported claims resulting from injuries and illnesses, including occupational diseases, that occurred on or before December 31, 2006, and are based on the level and nature of entitlement and on adjudication practices in effect at that date.

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:

	2005
Inflation rate	3.0%
Investment rate of return	7.0%
Rate of indexation of benefits	
Fully indexed	3.0%
Partially indexed	0.5%
Investment return, net of indexation	
Fully indexed	4.0%
Partially indexed	6.5%
Wage escalation rate	4.0%
Health-care costs escalation rate	6.5%

Mortality estimates are based on WSIB injured-worker mortality experience from 1996 to 2000 adjusted for mortality improvements to 2006; and, for survivors of deceased workers, on the 1995–1997 Ontario Life Tables, adjusted for mortality improvements to 2006.

Loss of earnings (LOE) termination rates are based on WSIB injured-worker termination experience up to and including 2005. In addition, the proportion of awards at 100 per cent wage loss beyond six years' duration was updated to reflect current experience.

Provisions have been made for the effect of future increases in the covered earnings ceiling and the minimum and maximum limits affecting income 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 as of December 31, when an 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 benefit cost. Any adjustments resulting from the continuous 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 \$855 million (2005: \$845 million) for future costs of administering existing claims. Administrative and other expenses have been adjusted by \$301 million (2005: \$291 million) to reflect the amount that was charged against the provision for benefit liabilities relating to future claim administration costs in the current year.

Sensitivity of actuarial assumptions

The benefits liability is 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 sensitive to change is the assumed discount rate of 7 per cent. The approximate impact of a 0.5 per cent decrease in the assumed discount rate would increase benefits liabilities by approximately \$725 million.

Calculation of the benefit liabilities was based on WSIB injured-worker mortality experience. A flat reduction of five per cent in these mortality rates would increase benefits liabilities by approximately \$115 million.

A 10.0 per cent decrease in the number of lost time injuries in the current year would decrease benefits liabilities by approximately \$150 million.

Health care benefit liabilities are calculated assuming a future rate of escalation of health-care costs of 6.5 per cent per year. A 0.5 per cent increase in the escalation factors used for future health care costs would increase benefits liabilities by approximately \$130 million.

Calculation of the benefit liabilities for the loss of earnings benefit utilizes WSIB injured-worker claim termination experience. A flat reduction of five percent in these termination rates would increase benefits liabilities by approximately \$275 million.

Benefit liabilities and benefit costs paid in 2006 were as follows:

(\$ millions)	2006							2005	
	Loss of earnings	Labour market re-entry Income support	External providers	Short- & long-term disability	Health care	Survivor benefits	Claim admin. costs	Total	Total
Benefit liabilities, beginning of year	\$3,812	\$66	\$398	\$9,677	\$2,731	\$1,721	\$845	\$19,250	\$18,410
Benefit costs	1,887	101	157	919	757	198	311	4,330	4,037
Benefit costs paid during the year									
Schedule 1	(723)	(108)	(132)	(1,162)	(443)	(150)	(301)	(3,019)	(2,954)
Schedule 2	(84)	(5)	(3)	(100)	(51)	(18)	–	(261)	(243)
	(807)	(113)	(135)	(1,262)	(494)	(168)	(301)	(3,280)	(3,197)
Change in benefit liabilities	1,080	(12)	22	(343)	263	30	10	1,050	840
Benefit liabilities, end of year	\$4,892	\$54	\$420	\$9,334	\$2,994	\$1,751	\$855	\$20,300	\$19,250

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.

The actuarial reconciliation of the change in the unfunded liability is as follows:

(\$ millions)	2006	2005
Unfunded liability, beginning of year	\$6,510	\$6,420
Add (deduct):		
Investment income not earned due to shortfall in invested assets	458	452
Premiums allocated to reduction of unfunded liability	(1,000)	(934)
Experience (gains)/losses resulting from:		
Indexation of benefits less than expected	(113)	(51)
Higher than expected investment returns	(1,063)	(365)
Prior and current years' claims experience	433	418
Changes in assumptions:		
Mortality	14	13
Long-term loss of earnings	500	379
Changes in benefit cost assumptions:		
Health care benefits	68	134
Long-term disability	15	16
External agency rehabilitation payments	20	43
Other changes	59	(48)
Other changes:		
Change in personal income tax rates	96	33
Unfunded liability, end of year	\$5,997	\$6,510

10. Administrative and other expenses

Administrative and other expenses consist of the following:

(\$ millions)	2006	2005
Salaries and fringe benefits	\$288	\$287
Equipment and maintenance	36	34
Occupancy	40	37
Communication	15	16
Supplies and services	7	8
Travel and vehicle maintenance	4	5
New systems development and integration	7	7
Other	18	19
	415	413
Amortization expense	13	18
Staff benefit plans	94	63
	522	494
Claim administration costs (note 8)	(301)	(291)
	\$221	\$203

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 & Health and Safe Workplace Associations, clinics and training centres.

The total amount of funding provided under these legislated obligations and commitments in 2006 was \$208 million (2005: \$200 million).

Investments

Included in investments are marketable fixed-income securities issued by the Ontario provincial government and related corporations valued at \$429 million (2005: \$305 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***Contractual obligations***

At December 31, 2006, the WSIB was committed under non-cancellable contractual obligations – consisting of software licenses and equipment and property leases – requiring future minimum payments of approximately \$27 million per year over the next five years, and \$49 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. The credit line was not utilized in 2006 or 2005.

13. Comparative figures

Certain of the comparative amounts have been reclassified to conform with the presentation adopted in the current year.

Ten-year history

Ten-year summary of the statements of operations and unfunded liability

(\$ millions)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues										
Premiums for current year	\$2,385	\$2,256	\$2,124	\$2,068	\$1,997	\$1,866	\$1,760	\$1,707	\$1,722	\$1,886
Investments	1,298	819	470	456	246	765	1,128	1,042	982	839
Other income	3	3	49	—	—	—	—	—	—	—
	3,686	3,078	2,643	2,524	2,243	2,631	2,888	2,749	2,704	2,725
Expenses										
Benefit costs paid	3,280	3,197	3,101	2,996	2,883	2,755	2,558	2,195	2,255	2,244
Net increase/(decrease) in benefit liabilities	1,050	840	950	495	692	270	125	135	(85)	(1,740)
Loss of Retirement Income Fund	69	66	60	56	52	50	46	44	44	43
	4,828	4,103	4,111	3,547	3,627	3,075	2,729	2,374	2,214	547
Administrative and other expenses	221	203	204	210	240	236	247	387	336	341
Legislated obligations	208	200	188	172	160	162	156	145	125	117
	4,828	4,506	4,503	3,929	4,027	3,473	3,132	2,906	2,675	1,005
Excess/(Deficiency) of revenues over expenses from current operations	(1,142)	(1,428)	(1,860)	(1,405)	(1,784)	(842)	(244)	(157)	29	1,720
Premiums for unfunded liability	1,000	934	1,017	861	902	860	971	1,061	930	683
Transfer of Electrical Utilities from Schedule 2		—	—	—	(52)	—	—	—	—	—
Excess (deficiency) of revenues over expenses	(142)	(494)	(843)	(544)	(934)	18	727	904	959	2,403
Unfunded liability, beginning of year	(6,510)	(6,420)	(7,135)	(6,591)	(5,657)	(5,675)	(6,402)	(7,098)	(8,057)	(10,460)
Effect of change in accounting policy		0	1,088	—	—	—	—	(208)	—	—
Other comprehensive income	655	404	470	—	—	—	—	—	—	—
Excess of expenses over revenues	(142)	(494)	(843)	(544)	(934)	18	727	904	959	2,403
Unfunded liability, end of year	(5,997)	\$(6,510)	\$(6,420)	\$(7,135)	\$(6,591)	\$(5,657)	\$(5,675)	\$(6,402)	\$(7,098)	\$(8,057)

Other statistics

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Schedule 1										
Average premium rate (per \$100 of payroll)	\$2.26	\$2.19	\$2.19	\$2.19	\$2.13	\$2.13	\$2.29	\$2.42	\$2.59	\$2.85
Total insured payroll (\$ millions)	140,912	\$135,865	\$130,398	\$125,638	\$120,252	\$113,727	\$109,237	\$101,654	\$96,205	\$91,497
Schedule 1 & 2										
Number of new claims, by registration year	336,851	352,996	352,474	354,926	361,179	371,067	379,079	364,069	342,687	341,178
Schedule 1 & 2										
Number of WSIB employees as of December 31	4,283	4,363	4,411	4,276	4,390	4,513	4,466	4,260	4,057	3,966

LOSSES DELETED FROM THE ACCOUNTS

(Under the *Financial Administration Act*)
for the year ended March 31, 2007

<u>Ministry</u>	<u>2006-07</u> \$
FINANCE.....	146,644,080.96
COMMUNITY AND SOCIAL SERVICES	10,754,237.48
TRAINING, COLLEGES AND UNIVERSITIES	6,683,237.53
HEALTH AND LONG-TERM CARE.....	3,266,641.65
ECONOMIC, DEVELOPMENT AND TRADE.....	2,128,792.20
MUNICIPAL AFFAIRS AND HOUSING	1,932,049.70
TRANSPORTATION.....	1,340,406.32
COMMUNITY SAFETY AND CORRECTIONAL SERVICES.....	834,865.60
GOVERNMENT SERVICES.....	273,664.22
PUBLIC INFRASTRUCTURE RENEWAL	247,593.98
NATURAL RESOURCES	124,471.00
CHILDREN AND YOUTH SERVICES.....	87,590.00
ATTORNEY GENERAL	81,211.84
AGRICULTURE, FOOD AND RURAL AFFAIRS.....	31,245.87
CULTURE	20,000.00
LABOUR	13,096.80
EDUCATION	8,330.42
CITIZENSHIP AND IMMIGRATION.....	<u>5,000.00</u>
TOTAL MINISTRIES	174,476,515.57
ONTARIO DEVELOPMENT CORPORATION.....	<u>18,898.96</u>
TOTAL WRITE-OFFS	<u><u>174,495,414.53</u></u>

REVENUE REMISSIONS OF \$1,000 OR MORE

**(Under the Ministry of Revenue Act)
granted for the year -ended March 31, 2007**

Ministry of Finance

\$

Mary Ellen Gillespie

Ontario Home Ownership Savings Plan (OHOSP)

938.19 plus accrued
interestOther Remissions – OIC 1668/2006

Remission of Employer Health Tax was granted to The Buffalo and Fort Erie Public Bridge Authority (PBA) in respect of remuneration attributed to fifty-three employees who are normally resident in the United States of America and perform their job functions for the PBA at the permanent establishment of the PBA in Ontario. The remission remains in effect from April 17, 2005 until such time that the Minister or Lieutenant Governor concludes that the working arrangements of the employees have materially changed.

The estimated revenue impact is \$68,000.00 annually.

Other Remissions – OIC 574/2007

Remission of Retail Sales Tax was granted from April 1, 2007 to March 31, 2008, 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.

Other Remissions – OIC 1539/2006

Remission of Retail Sales Tax payable was granted to the Regional Municipality of York (the Region) on the sale of 36 specialized buses by GO Transit to the Region.

The revenue impact is \$586,000.00.

Other Remissions – OIC 1680/2006

Remission of Retail Sales Tax payable was granted to Tennis Canada in respect to tangible personal property incorporated into the construction of the portion of the National Tennis Centre at York University to be used for the promotion and development of amateur sport.

The revenue impact is a maximum of \$330,000.00.

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