Ontario

MINISTRY OF FINANCE

Public Accounts of ONTARIO

2008–2009

FINANCIAL STATEMENTS OF GOVERNMENT BUSINESS ENTERPRISES, TRUSTS AND MISCELLANEOUS STATEMENTS

Volume 2b

Ontario

MINISTRY OF FINANCE

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Volume 2b

TABLE OF CONTENTS

Page

General

FINANCIAL STATEMENTS

Volume 2b

Section 2 ─ Government Business Enterprises

Section 3 ─ Trusts and Miscellaneous Statements

TABLE OF CONTENTS

Page

Volume 2a

Section 1 ─ Government Organizations

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
- Ontario Science Centre
- Ontario Trillium Foundation
- Royal Ontario Museum

Ministry of International Trade and Investment
- Ontario Immigrant Investor Corporation

Ministry of Education
- Education Quality and Accountability Office
- Ontario Educational Communications Authority (TVO)
- Ontario French-Language Educational Communications Authority

Ministry of Energy and Infrastructure
- Hydro One Inc.
- Independent Electricity System Operator
- Ontario Energy Board
- Ontario Infrastructure Projects Corporation
- Ontario Lottery and Gaming Corporation
- Ontario Power Authority
- Ontario Power Generation Inc.
- Ontario Racing Commission
- Ontario Realty Corporation
- Toronto Waterfront Revitalization Corporation

Ministry of Environment
- Ontario Clean Water Agency

Ministry of Finance
- Deposit Insurance Corporation of Ontario
- Liquor Control Board of Ontario
- Losses deleted from the accounts
- Motor Vehicle Accident Claims Fund
- Ontario Electricity Financial Corporation
- Ontario Financing Authority
- Ontario Securities Commission
- Pension Benefits Guarantee Fund
- Provincial Judges Pension Fund
- Revenue remissions

Ministry of Government Services
- Ontario Pension Board

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

Ministry of Health and Long-Term Care
- Cancer Care Ontario
- eHealth Ontario
- Local Health Integration Network – Central
- Local Health Integration Network – Central East
- Local Health Integration Network – Central West
- Local Health Integration Network – Champlain
- Local Health Integration Network – Erie St. Clair
- Local Health Integration Network – Hamilton Niagara Haldimand Brant
- Local Health Integration Network – Mississauga Halton
- Local Health Integration Network – North East
- Local Health Integration Network – North Simcoe Muskoka
- Local Health Integration Network – North West
- Local Health Integration Network – South East
- Local Health Integration Network – South West
- Local Health Integration Network – Toronto Central
- Local Health Integration Network – Waterloo Wellington
- Ontario Agency for Health Protection & Promotion
- Ornge

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 Research and Innovation
- Ontario Capital Growth 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 2008-2009 Public Accounts of the Province of Ontario comprise the **Annual Report and Consolidated Financial Statements** and three volumes:

Volume 1 contains ministry statements and detailed schedules of debt and other items. The ministry statements reflect the financial activities of the government's ministries on the accrual basis of accounting, providing a comparison of appropriations with actual spending. Ministry expenses include all expenses that are subject to appropriation approved by the Legislative Assembly, but exclude adjustments arising from consolidation of government organizations whose expenses are not appropriated.

Volume 2 contains the financial statements of Government Organizations and Business Enterprises 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, 2008 to March 31, 2009. 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, 2009

Management's Responsibility for Financial Information

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

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

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

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

Tim Doyle C.A.
Treasurer

Daniel R. Janke, MBA
General Manager

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, 2009 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

May 28, 2009
Toronto, ON

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

Algonquin Forestry Authority
Statement of Financial Position
March 31

	2009	2008
Assets		
Current		
Cash and cash equivalents	**$ 4,787,517**	$ 2,590,676
Temporary investments	**---**	2,860,365
Receivables	**3,837,663**	5,405,821
Inventory	**583,801**	163,651
Prepaids	**4,840**	4,632
	9,213,821	11,025,145
Capital assets (Note 5)	**419,194**	479,654
	$ 9,633,015	$ 11,504,799
Liabilities		
Current		
Payables and accruals	**$ 1,501,302**	$ 2,306,844
Contractors' performance holdbacks	**71,677**	103,915
Due to Consolidated Revenue Fund	**174,665**	364,686
Deferred contributions (Note 6)	**215, 098**	---
	1,962,742	2,775,445
Deferred contributions (Note 6)	**---**	99,499
Obligation for employee future benefits (Note 7)	**456,817**	471,348
	2,419,559	3,346,292
Net assets		
Invested in capital assets	**419,194**	479,654
Restricted – Forest Renewal Fund (Notes 4 & 13)	**2,500,000**	2,630,704
General Fund	**4,294,262**	5,048,149
	7,213,456	8,158,507
	$ 9,633,015	$ 11,504,799

Contingency (Note 14)

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 2009**	Total 2008
Revenue				
Product sales	$ 17,614,870	$ ---	**$ 17,614,870**	$ 20,036,363
Forest renewal activity		771,260	**771,260**	958,183
Standing timber sales	76,113		**76,113**	373,146
Other (Note 8)	2,316,488	75,163	**2,391,651**	1,854,077
	20,007,471	846,423	**20,853,894**	23,221,769
Expense				
Direct program costs	16,492,829	911,832	**17,404,661**	18,550,726
Crown timber stumpage charges	1,663,409	---	**1,663,409**	2,215,520
Public access road maintenance	305,750	---	**305,750**	257,876
Operations planning	132,162	---	**132,162**	161,834
Wood measurement	60,185	---	**60,185**	63,245
	18,654,335	911,832	**19,566,167**	21,249,201
Operating Income	1,353,136	(65,409)	**1,287,727**	1,972,568
Administrative and other				
Salaries and benefits	1,525,832	182,091	**1,707,923**	1,671,568
Amortization	178,994	41,826	**220,820**	251,940
Office supplies and expenses	95,976	105	**96,081**	99,799
Director's allowances and expenses	56,594	---	**56,594**	42,874
Office rent	35,993	13,260	**49,253**	46,485
Staff travel and training	28,546	1,829	**30,375**	16,730
Public relations	28,462	---	**28,462**	41,821
Insurance	16,426	7,302	**23,728**	25,127
Consulting, legal and miscellaneous	19,542	---	**19,542**	25,575
	1,986,365	246,413	**2,232,778**	2,221,919
Loss before assessment	(633,229)	(311,822)	**(945,051)**	(249,351)
Penalties and interest on GST assessment (Note11)	---	---	**---**	234,598
Net loss for the year	$ (633,229)	$ (311,822)	**$ (945,051)**	$ (483,949)

See accompanying notes to the financial statements.

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

	Invested In Capital Assets	Restricted - Forest Renewal Fund	Unrestricted - General Fund	**2009 Total**	2008 Total
Balance, beginning of year	479,654	2,630,704	5,048,149	**$ 8,158,507**	$ 8,642,456
Interfund (Note 13)		139,292	(139,292)		
Net loss for the year	---	(311,822)	(633,229)	**(945,051)**	(483,949)
Amortization	(220,820)	41,826	178,994	**---**	---
Investment in capital assets	160,360	---	(160,360)	---	---
Balance, end of year	$ 419,194	$ 2,500,000	$ 4,294,262	$ 7,213,456	$ 8,158,507

See accompanying notes to the financial statements.

Algonquin Forestry Authority
Statement of Cash Flows
Year Ended March 31

	2009	2008
Cash and cash equivalents derived from (applied to)		
Operating		
Net loss for the year:		
General Fund	$ (633,229)	$ (205,241)
Forest Renewal Fund	(311,822)	(278,708)
Add (deduct): non-cash items		
Amortization	220,820	251,940
Gain on sale of capital assets	---	(21,454)
	(724,231)	(253,463)
Change in non-cash operating working capital	119,999	634,663
	(604,232)	381,200
Financing		
Obligation for employee future benefits	(14,531)	36,758
Deferred contributions	115,599	42,124
	101,068	78,882
Investing		
Disposal (acquisition) of temporary investments	2,860,365	(148,681)
Acquisition of capital assets	(166,042)	(182,041)
Proceeds on sale of capital assets	5,682	31,134
	2,700,005	(299,588)
Increase in cash and cash equivalents	2,196,841	160,494
Cash and cash equivalents, beginning of year	2,590,676	2,430,182
Cash and cash equivalents, end of year	$ 4,787,517	$ 2,590,676

See accompanying notes to the financial statements.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2009

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.

Inventories

Inventories, which consist of harvested wood not yet delivered to customers, are measured at the lower of cost and net realizable value with cost being determined on the first in, first out basis. Cost includes all acquisition costs incurred in bringing inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

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.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's historical experience, best knowledge of current events and actions that the Authority may undertake in the future. Significant accounting estimates

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2009

2. Significant accounting policies (cont'd)

Use of estimates (cont'd)

include accounting for doubtful accounts, inventory obsolescence, and estimated useful lives of capital assets. Actual results could differ from those estimates.

Financial instruments

The Authority has made the following classification for the purpose of measuring the value of the financial instruments:

- Cash and cash equivalents includes cash on hand, balances with banks and short term deposits with original maturities of three months or less. Cash and cash equivalents have been classified as "held for trading". They are initially measured at fair value and the gains and losses resulting from the revaluation at fair value at the end of each period are recognized in net income.

- 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. Temporary investments have been classified as "held to maturity". They are recorded at cost, which, upon their initial measurement, is equal to their fair value. Subsequent measurements are recorded at amortized cost which usually corresponds to the amount initially recorded plus accrued interest.

- Receivables are classified as "loans and receivables". They are recorded at cost, which, upon their initial measurement, is equal to their fair value. Subsequent measurements of receivables are recorded at amortized cost which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

- Payables and accruals, contractors' performance holdbacks, Due to Consolidated Revenue Fund, deferred contributions and obligations for future employee benefits are classified as "other financial liabilities". They are initially measured at fair value and the gains and losses resulting from their subsequent measurement at amortized cost, at the end of each period, are recognized in net income.

The Canadian Institute of Chartered Accountants (CICA) implemented two new handbook sections for fiscal years starting on or after October 1, 2007: 3862 "Financial Instruments – Disclosure"; and 3863 "Financial Instruments – Presentation". These sections replace section 3861 "Financial Instruments – Disclosure and Presentation" for many organizations and require more extensive disclosures including information about risk assessment, risk management procedures, and sensitivity analyses around each type of risk. However, the CICA provided not-for-profit organizations with the option of continuing to use section 3861, and the Authority has decided to do so.

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.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2009

3. Application of new accounting standards

Inventories

On April 1, 2008, the Authority adopted CICA Handbook Section 3031, “Inventories”. This new standard replaces the existing Section 3030 of the same name and contains requirements on measurement and disclosure of inventories and revises and enhances the requirements for assigning costs to inventories. This new standard also allows for reversal of previous write-downs.

The adoption of this standard had no impact on the results of operations of measurement of inventory. During the year, there were no write-downs of inventory as a result of net realizable value being lower than cost, and no inventory write-downs recognized in previous years were reversed. The Authority’s newly expanded disclosure is included in Note 2.

General standards on financial statement presentation

On April 1, 2008, the Authority adopted CICA Handbook Section 1400 “General Standards on Financial Statement Presentation”. This section requires that management make an assessment of the Authority’s ability to continue as a going concern over a period which is at least, but not limited to, twelve months from the balance sheet date. The adoption of this new requirement has not resulted in any additional disclosure.

Capital disclosures

On April 1, 2008, the Authority adopted CICA Handbook Section 1535 “Capital Disclosures”. The new standard requires disclosure of an entity’s objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The Authority’s new disclosure is included in Note 12.

4. Forest Renewal Fund

Effective April 1, 2002, the Authority renewed its 20-year agreement with the Ministry of Natural Resources, a related party, 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.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2009

5. Capital assets

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Portable steel structures	$ 403,010	$ 278,514	**$ 124,496**	$ 79,044
Bridges and access roads	5,346,799	5,234,807	**111,992**	197,792
Forest renewal assets	415,503	337,767	**77,736**	40,674
Automotive equipment	322,505	249,701	**72,804**	130,085
Data processing equipment	149,267	137,344	**11,923**	15,044
Technical equipment	191,163	179,741	**11,422**	4,581
Furniture and fixtures	83,358	78,783	**4,575**	7,259
Leasehold improvements	44,804	41,822	**2,982**	3,630
Trailers	13,690	12,426	**1,264**	1,545
	$ 6,970,099	$ 6,550,905	**$ 419,194**	$ 479,654

6. Deferred contributions

Deferred contributions represent unspent resources 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:

	2009	2008
Public Access Road Maintenance:		
Beginning balance	**$ 99,499**	$ 57,375
Add: amount received in the year	**339,340**	300,000
Less: amount spent on road maintenance and related amortization costs in the year	**(305,750)**	(257,876)
Ending balance	**$ 133,089**	$ 99,499
Other Park-related Projects:		
Beginning balance	**$ ---**	$ ---
Add: amount received in the year	**82,009**	---
Less: amount spent on projects in the year	**---**	---
Ending balance	**82,009**	---
Total	**$ 215,098**	$ 99,499

7. Employee future benefits

The Authority's full-time employees participate in the Public Service Pension Fund (PSPF) which are defined benefit pension plans for employees of the Province and many provincial agencies. The Province od Ontario, which is the sole sponsor of the PSPF, determines the Authority's annual payments to the PSPF. As the sponsor is responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from the statutory actuarial funding valuations are not assets or obligations of the Authority. The Authority's annual payments of $107,954 (2008 - $104,623) are included in salaries and benefits in the Statement of Operations.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2009

7. Employee future benefits (cont'd)

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 $ 456,817 at year-end (2008 - $471,348).

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

8. Road maintenance funding

Included in General Fund Other Revenue is revenue of $ 1.96 million (2008 - $1.22 million) 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 (2008 - all) was passed on to the Authority's customers through a rebate allocated on the basis of sales volumes.

9. Remuneration of appointments

Total remuneration of the Board members of the Authority was approximately $ 20,400 during the fiscal year (2008 - $13,800).

10. Financial Instruments

Unless otherwise noted, it is management's opinion that the Authority is not exposed to significant interest, currency or credit risks arising from its financial instruments. The fair value of the Authority's financial instruments approximate their carrying values, unless otherwise noted.

11. Penalties and interest on GST assessment

In 2007, the Authority was subject to a GST audit from Canada Revenue Agency (CRA). This audit covered the periods April 1, 2005 to December 31, 2006. The Authority was required to remit GST to CRA relating to stumpage fees which the Authority was able to recover from its customers. As a result of the assessment by CRA, the Authority also paid penalty and interest charges of $234,598. In February 2008, the Authority submitted a Notice of Objection to the CRA. In February 2009, the Authority received notification of confirmation that the Notice of Objection was disallowed and the assessment is confirmed.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2009

12. Capital management

The Authority considers cash (and cash equivalents), temporary investments and net assets as capital. The Authority manages its capital to have sufficient resources to satisfy its liabilities as they become due and to provide the services for which it is constituted in a consistent and quality manner. The Ministry of Natural Resources requires the Authority to maintain a minimum balance of $1,500,000 in the Forest Renewal Fund (see Note 4) and the Authority has complied with this requirement.

13. 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 which cannot be funded by the Forest Renewal Fund without causing the Forest Renewal Fund balance to fall below $2,500,000, shall be funded by the General Fund.

14. Contingency

The Authority has been named as a co-defendant in a claim by a customer for a refund of all residual value stumpage charges imposed on the customer under the authority of the Crown Forest Sustainability Act, 1994 in the amount of $4,528,215 plus costs and interest. No statement of defence has yet been filed by the Authority. Based on a similar claim recently denied by the courts, the Authority believes that there is no likelihood of loss, and as such, no accrual has been made for this claim in these financial statements.

HYDRO ONE INC.
MANAGEMENT'S REPORT

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

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements and MD&A have been properly prepared within reasonable limits of materiality and in light of information up to February 11, 2009.

In meeting its 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. In addition internal and disclosure controls have been documented, evaluated, tested and identified consistent with National Instrument 52-109 (Bill 198). 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 KPMG 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 accounting principles generally accepted in Canada. The Auditors' Report, which appears on page 32, 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 Executive Vice President and Chief Financial Officer have certified Hydro One's annual Consolidated Financial Statements and annual MD&A filed under provincial securities legislation, related disclosure controls and procedures, and the design and effectiveness of related internal controls over financial reporting pursuant to National Instrument 52-109.

On behalf of Hydro One Inc.'s management:

Laura Formusa
President and Chief Executive Officer

Beth Summers
Executive Vice President and Chief Financial Officer

hydroOne

HYDRO ONE INC.
AUDITORS' REPORT

To the Shareholder of Hydro One Inc.

We have audited the consolidated balance sheet of Hydro One Inc. (the Company) as at December 31, 2008, and the consolidated statements of operations and comprehensive income, retained earnings, accumulated other comprehensive income, and cash flows for the year then ended. 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 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 Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2007 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated February 13, 2008.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 11, 2009

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Year ended December 31 (Canadian dollars in millions)	**2008**	**2007**
Revenues		
Transmission *(Note 14)*	1,212	1,242
Distribution *(Note 14)*	3,334	3,382
Other	51	31
	4,597	4,655
Costs		
Purchased power *(Note 14)*	2,181	2,240
Operation, maintenance and administration *(Note 14)*	965	995
Depreciation and amortization *(Note 3)*	548	521
	3,694	3,756
Income before financing charges and provision for payments in lieu of corporate income taxes	903	899
Financing charges *(Note 4)*	292	295
Income before provision for payments in lieu of corporate income taxes	611	604
Provision for payments in lieu of corporate income taxes *(Notes 5 and 14)*	113	205
Net income	498	399
Other comprehensive (loss) income	(1)	3
Comprehensive income	497	402
Basic and fully diluted earnings per common share *(Canadian dollars) (Note 13)*	4,797	3,809

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year ended December 31 (Canadian dollars in millions)	**2008**	**2007**
Retained earnings, January 1	1,258	1,184
Net income	498	399
Dividends *(Note 13)*	(259)	(325)
Retained earnings, December 31	1,497	1,258

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

Year ended December 31 (Canadian dollars in millions)	**2008**	**2007**
Accumulated other comprehensive income, January 1	(9)	(12)
Other comprehensive (loss) income	(1)	3
Accumulated other comprehensive income, December 31	(10)	(9)

See accompanying notes to Consolidated Financial Statements.

hydroOne

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS

December 31 (Canadian dollars in millions)	**2008**	**2007**
Assets		
Current assets:		
Cash and cash equivalents	16	-
Accounts receivable (net of allowance for doubtful accounts - $23 million; 2007 - $21 million) *(Note 14)*	754	759
Regulatory assets *(Note 7)*	64	103
Materials and supplies *(Note 2)*	19	23
Other	18	17
	871	902
Fixed assets *(Note 6)*:		
Fixed assets in service	17,604	16,743
Less: accumulated depreciation	6,580	6,220
	11,024	10,523
Construction in progress	963	622
Future use land, components and spares *(Note 2)*	132	113
	12,119	11,258
Other long-term assets:		
Deferred pension asset *(Note 11)*	441	380
Regulatory assets *(Note 7)*	291	106
Goodwill	133	133
Other assets	21	7
	886	626
Total assets	13,876	12,786

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (continued)

December 31 (Canadian dollars in millions)	**2008**	**2007**
Liabilities		
Current liabilities:		
Bank indebtedness	-	12
Accounts payable and accrued charges *(Notes 11, 12 and 14)*	791	731
Regulatory liabilities *(Note 7)*	43	114
Accrued interest	64	55
Long-term debt payable within one year *(Note 8)*	400	540
	1,298	1,452
Long-term debt *(Note 8)*	5,733	5,063
Other long-term liabilities:		
Employee future benefits other than pension *(Note 11)*	908	855
Regulatory liabilities *(Note 7)*	564	465
Environmental liabilities *(Note 12)*	237	52
Long-term accounts payable and accrued charges	12	13
	1,721	1,385
Total liabilities	8,752	7,900
Contingencies and commitments *(Notes 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	1,497	1,258
Accumulated other comprehensive income	(10)	(9)
Total shareholder's equity	5,124	4,886
Total liabilities and shareholder's equity	13,876	12,786

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:

Douglas E. Speers
Chair

Walter Murray
Chair, Audit and Finance Committee

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (Canadian dollars in millions)	**2008**	**2007**
Operating activities		
Net income	498	399
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	502	482
Revenue difference deferral account	(73)	73
Regulatory liability refund account	30	38
Other regulatory asset and liability accounts	(5)	9
Revenue recovery account	(25)	-
Amortization of debt discount	-	5
	927	1,006
Changes in non-cash balances related to operations *(Note 15)*	128	135
Net cash from operating activities	1,055	1,141
Financing activities		
Long-term debt issued	1,050	700
Long-term debt retired	(540)	(355)
Short-term notes payable	-	(60)
Dividends paid	(259)	(325)
Other	9	(1)
Net cash from (used in) financing activities	260	(41)
Investing activities		
Capital expenditures	(1,284)	(1,091)
Other assets	(3)	8
Net cash used in investing activities	(1,287)	(1,083)
Net change in cash and cash equivalents	28	17
Cash and cash equivalents, January 1	(12)	(29)
Cash and cash equivalents, December 31 *(Note 15)*	16	(12)

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 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 Inc. (HODS), Hydro One Lake Erie Link Management Inc. (HOLELMI) and Hydro One Lake Erie Link Company Inc. (HOLELCo).

Hydro One Brampton Inc. was dissolved on January 30, 2007. HODS was dissolved on August 29, 2008. Effective December 13, 2007, upon approval of the resolution to apply for the dissolution of HODS, its interests in HOLELMI and HOLELCo were distributed to Hydro One.

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.

Transmission

As part of an OEB-initiated proceeding to review Hydro One Network's transmission rates and to approve revenue requirements for 2006, 2007 and 2008, the OEB announced a decision to apply an earnings sharing mechanism (ESM) 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 2006.

On March 30, 2007, the OEB issued a decision approving the concept of establishing a new revenue difference deferral account (RDDA) to record the revenue differential between existing transmission rates and the new rates that were anticipated to be approved later in the year, for the period commencing January 1, 2007.

On August 16, 2007, the OEB issued its decision in respect of Hydro One Networks' 2007 and 2008 transmission rate application. The decision, which was effective January 1, 2007, approved all operating and capital expenditures for 2007 and 2008. However, the decision resulted in a reduction in the approved return on equity from 9.88% to 8.35%. The OEB also approved final amounts and disposition treatments for certain regulatory liabilities including: the RDDA, the ESM and export and wheeling fees, as well as the transmission market ready regulatory asset.

As part of a joint proceeding involving all transmitters in Ontario, on October 17, 2007 the OEB approved Uniform Transmission Rates (UTRs) for implementation on November 1, 2007 through to December 31, 2008. The new rates fully reflect the approved changes to our revenue requirement and charge determinants.

On May 30, 2008, Hydro One Networks submitted an application to the OEB to adjust UTRs effective January 1, 2009. On August 28, 2008, the OEB approved the application and the decision resulted in an average increase of 9% in the revenue requirement allocation from UTRs to reflect the completion of repayment to customers of the amounts recorded in the ESM and the RDDA at the end of 2008.

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

Distribution

In 2006, the OEB initiated a process of establishing an Incentive Regulation Mechanism (IRM) for the years 2007 to 2010. The process included a formulaic approach to establishing 2007 rates with a rate re-basing approach to be staggered across all Ontario distributors between 2008 and 2010. Hydro One Networks and Hydro One Brampton applied for distribution rate adjustments in February 2007, based on an OEB-approved formula that considers inflation and efficiency targets. In April 2007, the OEB approved the Company's submissions and the revised rates were implemented effective May 1, 2007.

In accordance with the OEB's multi-year distribution rate-setting plan, Hydro One Networks submitted the revenue requirement portion of its 2008 cost of service application on August 15, 2007. This application sought the approval of a revenue requirement of $1,067 million based on a rate of return of 8.64% for 2008, and included a plan to reduce the number of rate classes for its customers and consolidate or harmonize the rates for its existing rate classes to the new proposed rate classes.

On December 18, 2008, the OEB issued a decision approving substantially all work program expenditures effective May 1, 2008, for implementation on February 1, 2009. The OEB also approved recovery of our smart meter expenditures made prior to the end of 2007. Subsequent expenditures will continue to be tracked in deferral accounts for future recovery. The decision approved the establishment of the Revenue Recovery Account (RRA) to record the revenue differential between existing distribution rates and new rates. The RRA will be recovered over a 27-month period commencing February 1, 2009 and ending April 30, 2011.

On November 1, 2007, Hydro One Brampton filed an application for 2008 rates on the basis of the OEB's cost of capital and second generation IRM policies. On March 19, 2008, the OEB released its decision and the revised rates, including an amount of 67 cents per month per metered customer for smart meters, were approved with an implementation date of May 1, 2008.

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 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 7.

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, 2008 amounted to $383 million (2007 - $413 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.

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

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 consumables, 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.

Effective January 1, 2008, the Company retrospectively adopted Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3031, *Inventories,* with reclassification of comparative prior period amounts. This new section requires that certain major spare parts and standby equipment be reclassified from inventory to fixed assets. The new Handbook section also allows previously recorded impairment losses taken on inventory to be reversed if there is evidence that the net realizable value has subsequently recovered.

The Company already includes certain major standby equipment as in-service fixed assets and depreciates these assets over their useful lives. Upon adoption of the new section in the first quarter of 2008, the Company reclassified asset components and equipment previously classified as materials and supplies inventory. Concurrent with the above reclassification, the Company also reclassified future use land from "fixed assets in service" to "future use land, components and spares." Future use land, components and spares are not depreciated until they are transferred to active capital projects and those projects are placed in-service.

Fixed Assets

Fixed assets are capitalized at cost which comprises materials, labour, engineering costs, overheads, depreciation on service equipment and the OEB-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, major components and spare parts, 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 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.

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

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, consistent with an OEB-approved methodology. Financing costs are capitalized on fixed assets under construction based on the OEB's approved allowance for funds used during construction (2008 – 5.32%; 2007 – 5.20%).

Depreciation

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

The Company periodically undergoes an external review of its fixed asset depreciation rates, as required by the OEB. The last review resulted in changes to rates effective January 1, 2007. A summary of depreciation rates for the various classes of assets is included below:

	Depreciation rates (%)	
	Range	Average
Transmission	1% - 4%	2%
Distribution	1% - 13%	2%
Communication	1% - 13%	5%
Administration and service	1% - 20%	8%

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

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.

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 consistent with their inclusion in rates.

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

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.

Discounts and Premiums on Debt

Discounts and premiums are amortized over the period of the related debt using the effective interest method.

Financial Instruments

Comprehensive Income

Comprehensive income is composed of the Company's net income and other comprehensive income (OCI). OCI includes the amortization of net unamortized hedging losses on discontinued cash flow hedges, and the change in fair value on existing cash flow hedges to the extent that the hedge is effective. The Company amortizes its unamortized hedging losses on discontinued cash flow hedges to financing charges using the effective interest method over the term of the hedged debt.

Financial Assets and Liabilities

All financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, other liabilities or available-for-sale. All financial instruments, including derivatives, are carried at fair value on the Consolidated Balance Sheet except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in financing charges in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in OCI until the instrument is derecognized or impaired. The Company has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Short-term investments	Held-to-maturity/Held-for-trading
Fixed-to-floating interest rate swap	Not classified
Long-term accounts receivable	Loans and receivables
Bank indebtedness	Other liabilities
Accounts payable	Other liabilities
Short-term notes payable	Other liabilities
Long-term debt (unless otherwise specified)	Other liabilities
MTN Series 8 Note	Designated as held-for-trading
MTN Series 14 Note	Not classified

Short-term investments are generally classified as held-to-maturity, however, the Company allows itself the possibility to classify pools of short-term investments as held-for-trading where there is not the intention of holding a pool of assets to their maturity. Documentation of the short-term investment classification is made on inception.

The MTN Series 8 Note was a step-up coupon note which matured on May 15, 2008 (See Notes 8 and 9). Where there is an economic hedge, as in the case of the MTN Series 8 Note and associated interest rate swap, the Company applied the fair value option without hedge accounting.

Where long-term debt is designated as part of a hedging relationship, as in the case of the MTN Series 14 Note, the long-term debt is not classified.

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

All financial instrument transactions are recorded at trade date.

Derivatives and Hedge Accounting

All derivative instruments, including embedded derivatives, are carried at fair value on the Consolidated Balance Sheet unless exempted from derivative treatment as a normal purchase and sale or when it is deemed that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. All changes in fair value are recorded in financing charges unless cash flow hedge accounting is used, in which case changes in fair value are recorded in OCI to the extent that the hedge is effective.

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

The Company periodically develops hedging strategies for execution taking into account risk management objectives. At the inception of a hedging relationship, the Company documentation includes its risk management objective for establishing the hedging relationship, the identification of hedged and hedging item, the nature of the specific risk exposure being hedged and the method for assessing effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging items that are used are effective in offsetting changes in fair values or cash flows of the hedged items.

Transaction Costs

Transaction costs for financial assets and liabilities that are other than held-for-trading, are added to the carrying value of the asset or liability and then amortized over the expected life of the instrument using the effective interest method.

Financial Instrument Disclosures and Presentation

Effective January 1, 2008, the Company adopted two new accounting standards comprising CICA Handbook Sections 3862, *Financial Instruments Disclosures*; and 3863, *Financial Instruments Presentation*. The adoption of the new disclosure standard required an increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments. These additional disclosures are provided in Note 9. The adoption of the new standard on presentation carried forward unchanged the presentation requirements from Section 3861, *Financial Instruments Disclosure and Presentation,* and therefore adoption of this new standard did not have any impact on the Consolidated Financial Statements.

Capital Disclosure

Effective January 1, 2008, the Company adopted a new accounting standard comprising CICA Handbook Section 1535, *Capital Disclosures*. The adoption of the new standard required the disclosure of qualitative and quantitative information about the Company's capital and how it is managed. These disclosures are provided in Note 10.

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 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.

Emerging Accounting Changes

Income Taxes

In August 2007, the Canadian Accounting Standards Board (AcSB) issued a decision, effective January 1, 2009, to withdraw the temporary exemption in CICA Handbook Section 1100, *Generally Accepted Accounting Principles,* which permits the recognition and measurement of assets and liabilities arising from rate regulation. Further, CICA Handbook Section 3465, *Income Taxes,* was amended to require the recognition of future income tax liabilities and assets for regulated enterprises that were previously not subject to these provisions. Consequently, the Company will be required to reflect on its Consolidated Balance Sheet, the effect of applying the liability method when accounting for payments in lieu of corporate income taxes and a corresponding regulatory asset. The Company is currently assessing the impact of the AcSB's decision on its Consolidated Balance Sheet.

Goodwill and Intangibles

In November 2007, the AcSB approved new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. The new section is applicable to Hydro One's interim and annual Consolidated Financial Statements for the 2009 fiscal year. The Company is currently evaluating the classification of certain of its assets to determine if they meet the definition of intangible assets. Assets that may potentially be reclassified include land rights and easements, certain software assets, telecom indefeasible rights of use and amounts contributed to other entities as capital contributions. It is not anticipated that the new section will have any impact on goodwill or result in any impacts on the Company's results of operations.

3. DEPRECIATION AND AMORTIZATION

Year ended December 31 (Canadian dollars in millions)	**2008**	**2007**
Depreciation of fixed assets in service	418	384
Fixed asset removal costs	46	39
Amortization of regulatory and other assets	84	98
	548	521

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

4. FINANCING CHARGES

Year ended December 31 (Canadian dollars in millions)	2008	2007
Interest on short-term notes payable	2	4
Interest on long-term debt payable	331	308
Interest accreted on regulatory accounts	2	-
Other	-	7
Less: Interest capitalized on construction in progress	(36)	(24)
Interest earned on investments	(7)	(5)
Amortization of debt discount	-	5
	292	295

5. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

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

Year ended December 31 (Canadian dollars in millions)	2008	2007
Income before provision for PILs	611	604
Federal and Ontario statutory income tax rate	33.50%	36.12%
Provision for PILs at statutory rate	205	218
Increase (decrease) resulting from:		
Net temporary differences:		
Transmission amounts (paid) received but not recognized for accounting purposes	(34)	25
Capital cost allowance in excess of depreciation and amortization	(32)	(9)
Retail settlement variance accounts	15	17
Pension contributions in excess of pension expense	(13)	(13)
Overheads capitalized for accounting but deducted for tax purposes	(12)	(12)
Interest capitalized for accounting purposes but deducted for tax purposes	(11)	(9)
Distribution amounts paid but not recognized for accounting purposes	(8)	-
Employee future benefits other than pension expense in excess of cash payments	6	7
Environmental expenditures	(5)	(4)
Other	-	(5)
Net temporary differences	(94)	(3)
Net permanent differences	2	(10)
Provision for PILs	113	205
Effective income tax rate	18.49%	33.94%

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, 2008, future income tax liabilities of $332 million (2007 - $253 million), based on substantively enacted income tax rates and laws that are expected to apply when the temporary differences reverse, 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 $79 million (2007 – higher by $28 million), including the impact of a change in substantively enacted tax rates.

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

Future income tax assets relating to the non-regulated businesses have also not been recorded in the accounts as they have not met the criterion of "more likely than not" to be realized. As at December 31, 2008, future income tax assets of $4 million (2007 - $4 million), based on substantively enacted income tax rates and laws, have not been recorded.

6. FIXED ASSETS

December 31 (Canadian dollars in millions)	Fixed Assets	Accumulated Depreciation	Construction in Progress	Total
2008				
Transmission	8,995	3,307	659	6,347
Distribution	6,317	2,266	165	4,216
Communication	773	342	54	485
Administration and service	1,164	588	85	661
Easements	487	77	-	410
	17,736	6,580	963	12,119
2007				
Transmission	8,725	3,152	370	5,943
Distribution	5,907	2,133	115	3,889
Communication	739	305	58	492
Administration and service	1,000	556	79	523
Easements	485	74	-	411
	16,856	6,220	622	11,258

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 $36 million in 2008 (2007 - $24 million).

7. 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:

December 31 (Canadian dollars in millions)	**2008**	**2007**
Regulatory assets:		
Environmental	253	65
Regulatory asset recovery account II	43	66
Revenue recovery account	25	-
Rural and remote rate protection variance account	17	4
Employee future benefits other than pension	-	42
Regulatory asset recovery account I	-	19
Other	17	13
Total regulatory assets	355	209
Less: current portion	64	103
	291	106

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

December 31 (Canadian dollars in millions)	**2008**	**2007**
Regulatory liabilities:		
Deferred pension	441	380
Regulatory liability refund account	73	43
Retail settlement variance accounts	31	7
Export and wheeling fees	27	38
Regulatory asset recovery account I	19	-
Revenue difference deferral account	-	73
Transmission earnings sharing mechanism	-	28
Other	16	10
Total regulatory liabilities	607	579
Less: current portion	43	114
	564	465

Regulatory assets

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate past environmental contamination (See Note 12). Because such expenditures are expected to be recoverable in future rates, the Company has recognized an equivalent amount as a regulatory asset, including the additional amount recorded in 2008 as a result of final PCB regulations. 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 2025. 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, operation, maintenance and administration expenses would have been higher by $195 million (2007 - $3 million). In addition, amortization expense in 2008 would have been lower by $14 million (2007 - $12 million) and financing charges would have been higher by $7 million (2007 - $4 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 2008 would have been lower by $23 million (2007 - $23 million). In addition, related financing charges would have been higher by $2 million (2007 - $3 million).

Revenue recovery account (RRA)

On December 18, 2008, the OEB announced its decision regarding the Company's rate application in respect of the distribution business of Hydro One Networks. The approved rates are effective May 1, 2008 with an implementation date of February 1, 2009. The OEB approved the establishment of the RRA to record the revenue differential between existing distribution rates and the new rates. The OEB ordered that the approved revenue requirement be retroactively recovered, through rate riders, over a period of 27 months commencing February 1, 2009 and ending April 30, 2011.

Rural and remote rate protection variance account (RRRP)

Hydro One receives rural rate protection amounts from the IESO. A portion of these amounts is provided to retail customers of Hydro One Networks who are eligible for rate protection. In 2002, the OEB approved a mechanism to collect the RRRP through the Wholesale Market Service Charge. Variances between the amounts remitted by the IESO to Hydro One and the fixed entitlements defined in the regulation are tracked by the Company in the RRRP variance account to be disposed of at a later date.

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

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 been fully recovered. In 2007, it had a remaining recovery period of 1 year and did not earn a return. In the absence of rate regulated accounting, amortization expense in 2008 would have been lower by $42 million (2007 - $42 million).

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 included 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. Hydro One Networks has accumulated a net liability in its RARA I account since May 1, 2008 due to continuance of the rate rider, disposition of which will be subject to a future OEB review. In the absence of rate regulated accounting, amortization expense in 2008 would have been lower by $5 million (2007 - $20 million). In addition, related financing charges would have remained the same (2007 – higher by $1 million).

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 into 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, operating, maintenance and administration expense would have been lower by $38 million (2007 – higher by $1 million).

Regulatory liability refund account (RLRA)

On December 18, 2008, the OEB announced its decision regarding the Company's rate application in respect of the distribution business of Hydro One Networks. As part of the decision, the OEB also approved certain distribution-related deferral account balances sought by Hydro One in its application. Amounts for which recovery was approved represented balances incurred prior to April 30, 2008, plus associated interest. The OEB ordered that the approved balances be aggregated into a single regulatory account to be recovered over a 27-month period from February 1, 2009 to April 30, 2011. The RLRA includes retail settlement variance amounts and deferred tax changes.

Retail settlement variance accounts (RSVA)

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 OEB's December 18, 2008 decision allowed for recovery of retail settlement variance amounts accumulated since May 1, 2006 through to April 30, 2008, inclusive of interest, within the RRA. The Company has accumulated a net liability in its RSVA since May 1, 2008 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)

Export and wheeling fees

Consistent with the IESO's 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 these export and wheeling fees, 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. On August 16, 2007, the OEB issued its decision in respect of the Company's transmission rate application and approved final amounts and disposition treatments for the export wheeling fees. The export wheeling fees will be factored into rates over a four-year period ending December 31, 2010.

Revenue difference deferral account (RDDA)

On March 30, 2007, the OEB issued a decision approving the establishment of the RDDA to record the revenue differential between existing transmission rates and the new rates that were anticipated to be approved later in the year. The new deferral account was to represent the revenue differential between existing and future rates for the period commencing January 1, 2007. On August 16, 2007, in its decision on Hydro One Networks' 2007 and 2008 transmission rates, the OEB approved final amounts and disposition treatments for the RDDA liability, which was returned to customers over the fourteen-month period ending December 31, 2008.

Transmission earnings sharing mechanism (ESM)

On February 21, 2006, the OEB issued a decision that established an ESM to equally share, between the Company's shareholder and ratepayers, any transmission earnings in excess of the approved rate of return of 9.88%, for the period January 1, 2006 until new transmission rates were set. Consequently, 50% of the Company's excess earnings were deferred as a regulatory liability. On March 30, 2007, the OEB issued a decision ordering that the transmission ESM cease effective December 31, 2006. The ESM was taken into consideration in setting the revenue requirement of Hydro One Networks for 2007 and 2008. On August 16, 2007, in its decision on Hydro One Networks 2007 and 2008 transmission rates, the OEB approved final amounts and disposition treatments for the ESM which was returned to customers over a fourteen-month period ending December 31, 2008, in accordance with the decision.

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

8. DEBT

December 31 (Canadian dollars in millions)	2008	2007
Long-term debt:		
4.70% notes due 2008[1]	-	40
4.00% notes due 2008	-	500
3.95% notes due 2009	400	400
7.15% debentures due 2010	400	400
3.89% notes due 2010	100	-
4.08% notes due 2011 [2]	250	-
6.40% notes due 2011	250	250
5.77% notes due 2012	600	600
5.00% notes due 2013	400	-
4.64% notes due 2016	450	450
5.18% notes due 2017	600	300
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	600
4.89% notes due 2037	400	400
6.59% notes due 2043	315	315
5.00% notes due 2046	75	75
	6,125	5,615
Add: Unrealized hedged loss [2]	15	-
Less: Long-term debt payable within one year	(400)	(540)
Net unamortized premiums	20	13
Unamortized debt issuance costs	(27)	(25)
Long-term debt	5,733	5,063

[1] Step-up coupon (MTN Series 8 Note) from 4.10% to 6.40%, extendable to 2011, matured on May 15, 2008.

[2] The unrealized hedged loss relates to the MTN Series 14 Note, which is accounted for as a fair value hedge. The unrealized hedged loss is offset by the $15 million unrealized gain on the related fixed-to-floating interest rate swap agreement.

Short-term debt represents promissory notes pursuant to the Company's Commercial Paper Program. The notes are denominated in Canadian dollars with varying maturities not exceeding 365 days. In 2008, the notes had a weighted-average interest rate of 3.0%.

Hydro One has a $1,000 million committed and unused revolving standby credit facility with a syndicate of banks maturing in August 2010. 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 (MTN) Program. On November 10, 2008, Hydro One issued new notes comprised of medium term notes with a principal amount of $400 million having a 5 year term with a coupon rate of 5.0%. The notes are due November 12, 2013. On November 19, 2008, Hydro One issued notes under the Company's medium term note program. The issue was comprised of medium term notes with a principal amount of $100 million having a 2 year term with a coupon rate of 3.89%. The notes are due November 19, 2010.

The maximum authorized principal amount of medium-term notes issuable under this program is $2,500 million of which, as at December 31, 2008, $1,150 million was remaining.

The long-term debt is unsecured and denominated in Canadian dollars. Such debt is summarized by the number of years to maturity in Note 9.

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

9. CARRYING AND FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying value of financial instruments as at December 31, 2008 is as follows:

(Canadian dollars in millions)	**Derivatives Used for Hedging**	**Other Financial Instruments Used for Hedging**	**Held-for-Trading**	**Loans and Receivables**	**Other Financial Liabilities**
Financial Assets					
Cash and cash equivalents	-	-	16	-	-
Accounts receivable	-	-	-	754	-
Other assets (long-term)	15	-	-	6	-
Financial Liabilities					
Accounts payable and accrued charges[1]	-	-	-	-	766
Long-term debt	-	265	-	-	5,868

[1] Accounts payable and accrued charges do not include income taxes payable or dividends payable.

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)	**2008**		**2007**	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt[1]	6,125	6,128	5,615	6,005

[1] The carrying value of long-term debt represents the par value of the notes and debentures, other than the MTN Series 8 step-up note, which is marked to market and the MTN Series 14 Note which is designated as part of a hedging relationship.

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to the risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk. The Company does have foreign exchange risk as it enters into agreements to purchase materials and equipment associated with the Company's capital programs and projects that are settled in foreign currencies. This foreign exchange risk is not material, although we could in the future decide to issue foreign currency denominated debt which will be hedged back to Canadian dollars consistent with Hydro One's risk management policy. Hydro One is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution and transmission businesses is derived using a formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. The Company estimates that a 1% decrease in the forecast long-term Government of Canada bond yield used in the current OEB formula for determining the Company's rate of return on equity would reduce its Transmission Business' results of operations by approximately $21 million and its Distribution Business' results of operations by approximately $13 million.

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

Credit Risk

Financial assets create credit risk that a counter-party will fail to discharge an obligation, causing a financial loss. As at December 31, 2008, 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 individual customer. As at December 31, 2008, there were no significant balances of accounts receivable due from any single customer.

In the year, the Company's provision for bad debts remained relatively unchanged at $23 million (2007 - $21 million). Minor adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. As at December 31, 2008, approximately 4% of the Company's accounts receivable was aged more than 60 days.

Hydro One manages its counter-party credit risk through various techniques including, entering into transactions with highly rated counter-parties, limiting total exposure levels with individual counterparties consistent with the Company's Board-approved Credit Risk Policy, entering into master agreements which enable net settlement and the contractual right of offset, and monitoring the financial condition of counterparties. The Company's credit risk for accounts receivable is limited to the carrying amount on the Consolidated Balance Sheet.

The Company uses derivative financial instruments to manage interest rate risk. Hydro One may enter into derivative agreements such as forward starting pay fixed interest rate swap agreements, to hedge against the effect of future interest rate movements on long-term fixed rate borrowing requirements. No such agreements were outstanding as at December 31, 2008. Two forward starting pay fixed interest rate swaps with a notional amount of $140 million were outstanding as at December 31, 2007.

Derivative financial instruments result in exposure to credit risk since there is a risk of counter-party default. As at December 31, 2008, the only derivative instrument held by Hydro One was a $250 million fixed-to-floating interest rate swap agreement to convert the 4.08% coupon maturing March 3, 2011 into a three month variable rate debt. The counter-party credit risk exposure on the fair value of this interest rate swap contract is $15 million as at December 31, 2008. As at December 31, 2007, the Company had a pay floating interest rate swap agreement related to a step-up coupon note issuance that was accounted for using the fair value option without hedge accounting. Counter-party credit risk exposure was insignificant in 2007.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, and the Company's Commercial Paper Program, under which it is authorized to issue up to $1,000 million in short-term notes with a term to maturity of less than 365 days. The Commercial Paper Program is supported by a $1,000 million committed revolving credit facility with a syndicate of banks maturing in August 2010. The short-term liquidity available to the Company should be sufficient to fund normal operating requirements.

As at December 31, 2008, accounts payable and accrued charges in the amount of $791 million are expected to be settled in cash at their carrying amounts within the next year. Long-term debt maturing over the next twelve months is $400 million. Interest payments over the next twelve months on the Company's outstanding debt amount to $338 million.

As at December 31, 2008, Hydro One has issued long-term debt in the amount of $6,125 million and the Company is required to make interest payments in the amount of $5,177 million. Principal outstanding, interest payments and related weighted average interest rate are summarized by the number of years to maturity in the following table:

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

Years to Maturity	Principal Outstanding on Notes and Debentures *(Canadian dollars in millions)*	Interest Payments *(Canadian dollars in millions)*	Weighted Average Interest Rate *(Percent)*
1 year	400	338	4.0
2 years	500	316	6.5
3 years	500	292	5.2
4 years	600	271	5.8
5 years	400	237	5.0
	2,400	1,454	5.4
6 – 10 years	1,050	1,000	4.9
Over 10 years	2,675	2,723	6.2
	6,125	5,177	5.6

10. CAPITAL MANAGEMENT

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. In order to ensure ongoing effective access to capital, the Company targets to maintain an "A" category long-term credit rating.

The Company considers its capital structure to consist of shareholder's equity, long-term debt, and cash and cash equivalents. The Company's capital structure as at December 31, 2008 and December 31, 2007 was as follows:

(Canadian dollars in millions)	**2008**	**2007**
Long-term debt payable within one year	400	540
Less: Cash and cash equivalents	16	(12)
	384	552
Long-term debt	5,733	5,063
Preferred Shares	323	323
Common Shares	3,314	3,314
Retained Earnings	1,497	1,258
	5,134	4,895
Total Capital	11,251	10,510

For the purposes of this table and the Consolidated Statements of Cash Flows, "cash and cash equivalents" refers to the Consolidated Balance Sheet items "cash and cash equivalents" and "bank indebtedness."

The Company has customary covenants typically associated with long-term debt. Among other things, Hydro One's long-term debt and credit facility covenants limit the permissible debt to 75% of the Company's total capitalization, limit the ability to sell assets and impose a negative pledge provision, subject to customary exceptions. At December 31, 2008, Hydro One is in compliance with all of these covenants and limitations.

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.

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

Plan Asset Mix

Hydro One's pension plan asset mix at December 31, 2008 and 2007 was as follows:

	% of Plan Assets	
December 31	**2008**	**2007**
Equity securities	62.0	62.5
Debt securities	33.3	34.1
Other	4.7	3.4
	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 $88 million and $90 million at December 31, 2008 and 2007 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 with the Financial Services Commission of Ontario on September 20, 2007, effective for December 31, 2006, the Company contributed $101 million to its pension plan in respect of 2008 (2007 - $95 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. Contributions after 2009 will be based on an actuarial valuation effective December 31, 2009 and will depend on future investment returns, and changes in benefits or actuarial assumptions.

Total cash payments for employee future benefits made in 2008, 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 $142 million (2007 - $137 million).

Pension Asset Transfer

Effective March 1, 2002, Hydro One began receiving a range of services from Inergi LP, including information technology, customer care, supply chain and certain human resources and financial services. In connection with this agreement, the Company transferred approximately 770 regular employees to Inergi LP. On March 10, 2008, the Company was granted consent from the Financial Services Commission of Ontario to transfer pension assets and related pension liabilities for affected employees from the Hydro One Pension Plan to the Inergi LP Pension Plan. Under the agreement, the Company recognized a settlement of $21 million in its results of operations for the first quarter, inclusive of a related interest credit of $6 million. The pension asset transfer took place in the second quarter.

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

	Pension		Employee Future Benefits other than Pension	
Year ended December 31 (Canadian dollars in millions)	**2008**	**2007**	**2008**	**2007**
Change in accrued benefit obligation				
Accrued benefit obligation, January 1	5,077	5,411	1,094	1,100
Current service cost	98	105	22	23
Interest cost	277	282	60	57
Benefits paid	(272)	(264)	(41)	(42)
Plan amendments	-	-	-	-
Net actuarial gain	(1,173)	(457)	(261)	(44)
Accrued benefit obligation, December 31	4,007	5,077	874	1,094
Change in plan assets				
Fair value of plan assets, January 1	5,100	5,123	-	-
Actual return on plan assets	(1,121)	142	-	-
Reciprocal transfers[2]	21	-	-	-
Benefits paid	(272)	(264)	-	-
Employer's contributions[1]	101	95	-	-
Employees' contributions	20	17	-	-
Administrative expenses	(13)	(13)	-	-
Fair value of plan assets, December 31	3,836	5,100	-	-
Funded status				
(Unfunded benefit obligation) Funded excess	(171)	23	(874)	(1,094)
Unamortized net actuarial losses (gains)	594	336	(92)	178
Unamortized past service costs	18	21	18	21
Deferred pension asset (accrued benefit liability)	441	380	(948)	(895)
Less: current portion	-	-	40	40
Deferred pension asset (long-term liability)	441	380	(908)	(855)

[1] In January, 2009, the Company made a contribution of $10 million in respect of 2008 (2008 - $8 million in respect of 2007).

[2] In August, 2008, the Hydro One Pension Plan received $21 million in reciprocal transfers, of which $19 million represents a reciprocal transfer of assets from the Inergi LP pension plan.

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

Year ended December 31 (Canadian dollars in millions)	Pension 2008	Pension 2007	Employee Future Benefits other than Pension 2008	Employee Future Benefits other than Pension 2007
Components of net periodic benefit cost				
Current service cost, net of employee contributions	78	88	22	23
Interest cost	277	282	60	57
Actual return on plan asset net of expenses	1,113	(129)	-	-
Actuarial gain	(1,173)	(457)	(261)	(44)
Plan amendments	-	-	-	-
Other	-	-	-	-
Costs arising in the period	295	(216)	(179)	36
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	(1,465)	(212)	-	-
Actuarial loss	1,206	522	269	59
Plan amendments	4	3	4	4
Net periodic benefit cost	40	97	94	99
Charged to results of operations[2]	63	58	57	60
Effect of 1% increase in health care cost trends on:				
Accrued benefit obligation, December 31	-	-	108	167
Service cost and interest cost	-	-	14	12
Effect of 1% decrease in health care cost trends on:				
Accrued benefit obligation, December 31	-	-	(88)	(132)
Service cost and interest cost	-	-	(11)	(9)
Significant assumptions				
For net periodic benefit cost:				
Expected rate of return on plan assets	7.00%	6.75%	-	-
Weighted-average discount rate	5.50%	5.25%	5.50%	5.24%
Rate of compensation scale escalation (without merit)	3.00%	3.25%	3.00%	3.25%
Rate of cost of living increase	2.25%	2.50%	2.25%	2.50%
Average remaining service life of employees *(years)*	10	10	11	9
Rate of increase in health care cost trend[3]	-	-	4.40%	4.40%
For accrued benefit obligation, December 31:				
Weighted-average discount rate	7.25%	5.50%	7.25%	5.50%
Rate of compensation scale escalation (without merit)	2.75%	3.00%	2.75%	3.00%
Rate of cost of living increase	2.00%	2.25%	2.00%	2.25%
Rate of increase in health care cost trend[4]	-	-	4.81%	4.40%

[2] The Company follows the cash basis of accounting. During 2008, pension costs of $103 million (2007 - $95 million) were attributed to labour, of which $63 million (2007 - $58 million) was charged to operations and $40 million (2007 - $37 million) was capitalized as part of the cost of fixed assets.

[3] 8.33% in 2008 grading down to 4.40% per annum in and after 2018 (2007 – 8.69% in 2007 grading down to 4.40% per annum in and after 2018).

[4] 8.81% in 2009 grading down to 4.81% per annum in and after 2023 (2007 – 8.33% in 2008 grading down to 4.40% per annum in and after 2018).

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

12. ENVIRONMENTAL LIABILITIES

December 31 (Canadian dollars in millions)	**2008**	**2007**
Environmental liabilities, January 1	65	70
Interest accretion	7	4
Expenditures	(14)	(12)
Revaluation adjustment	195	3
Environmental liabilities, December 31	253	65
Less: current portion	(16)	(13)
	237	52

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2008 and in total thereafter are as follows: 2009 - $16 million; 2010 - $11 million; 2011 - $11 million; 2012 - $12 million; 2013 - $21 million and thereafter - $263 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.

On September 17, 2008, Environment Canada published its final regulations governing the management, storage and disposal of polychlorinated biphenyls (PCBs). These regulations were enacted under the *Canadian Environmental Protection Act, 1999*. The new regulations impose timelines for disposal of PCBs based on different types of equipment, in-use status and PCB contamination thresholds. Under the regulations, all PCBs in concentrations of 500 parts per million (ppm) or more, except pole-top transformers and their pole-top auxiliary electrical equipment and light ballasts, must be disposed of by the end of 2009. PCBs in concentrations of 50 ppm or more in pole-top transformers and their pole-top auxiliary electrical equipment, light ballasts and other electrical equipment must be disposed of by the end of 2025. In addition, liquids with 2 ppm or more that have been removed from equipment cannot be reused.

Management judges that the Company has very limited PCB-contaminated assets in excess of 500 ppm. Priority will be given to targeting inspection and testing work toward identifying and removing PCBs in assets as quickly as operationally feasible. Assets to be disposed of primarily consist of pole and pad mount distribution transformers and light ballasts which require disposal by 2025. Contaminated distribution and transmission station equipment will generally be decontaminated by removing PCB-contaminated insulating oil and retrofilling with less than 2 ppm oil as the liquids are removed.

Consistent with its accounting policy for environmental costs, since 2001 Hydro One has recorded a liability for the estimated future expenditures associated with the phase-out and destruction of PCB-contaminated insulating oil from electrical equipment. The Company's liability has been based on management's best estimate of the net present value of the future expenditures expected to be required to comply with existing PCB regulations.

Management's best estimate of the additional estimated future expenditures to comply with the final regulations is about $265 million. The increase in estimated future expenditures primarily relates to the inspection and testing of pole top distribution transformers, the removal and disposal of certain transmission and distribution station equipment and the decontamination and retrofilling of station equipment found to be in excess of regulatory thresholds. These expenditures will be incurred over the period from 2009 to 2025 with the majority of the spending occurring in the 2013 to 2025 period. As a result of the final regulations and the resulting increase in future expenditures, the Company has increased its liability in the third quarter by approximately $195 million.

As the Company anticipates that the related expenditures will continue to be recoverable in future rates, a $195 million increase to the environmental regulatory asset has been recorded to reflect the probability of future recovery of these PCB expenditures from customers.

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

In determining the amounts to be recorded as environmental liabilities, the Company has estimated the current cost of completing mitigation work and has made assumptions as to when the future expenditures will actually be incurred to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express current cost estimates as estimated future expenditures. These future expenditures are discounted using factors ranging from 5.14% to 6.25% depending on the year the obligations were first recorded. All factors used in estimating our environmental liabilities represent management's best estimates. However, it is reasonably possible that numbers or volumes of contaminated assets, current cost estimates, inflation assumptions and assumed pattern of annual cash flows may differ significantly from our assumptions. In addition, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures.

Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

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 2008, preferred dividends in the amount of $18 million (2007 - $18 million) and common dividends in the amount of $241 million (2007 - $307 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.

14. RELATED PARTY TRANSACTIONS

The Province, OEFC, IESO, OPA 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 INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Hydro One received revenue for transmission services from IESO, based on uniform transmission rates approved by the OEB. Transmission revenue for 2008 includes $1,072 million (2007 - $1,203 million) related to these services.

Hydro One receives amounts for rural rate protection from the IESO. Distribution revenue for 2008 includes $127 million (2007 - $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 2008 includes $21 million (2007 - $21 million) related to these services.

In 2008, Hydro One purchased power in the amount of $2,146 million (2007 - $2,213 million) from the IESO administered electricity market and $35 million (2007 - $27 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 2008, Hydro One incurred $9 million (2007 - $10 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 $12 million (2007 - $12 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 2008 and 2007.

The Ontario Power Authority funds some of our Conservation Demand Management (CDM) programs. The funding includes program costs, incentives, management fees and bonuses. In 2008, Hydro One received $5 million from the OPA in respect of the CDM programs (2007 – $3 million) and had a net accounts payable of $3 million (2007 – net accounts receivable of $3 million).

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.

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

December 31 (Canadian dollars in millions)	**2008**	**2007**
Accounts receivable	103	97
Accounts payable and accrued charges	(260)	(234)

Included in accounts payable and accrued charges are amounts owing to the IESO in respect of power purchases of $225 million (2007 - $202 million).

15. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the purposes of the 2007 Consolidated Statement 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:

Year ended December 31 (Canadian dollars in millions)	2008	2007
Accounts receivable decrease	5	18
Materials and supplies decrease (increase)	4	(11)
Accounts payable and accrued charges increase	57	70
Accrued interest increase	9	6
Long-term accounts payable and accrued charges decrease	(1)	(3)
Employee future benefits other than pension increase	53	52
Other	1	3
	128	135

Supplementary information:		
Interest paid	330	306
Payments in lieu of corporate income taxes	145	230

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

The transfer orders by which we acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on lands held for bands or bodies of Indians under the *Indian Act* (Canada). Currently, OEFC holds these assets. Under the terms of the transfer orders, Hydro One is required to manage these assets until it has obtained all consents necessary to complete the transfer of title of these assets to itself. The Company cannot predict the aggregate amount that it may have to pay, either on an annual or one-time basis, to obtain the required consents. However, it anticipates having to pay more than the approximately $717,000 that it paid to these Indian

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

bands and bodies in 2008. If the Company cannot obtain consents from the Indian bands and bodies, OEFC will continue to hold these assets for an indefinite period of time. If the Company cannot reach a satisfactory settlement, it 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. The costs relating to these assets could have a material adverse effect on the Company's net income, if it is not able to recover them in future rate orders.

17. COMMITMENTS

Agreement with Inergi

Effective March 1, 2002, Inergi LP (a wholly owned subsidiary of Cap Gemini Canada Inc.) began providing services to Hydro One. 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. Inergi billing for these services has ranged between $93 million and $130 million per year and is 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, 2008, and in total thereafter are as follows: 2009 - $100 million; 2010 - $94 million; 2011 - $90 million; 2012 - $16 million; 2013 - $nil and thereafter - $nil. The agreement expires on February 29, 2012.

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. As at December 31, 2008 and December 31, 2007, the Company provided prudential support using only parental guarantees. 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 any bank letters of credit plus the nominal amount of the parental guarantee. If Hydro One's highest long term credit rating deteriorated to below the "Aa" category, the Company would be required to resume providing letters of credit as prudential support. Prudential support at December 31, 2008 was provided using parental guarantees of $325 million (2007 - $325 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, 2008, Hydro One had bank letters of credit of $107 million (2007 - $95 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, 2008 and in total thereafter are as follows: 2009 - $7 million; 2010 - $8 million; 2011 - $3 million; 2012 - $6 million; 2013 - $6 million and thereafter - $32 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:

Year ended December 31 (Canadian dollars in millions)	**Transmission**	**Distribution**	**Other**	**Consolidated**
2008				
Segment profit				
Revenues	1,212	3,334	51	4,597
Purchased power	-	2,181	-	2,181
Operation, maintenance and administration	387	531	47	965
Depreciation and amortization	254	287	7	548
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	571	335	(3)	903
Financing charges				292
Income before provision for payments in lieu of corporate income taxes				611
Capital expenditures	704	570	10	1,284
2007				
Segment profit				
Revenues	1,242	3,382	31	4,655
Purchased power	-	2,240	-	2,240
Operation, maintenance and administration	415	549	31	995
Depreciation and amortization	242	273	6	521
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	585	320	(6)	899
Financing charges				295
Income before provision for payments in lieu of corporate income taxes				604
Capital expenditures	560	511	20	1,091

December 31 (Canadian dollars in millions)	**2008**	**2007**
Total assets		
Transmission	7,877	7,273
Distribution	5,873	5,407
Other	126	106
	13,876	12,786

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. SUBSEQUENT EVENTS

On January 13, 2009 Hydro One issued $100 million in notes under the Company's MTN Program. The issue was an additional offering of 3.89% notes maturing on November 19, 2010, originally issued on November 19, 2008. The total amount outstanding for this issue is now $200 million.

On January 14, 2009 Hydro One issued $200 million in notes under the Company's MTN Program. The issue was an additional offering of 5.0% notes maturing on November 12, 2013, originally issued on November 10, 2008. The total amount outstanding for this issue is now $600 million.

20. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2008 Consolidated Financial Statements.

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

Year ended December 31 (Canadian dollars in millions)	**2008**	**2007**	**2006**	**2005**	**2004**
Statement of operations data					
Revenues					
Transmission	1,212	1,242	1,245	1,310	1,262
Distribution	3,334	3,382	3,273	3,085	2,874
Other	51	31	27	21	17
	4,597	4,655	4,545	4,416	4,153
Costs					
Purchased power	2,181	2,240	2,221	2,131	1,987
Operation, maintenance and administration	965	995	880	792	771
Depreciation and amortization	548	521	515	487	480
	3,694	3,756	3,616	3,410	3,238
Regulatory recovery[1]	-	-	-	91	-
Income before financing charges and provision for payments in lieu of corporate income taxes	903	899	929	1,006	1,006
Financing charges	292	295	295	325	331
Income before provision for payments in lieu of corporate income taxes	611	604	634	681	675
Provision for payments in lieu of corporate income taxes	113	205	179	198	177
Net income	498	399	455	483	498
Basic and fully diluted earnings per common share *(Canadian dollars)*	4,797	3,809	4,366	4,652	4,798

December 31 (Canadian dollars in millions)					
Balance sheet data					
Assets					
Transmission	7,877	7,273	6,950	6,813	6,771
Distribution	5,873	5,407	5,161	4,893	4,836
Other	126	106	99	92	95
Total assets	13,876	12,786	12,210	11,798	11,702
Liabilities					
Current liabilities (including current portion of long-term debt)	1,298	1,452	1,194	1,341	1,262
Long-term debt	5,733	5,063	4,848	4,443	4,590
Other long-term liabilities	1,721	1,385	1,347	1,298	1,326
Shareholder's equity					
Share capital	3,637	3,637	3,637	3,637	3,637
Retained earnings	1,497	1,258	1,184	1,079	887
Accumulated Other Comprehensive Income	(10)	(9)	-	-	-
Total liabilities and shareholder's equity	13,876	12,786	12,210	11,798	11,702

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

Year ended December 31 (Canadian dollars in millions)	**2008**	**2007**	**2006**	**2005**	**2004**
Other financial data					
Capital expenditures					
Transmission	704	560	402	349	432
Distribution	570	511	417	338	288
Other	10	20	4	4	7
Total capital expenditures	1,284	1,091	823	691	727
Ratios					
Net asset coverage on long-term debt[2]	1.84	1.87	1.92	1.93	1.88
Earnings coverage ratio[3]	2.63	2.67	2.67	2.69	2.70
Operating statistics					
Transmission					
Units transmitted *(TWh)*[4]	148.7	152.2	151.1	157.0	153.4
Ontario 20-minute system peak demand *(MW)*[4]	24,231	25,809	27,056	26,219	25,204
Ontario 60-minute system peak demand *(MW)*[4]	24,195	25,737	27,005	26,160	24,979
Total transmission lines *(circuit-kilometres)*	29,039	28,915	28,600	28,547	28,643
Distribution					
Units distributed to Hydro One customers *(TWh)*[4]	29.9	30.2	29.0	29.7	28.5
Units distributed through Hydro One lines *(TWh)*[4,5]	44.7	45.7	44.7	45.6	44.8
Total distribution lines *(circuit-kilometres)*	123,260	122,933	122,460	122,118	121,736
Customers	1,325,745	1,311,714	1,293,396	1,273,768	1,258,925
Total regular employees	5,032	4,602	4,295	4,189	4,118

[1] 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.

[2] 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).

[3] 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.

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

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

Liquor Control Board of Ontario

Responsibility for Financial Reporting

The preparation, presentation and integrity of the financial statements are the responsibility of management. The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with Canadian generally accepted accounting principles and include amounts that are based on management's best estimates and 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. 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.

The Board, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, composed of four 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 Canadian 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. C. Browning

J. Alex Browning
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 10, 2009

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 Finance

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2009 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 10, 2009

Jim McCarter, CA
Auditor General
Licensed Public Accountant

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Liquor Control Board of Ontario

Balance Sheet

As at March 31, 2009

	2009 ($ 000)	2008 ($ 000)
<u>ASSETS</u>		
Current		
Cash and cash equivalents	162,098	141,652
Accounts receivable, trade and others	21,612	26,124
Inventories (Note 5)	342,860	335,355
Prepaid expenses	16,889	18,403
	543,459	521,534
Long-term		
Capital assets (Note 6)	259,986	247,559
	803,445	769,093
<u>LIABILITIES AND RETAINED INCOME</u>		
Current		
Accounts payable and accrued liabilities	381,418	363,421
Current portion of accrued benefit obligation (Note 3)	13,299	12,825
	394,717	376,246
Long-term		
Accrued benefit obligation (Note 3)	54,552	52,609
Retained income	354,176	340,238
	803,445	769,093

Commitments and Contingencies (Notes 7 and 10)

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, 2009

	2009 ($ 000)	2008 ($ 000)
Sales and other income	4,297,642	4,133,191
Cost and expenses		
Cost of sales	2,204,942	2,099,405
Retail stores and marketing	450,345	433,093
Warehousing and distribution	88,845	84,023
Administration	96,930	93,556
Amortization	46,406	48,757
	2,887,468	2,758,834
Net income for the year	1,410,174	1,374,357
Retained income, beginning of year	340,238	310,881
Adjustment to opening retained income resulting from adoption of new accounting standards for inventories (Note 2f)	3,764	-
	1,754,176	1,685,238
Deduct		
Dividend paid to the Province of Ontario	1,395,000	1,340,000
Payment on behalf of the Province of Ontario (Note 11)	5,000	5,000
	1,400,000	1,345,000
Retained income, end of year	354,176	340,238

See accompanying notes to financial statements.

Liquor Control Board of Ontario

Statement of Cash Flows

Year Ended March 31, 2009

	2009 ($ 000)	2008 ($ 000)
Cash provided from operations		
Net income	1,410,174	1,374,357
Amortization	46,406	48,757
(Gain) Loss on sale of capital assets	(1,330)	407
	1,455,250	1,423,521
Net change in non-cash items		
Working capital	20,282	(13,512)
Accrued benefit obligation	2,417	4,508
	1,477,949	1,414,517
Cash used for investment activities		
Purchase of capital assets	(59,769)	(63,659)
Proceeds from sale of capital assets	2,266	9
	(57,503)	(63,650)
Cash used for financing activities		
Dividend paid to the Province of Ontario	(1,395,000)	(1,340,000)
Payment on behalf of the Province of Ontario	(5,000)	(5,000)
	(1,400,000)	(1,345,000)
Increase in cash during the year	20,446	5,867
Cash and cash equivalents, beginning of year	141,652	135,785
Cash and cash equivalents, end of year	162,098	141,652

See accompanying notes to financial statements.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2009

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) 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.

(c) Financial Instruments

Under CICA Section 3855 "*Financial Instruments – Recognition and Measurement"*, financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured at fair value upon initial recognition except for certain related party transactions. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity, loans and receivables and other financial liabilities, which are measured at cost or amortized cost, using the effective interest rate method.

The Board's financial assets and liabilities are classified as follows:

- Cash and cash equivalents are classified as held-for-trading and recorded at fair value.
- Accounts receivable, trade and others are classified as loans and receivables and are measured at amortized cost, which approximates fair value given their short-term nature.
- Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at amortized cost. Accounts payable and accrued liabilities are generally short term in nature and due within one year of the balance sheet date.
- Derivative financial instruments are classified as held-for-trading and recorded at fair value. The Board enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. The fair value of such derivative financial instruments is determined by reference to current market exchange rates and any gains or losses are included in the Statement of Income and Retained Income.

Effective April 1, 2008, the Board adopted CICA Handbook Section 3862 "*Financial Instruments – Disclosures*" and Section 3863 "*Financial Instruments – Presentations*", which replaced Section 3861, *Financial Instruments – Disclosure and Presentation*". The disclosure requirements in Section 3862 require increased disclosures regarding the risks associated with financial instruments such as credit risk, foreign exchange risk, liquidity risk and the techniques used to identify, monitor and manage these risks. Section 3863 essentially carries forward the

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2009

standards for presentation of financial instruments and non-financial derivatives previously found in Section 3861. The adoption of Section 3862 and Section 3863 did not have an impact on the Board's financial results or position. See Note 8 for the resulting disclosures from implementation.

(d) Capital Disclosures

CICA Handbook Section 1535 "*Capital Disclosures*" requires disclosure of the Board's objectives, policies and processes for managing capital as well as its compliance with any externally imposed capital requirements. The standard is effective for fiscal years beginning on or after October 1, 2007. The implementation of this standard did not have any impact on the Board's results of operations or financial position. The resulting disclosures from implementation are presented in Note 9.

(e) 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.

(f) Inventories

Effective April 1, 2008, the Board implemented CICA Handbook Section 3031 "*Inventories*", issued in June 2007, which replaces Section 3030 of the same title. The new standard provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value – with cost being determined using the first-in, first-out or weighted average cost method. Reversal of previous write-downs to net realizable value is now required when there is a subsequent increase in the value of inventories. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amounts of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses.

The Board values inventories at the lower of cost and net realizable value with cost being determined by the weighted average cost method. Cost includes the cost of purchase net of vendor allowances and includes other direct costs, such as transportation and direct warehouse handling costs that are incurred to bring inventories to their present location and condition. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. The Board estimates net realizable value as the amount that inventories are expected to be sold at less than the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. The resulting disclosures from implementation are presented in Note 5.

In accordance with the transitional provisions allowed under Section 3031, the Board has elected to treat the difference in inventory measurement as a retrospective adjustment to opening retained income without restatement of prior periods. The initial impact of measuring inventories under the new standard is an increase to the carrying amount of opening inventories and retained income as at April 1, 2008 of $3.8 million.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2009

(g) 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 Equipment	5 years
Leasehold Improvements	5 years or 10 years
Computer Equipment	3 years or 4 years

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

(h) Revenue Recognition

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

(i) Expense Recognition

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

3. ACCRUED BENEFIT OBLIGATION

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

For the year ended March 31, 2009 the cost of these employee future benefits was $13.0 million (2008 – $13.3 million) and is included in Cost and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2009, is $67.9 million (2008 – $65.4 million) of which $13.3 million (2008 – $12.8 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by the Ministry of Government and Consumer 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. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines the Board's annual contribution to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Board.

For the year ended March 31, 2009, the expense was $17.8 million (2008 – $17.1 million) and is included in Cost and expenses in the Statement of Income and Retained Income.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2009

5. INVENTORIES

The cost of inventories recognized as a Cost of sales expense during the year ended March 31, 2009 was $2,205 million (2008 - $2,099 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2009 (2008 – nil).

6. CAPITAL ASSETS

	2009 ($000)			2008 ($000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	12,952	—	12,952	13,139
Buildings	352,911	247,407	105,504	102,860
Furniture and equipment	103,014	64,993	38,021	37,682
Leasehold improvements	271,778	204,980	66,798	56,854
Computer equipment	128,066	91,355	36,711	37,024
	868,721	608,735	259,986	247,559

7. LEASE COMMITMENTS

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

	($000)
2010	49,107
2011	48,457
2012	45,241
2013	42,111
2014	38,026
Thereafter	294,373
	517,315

8. FINANCIAL INSTRUMENTS

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

a) Foreign Exchange Risk

The Board is exposed to foreign exchange risk principally through transactional exposure, from the cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the Board. The Board is exposed to foreign currency risk arising from various currency exposures, primarily with respect to US dollars and Euro dollars.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2009

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, 2009, the Board had no foreign exchange forward contracts (2008 – $5.2 million).

In the Board's assessment, a significant strengthening or weakening of the Canadian dollar against US dollars and Euro, with all other variables held constant, would not have a significant impact on earnings in comparison to the overall operations of the Board. For the year ended March 31, 2009, the Board recognized a net foreign exchange gain of $0.2 million (2008 - $4.4 million).

When the Board enters into inventory purchase contracts in a currency other than the Canadian dollar or that of the supplier's home or local currency, an embedded derivative may exist. Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at their respective fair values except under certain circumstances. For the year ended March 31, 2009, management reviewed these contracts and has determined that the Board does not have any significant embedded derivatives or gains / losses resulting from these derivatives that require separate accounting and disclosure.

b) Credit Risk

Credit risk refers to the possibility that the Board can suffer financial losses due to failure of the Board's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash and cash equivalents and accounts receivable. The Board minimizes credit risks associated with derivative instruments and cash and cash equivalents by dealing only with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

Accounts receivable arise primarily from sales billed to independent businesses, agents and other debtors. The Board does not consider its exposure to credit risk associated with accounts receivable, trade and others to be material. As at March 31, 2009, approximately 70% of the Board's receivable is due from one customer whose account is in good standing.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts at levels the Board considered adequate to absorb future credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of Income and Retained Income. A continuity schedule of the Board's allowance for doubtful accounts is as follows:

	March 31, 2009 ($000's)	March 31, 2008 ($000's)
Allowance at beginning of period	$256	$18
Provision for losses	$139	$609
Recoveries	$536	$111
Write-offs	($646)	($482)
Allowance at end of period	$285	$256

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2009

c) Liquidity Risk

Liquidity risk is the risk that the Board may not have cash available to satisfy financial liabilities as they come due. The Board's exposure to the liquidity risk is minimal as it has sufficient cash balances to settle all current liabilities.

9. CAPITAL DISCLOSURES

The Board is a corporation without share capital and has no long-term debt. Its definition of capital is cash and cash equivalents and retained income. The Board's main objectives when managing its capital are to:

- safeguard the Board's assets and its ability to operate
- ensure the Board has adequate capital to achieve its business plans
- provide an adequate return to the Province of Ontario in the form of a dividend

The Board is not subject to any externally imposed capital requirements and is meeting its objective in managing capital by holding adequate capital after issuing dividends to the Province.

10. 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.

11. WASTE DIVERSION

In prior years, the Board was directed by the Province to assist municipalities with their container recycling costs. For the year ended March 31, 2009, the Board was directed by the Province to contribute $5 million to assist municipalities with their transition costs associated with the implementation of the Ontario Deposit Return Program. The Board has been similarly directed to contribute $0.7 million to Stewardship Ontario, an industry funded waste diversion organization established under the authority of the *Waste Diversion Act, 2002* for the year ending March 31, 2010.

12. ONTARIO DEPOSIT RETURN PROGRAM

On November 6, 2006, the Province of Ontario entered into an agreement with 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, on-site Microbrewery and Distillery Retail Stores. Brewers Retail Inc. was appointed the exclusive service provider for a period of five years effective February 5, 2007.

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

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2009

For the year ended March 31, 2009, the Board collected $56.4 million (2008 – $55.7 million) of deposits on containers and was invoiced $41.3 million (2008 - $37 million) by Brewers Retail Inc. for refunds to the customers.

Expenditures in connection with this program for the year ended March 31, 2009, amounted to $27.3 million (2008 - $24.6 million) for service fees to Brewers Retail Inc. and $0.1 million (2008 - $0.8 million) for promoting the program. These expenditures are included in Administration in the Statement of Income and Retained Income.

The Board's experience indicates that not all container deposits are redeemed. Based upon its redemption data and research of industry experience, part of the container deposits collected would not be redeemed. Accordingly, for the year ended March 31, 2009 the Board applied $8.4 million (2008 - $8.2 million) of unredeemed deposits as a reduction to expenditures in connection with the program.

13. FUTURE CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards

In February 2008, the Accounting Standards Board confirmed that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will be converged with International Financial Reporting Standards (IFRS) effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. IFRS uses a conceptual framework similar to Canadian GAAP, but there are differences on recognition, measurement and disclosures. The Board is currently evaluating the impact of the adoption of IFRS on its financial statements.

In addition, the following standard will be effective for the fiscal year ended March 31, 2010:

Goodwill and Intangibles

In January 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*. Handbook Section 3064 clarifies that costs may only be deferred when they relate to an item that meets the definition of an asset. The concept of matching revenues and expenses remains appropriate for allocating the cost of an asset that is consumed in general revenue over multiple reporting periods. Handbook Sections 3064 replaces Handbook Section 3062 and provides extensive guidance on when expenditures qualify for recognition as intangible assets. These changes are effective for fiscal years beginning on or after October 1, 2008. The Board is currently evaluating the potential impact of this standard on its financial statements.

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 19, 2008

Robert J. McIlveen
Executive Director, Corporate Services
December 19, 2008

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, 2008 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, 2008 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
Licensed Public Accountants
Niagara Falls, Ontario
December 19, 2008

Balance Sheet ~ October 31, 2008

STATEMENT 1

	(In thousands of dollars)	
Assets	2008	2007
	$	$
Current Assets		
Cash	2,255	26,830
Accounts receivable	2,000	1,763
Inventories		
Saleable merchandise	4,551	3,330
Maintenance and other supplies	1,519	1,282
Prepaid expenses	303	400
	10,628	33,605
Fixed Assets - notes 2 and 3	158,558	142,542
Other Asset	63	
	169,249	**176,147**
Liabilities and Equity		
Current Liabilities		
Accounts payable	6,334	8,783
Accrued payroll	1,134	1,027
Current portion of long-term financing	2,055	1,190
	9,523	11,000
Long-Term Financing - note 3	31,818	33,818
Post-Employment Benefits - note 4	3,560	3,457
Commitments - notes 6 and 15		
Contingencies - notes 7 and 15		
Equity – Statement 2	124,348	127,872
	169,249	**176,147**

see accompanying notes

Signed on behalf of the Commission:

Chairman

Commissioner

Statement of Equity ~ for the year ended October 31, 2008

STATEMENT 2

	(In thousands of dollars)	
	2008	2007
	$	$
Equity, Beginning of Year	127,872	129,246
Net Loss for the Year - Statement 3	(3,524)	(1,374)
Equity, End of Year	124,348	**127,872**

see accompanying notes

Statement of Operations ~ for the year ended October 31, 2008

STATEMENT 3

	2008	2007
	(In thousands of dollars)	
	$	$
Income		
Gift shops, restaurants and attractions	65,857	68,813
Land rent	6,215	6,037
Commissions, rentals and fees	2,905	2,535
Premium (loss) on United States funds – net	1,071	(360)
Gain (loss) on disposal of fixed assets – net	(44)	40
Sundry income	576	464
	76,580	77,529
Expenses		
Gift shops, restaurants and attractions		
Cost of goods sold	11,526	12,518
Operating expenses	31,788	30,969
Maintenance	13,488	13,216
Administrative and police	9,588	9,681
Marketing and promotion	4,435	4,004
	70,825	70,388
Net Income for the Year before Undernoted Items	5,755	7,141
Other Items		
Interest expense - net - note 8	810	331
Depreciation - note 9	8,469	8,184
	9,279	8,515
Net Loss for the Year	**(3,524)**	**(1,374)**

see accompanying notes

Statement of Cash Flows ~ for the year ended October 31, 2008

STATEMENT 4

	2008	2007
	(In thousands of dollars)	
	$	$
Operating Activities		
Net loss for the year	(3,524)	(1,374)
Charges against income not requiring an outlay of funds		
- post-employment benefits	364	356
- depreciation	8,469	8,184
- amortization of franchise fee	6	
- loss (gain) on disposal of fixed assets - net	44	(5)
	5,359	7,161
Net change in non-cash working capital balances related to operations - note 11	(3,940)	2,919
Funds provided by operating activities	1,419	10,080
Investing Activities		
Fixed asset acquisitions - note 11	(24,123)	(17,799)
Proceeds on sale of fixed assets	32	83
Franchise fee payment	(69)	
Funds used by investing activities	(24,160)	(17,716)
Financing Activities		
Net increase (decrease) in long-term financing	(1,573)	30,891
Cash outlay related to post-employment benefits	(261)	(193)
Funds provided (used) by financing activities	(1,834)	30,698
Increase (Decrease) in Cash Position	(24,575)	23,062
Cash Position, Beginning of Year	26,830	3,768
Cash Position, End of Year	**2,255**	**26,830**

see accompanying notes

Notes to Financial Statements ~ for the year ended October 31, 2008

Organization

The Niagara Parks Commission is governed by the Niagara Parks Act. Initially established in 1885, the Commission is an "Operational Enterprise" of the Province of Ontario and is responsible for maintaining, protecting and showcasing over 1,700 hectares of parkland stretching some 56 kilometres along the Niagara River from Lake Erie to Lake Ontario. The Commission is exempt from corporate income taxes under the Income Tax Act (Canada) and Ontario Corporations Tax Act.

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:

Revenue recognition

Income from gift shops, restaurants and attractions are recognized when merchandise has been transferred or services have been rendered. Income from land rent, commissions, rentals, fees and sundry are recognized over the life of the agreement or when earned.

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.

Franchise fee

A franchise fee is classified as an other asset and is being amortized on a straight-line basis over 10 years.

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.

Financial instruments

The Commission has elected the following balance sheet classifications with respect to its financial assets and financial liabilities in accordance with the new section:

Cash is classified as "assets held for trading" and is measured at fair value.

Accounts receivable are classified as "loans and receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value.

Accounts payable and accrued liabilities, other liabilities and long-term financing are classified as "other financial liabilities" and are initially measured at fair value.

Notes to Financial Statements ~ for the year ended October 31, 2008

1. Significant Accounting Policies - continued

Capitalized interest

The Commission capitalizes an amount of interest on all funds expended for those capital works in progress and financed via long-term financing.

2. Fixed Assets

(In thousands of dollars)

	Cost	Accumulated Depreciation	2008	2007
	$	$	$	$
Land	13,555	–	13,555	13,555
Land improvements	17,135	–	17,135	17,135
Buildings, roadways and structures	187,965	72,924	115,041	86,567
Equipment and furnishings	40,522	30,275	10,247	8,414
Vehicles	9,275	7,869	1,406	1,592
	268,452	111,068	157,384	127,263
Capital works in progress	1,174	–	1,174	15,279
	269,626	**111,068**	**158,558**	**142,542**

Notes to Financial Statements ~ for the year ended October 31, 2008

3. Long-Term Financing *(In thousands of dollars)*

	2008	2007
	$	$
Unsecured fixed rate term loan requiring blended payments of principal and interest of $ 2,640,907 per annum, bearing interest at 5.06% through to April, 2027	31,815	32,000
Unsecured fixed rate term loan requiring principal payments of $ 1,000,000 per annum, bearing interest at 4.01% through to December, 2009	2,000	3,000
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 463 to September, 2009, secured by equipment with a net book value of $ 9,168	3	8
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 659 to August, 2011, secured by equipment with a net book value of $ 34,853	35	-
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 659 to May, 2011, secured by equipment with a net book value of $ 21,342	20	-
	33,873	35,008
Less portion due within one year	2,055	1,190
	31,818	**33,818**

The principal payments of the long-term financing obligations due in the next five fiscal periods are as follows:

(In thousands of dollars)

	$
2009	2,055
2010	2,105
2011	1,154
2012	1,196
2013	1,257

Notes to Financial Statements ~ for the year ended October 31, 2008

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, 2008 is $ 3,560,461 (2007 - $ 3,456,833).

As a result of an actuarial valuation conducted in 2007 for the year ending October 31, 2007, it was determined that an actuarial gain of $ 242,488 existed. The actual obligation as at October 31, 2008 is $ 3,317,973 (2007 - $ 3,214,345). Since the actuarial gain 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, 2010.

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

	2008 $	2007 $
Employee benefit plan assets	–	–
Employee benefit plan liabilities	3,560	3,457
Employee benefit plan deficit	**3,560**	**3,457**
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	3,457	3,294
Expense for the year	364	356
Benefits paid during the year	(261)	(193)
Benefit obligation, end of year	**3,560**	**3,457**

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 5%.

Salary Levels - Future salary and wage levels were assumed to increase at 3% per annum.

Pension Benefits

The Commission 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). 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 contributions related to the PSPF and OPSEU Pension Fund was $ 1,649,534 (2007 - $ 1,541,361) 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.

Notes to Financial Statements ~ for the year ended October 31, 2008

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. These credit facilities are unsecured and are set to expire on October 31, 2009. As at October 31, 2008, NIL has been drawn upon for all credit facilities.

6. Commitments

The Commission is committed to spending approximately $ 2,500,000 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.

8. Interest Expense

(In thousands of dollars)

	2008 $	2007 $
Interest income	(431)	(582)
Loan interest expense	1,241	913
	810	**331**

9. Depreciation

(In thousands of dollars)

	2008 $	2007 $
Depreciation of income producing assets	5,085	4,748
Depreciation of non-income producing assets	3,384	3,436
	8,469	**8,184**

10. Operating Leases

The Commission leases vehicles, equipment and premises under operating leases expiring in various years through 2012. The total obligation under operating leases amounts to approximately $ 1,273,000.

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

(In thousands of dollars)

	$
2009	496
2010	391
2011	203
2012	183

Notes to Financial Statements ~ for the year ended October 31, 2008

11. Statement of Cash Flows

Changes in working capital components include:

(In thousands of dollars)

	2008	2007
	$	$
Accounts receivable	(237)	494
Inventories	(1,458)	35
Prepaid expenses	97	80
Accounts payable and accrued payroll	(2,342)	2,310
	(3,940)	**2,919**

Acquisition of fixed assets

During the year, fixed assets were acquired at an aggregate cost of $ 24,561,000 (2007 - $ 17,799,000) of which 438,000 (2007 - nil) was acquired by means of capital leases and other non-cash acquisitions. Cash payments of $ 24,123,000 (2007 - $ 17,799,000) were made to purchase fixed assets.

(In thousands of dollars)

Interest

	2008	2007
	$	$
Interest received	**431**	**523**
Interest paid	**2,714**	**306**

12. Financial Instruments and Risk Management

Fair Value

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

The fair value of the post employment termination benefit was determined using an actuarial valuation based on information presented in note 4 to the financial statements.

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 $ 458,379 that is denominated in US dollars. These funds have been converted to the Canadian equivalent at the rate of $ 1.1665 US equals $ 1 Canadian. The Commission realizes approximately 14.87% (2007 - 18.1%) 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. Capitalized Interest

The Commission has capitalized $ 598,609 (2007 - $ 232,301) of interest related to the expansion of the Table Rock Complex which was completed in June 2008.

Notes to Financial Statements ~ for the year ended October 31, 2008

14. 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.

15. Transfer of Defunct Power Stations

The Province of Ontario has directed the Commission accept ownership of three former electricity generating power stations all located within Commission lands.

The Toronto Power Generating Station ("TPGS") and the Ontario Power Generating Station ("OPGS") were transferred by Ontario Power Generation Inc. ("OPG") to the Commission at no cost in August, 2007. The Canadian Niagara Power Generating Station ("CNP") currently owned by Fortis Ontario is to be transferred no later than April 30, 2009.

As part of the terms of transfer of TPGS and OPGS, OPG was to undertake certain structural and environmental work to ensure that the buildings were no threat to the public. The Ministry of Tourism has engaged the services of an architectural firm (The Ventin Group Inc.) to ensure that the original Government Directive was complied with and to identify work and related costs required to "mothball" the facilities until an ultimate use for the buildings can be determined. The Ventin Group has now reported that there are substantial costs required to bring TPGS and OPGS to what would be considered a "mothball" state. Additional costs would be required to bring these two buildings to a "development ready" state. Further, there are in existence certain secondary structures related to TPGS and OPGS that were not accounted for in the original Directive that will result in additional remediation costs at some point in the future.

The Commission has incurred annual costs related to maintenance and security for all sites.

The Commission is of the belief that the acceptance of these Power Generating Stations will require an infusion of funds that is beyond its capacity to meet. Negotiations with the Province are ongoing to gain assurance that the Commission will not be responsible for any future costs. Once final negotiations with the Province have concluded, the Commission will be in a position to assess whether any potential asset retirement obligation or contingent liability may exist.

Subsequent to the year-end, the Ministry of Tourism provided preliminary funding in the amount of $ 1,000,000.

Ontario Clean Water Agency
Agence Ontarienne Des Eaux

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 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 and the Audit and Risk 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 to review the financial statements and annually to review 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, 2008 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian general accepted accounting principles.

Toronto, Ontario
March 13, 2009

Jim McCarter, CA
Auditor General
Licensed Public Accountant

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Balance Sheet — Assets

As at December 31, 2008

(in thousands of dollars)	**2008**	2007
Current assets		
Cash and short-term investments	**26,250**	46,178
Accounts receivable, net		
Municipalities and other customers *(note 2d)*	**24,261**	23,848
Ministry of the Environment	**374**	380
Goods and services tax receivable	**1,894**	1,429
Prepaid Expenses	**2,951**	3,153
Current portion of investments receivable:		
Water and wastewater facilities *(note 2e)*	**1,097**	1,232
Facilities under construction *(note 2h)*	**457**	164
Note receivable	**0**	203
	57,284	76,587
Non-current assets		
Investments in term deposits *(note 2f)*	**26,000**	0
Investments receivable for water and wastewater facilities *(note 2e)*	**6,249**	7,356
Investments receivable for facilities under construction *(note 2h)*	**23**	0
Loan receivable - Infrastructure Ontario *(note 2j)*	**120,000**	120,000
Fixed assets, net *(note 3)*	**4,009**	4,542
	156,281	131,898
Total Assets	**213,565**	208,485

See accompanying notes to financial statements

Balance Sheet – Liabilities and Equity

As at December 31, 2008

(in thousands of dollars)	**2008**	2007
Current liabilities		
Accounts payable and accrued liabilities	**17,494**	18,634
Current portion of employee future benefits *(note 7a)*	**2,568**	2,848
	20,062	21,482
Long-term liabilities		
Municipal contributions payable *(note 2i)*	**257**	252
Employee future benefits *(note 7a)*	**9,932**	8,244
	10,189	8,496
Equity of Ontario		
Contributed surplus *(note 5b)*	**96,047**	95,820
Retained earnings	**87,267**	82,687
	183,314	178,507
Contingencies *(note 6)*		
Total Liabilities and Equity	**213,565**	208,485

See accompanying notes to financial statements

On behalf of the Board

Signed by

Director

Signed by

Director

Statement of Income and Retained Earnings

For the Year Ended December 31, 2008

(in thousands of dollars)	**2008**	2007
Utility Operations Revenues		
Utility operations	**130,072**	119,987
Fees	**2,390**	2,314
Total Operating Revenues	**132,462**	122,301
Operating Expenses		
Salaries and benefits *(note 7a and note 7b)*	**55,892**	50,948
Other Operating expenses	**75,730**	71,011
Amortization of fixed assets	**2,187**	1,650
Total Operating Expenses	**133,809**	123,609
Net Loss – Utility Operations	**(1,347)**	(1,308)
Financing Revenues		
Interest from investments, loans receivable and facilities under construction *(note 2g)*	**6,036**	8,017
Total Financing Revenues	**6,036**	8,017
Financing Expenses		
Interest and loan administration expenses	**49**	92
Amortization of fixed assets	**60**	60
Total Financing Expenses	**109**	152
Net Income – Financing	**5,927**	7,865
Net Income for the Year	**4,580**	6,557
Retained Earnings, Opening Balance	**82,687**	76,130
Retained Earnings, Ending Balance	**87,267**	82,687

See accompanying notes to financial statements

Statement of Cash Flows

For the Period Ended December 31, 2008

(in thousands of dollars)	**2008**	2007
Cash provided by (used for)		
Operating activities		
Net Income	**4,580**	6,557
Items not affecting cash		
Amortization of fixed assets	**2,247**	1,710
	6,827	8,267
Changes in non-cash operating working capital		
Accounts receivable	**(872)**	(2,297)
Note receivable	**203**	0
Prepaid Expenses	**202**	237
Accounts payable and accrued liabilities	**(1,140)**	2,386
Provision for restructuring costs	**0**	(172)
	(1,607)	154
Net cash flows from operating activities	**5,220**	8,421
Financing Activities		
Increase in term deposits	**(26,000)**	0
Decrease in investments receivable for water and wastewater facilities	**1,242**	3,399
(Increase) decrease in investments receivable for facilities under construction	**(316)**	1,077
Increase (decrease) in municipal contributions payable	**5**	(19)
Increase in future employee benefits payable	**1,408**	317
Decrease in note receivable	**0**	8
Changes in contributed surplus	**227**	(52)
Net cash flows from financing activities	**(23,434)**	4,730
Fixed assets – acquired	**(1,714)**	(1,590)
(Decrease) increase in Cash	**(19,928)**	11,561
Cash and Short-Term Investments, Opening Balance	**46,178**	34,617
Cash and Short-Term Investments, Ending Balance	**26,250**	46,178

See accompanying notes to financial statements

Notes to the Financial Statements

General

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

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

- assisting municipalities to provide water and wastewater services on a cost-recovery basis by financing, planning, developing, building and operating such works and services;
- financing, building and operating water and wastewater facilities on behalf of Ontario on a cost-recovery basis; and
- providing these services to protect human health and the environment, 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 due within one year.

(b) Fixed Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost.
Fixed assets are being amortized as follows:

Furniture and fixtures	5 years
Automotive equipment	4 years
Computer hardware	3 years
Computer software	2 years
Machinery and equipment	5 years
Financial information system	7 years
Leasehold improvements	Life of the lease

(c) Revenue Recognition

Revenue on contracts with clients for the operation of water and wastewater treatment facilities based on a fixed annual price is recognized in equal monthly amounts as earned.

Revenue on contracts with clients based on the recovery of costs plus a percentage markup or recovery of costs plus a fixed management fee is recognized at the time such costs are incurred.

Revenue for additional work for clients outside the scope of the operations and maintenance contract, such as capital repairs on equipment, is recognized when the costs are incurred, and normally includes a pre-determined markup on cost.

(d) Financial Instruments

A financial instrument is an asset or liability that will ultimately be settled in cash.

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classifications. At the Agency, the following classifications have been made:

- Cash and short-term investments are classified as held-for-trading and consists of highly liquid investments, including deposit certificates of up to one year, that can be readily converted into cash.
- Accounts Receivable are classified as loans and receivables, and are valued at face value because they are due within one year.
- Term deposits are classified as a held-to-maturity investments and are valued at face value. Accrued interest is recorded in accounts receivable and net income.
- Investments Receivable for water and wastewater facilities are classified as loans and receivables, are initially measured at fair market value and subsequently valued at amortized cost using the straight line amortization method. Amortization is charged to the Statement of Income and Retained Earnings.
- The Loan Receivable from Infrastructure Ontario is classified as an available-for-sale financial asset and is valued at face value, which is essentially the same as fair market value because of the nature of variable-rate financial instruments.
- Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at face value because they are due within a year.

(e) Use of Estimates

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

2. Financial Instruments

(a) Fair Value

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 December 2008	
(in thousand of dollars)	Carrying Amount	Fair Value
Cash and Short-Term Investments	26,250	26,334
Accounts Receivable	26,529	26,529
Investments in Term Deposits	26,000	27,370
Investments Receivable	7,826	8,959
Loan Receivable-Infrastructure Ontario	120,000	120,000
Accounts Payable and Accrued Liabilities	17,494	17,494

2. Financial Instruments (cont'd)

The fair value has been calculated by discounting the anticipated cash flows by an interest rate based on the government bond yield curve as at December 31, 2008 plus an adequate constant credit spread for municipalities.

(b) Credit Risk

The carrying value of financial assets represents the maximum exposure to credit risk as at December 31, 2008, as follows:

	(in thousand of dollars)
Cash and Short-Term Investments	26,250
Accounts Receivable	26,529
Investments in Term Deposits	26,000
Investments Receivable	7,826
Loan Receivable-Infrastructure Ontario	120,000

(c) Interest Rate Risk

The agency is subject to interest rate risk on the following financial assets:

	Amount *(in thousand of dollars)*	Interest Rate	Maturity
Infrastructure Ontario	120,000	variable	Mar. 2023
Cash	16,250	variable	
Short-Term Investments	10,000	2.55 - 2.90%	Mar.-Dec. 2009
Term Deposits	26,000	4.21 - 4.25%	Dec. 2010

Had interest rates been 1% higher (lower) throughout 2008, Financing Income would be $1.7 million higher (lower).

(d) Accounts Receivable Municipalities and Other Customers

The Agency is not exposed to significant credit risk as receivables are due from municipalities and payment in full is usually collected. Credit rating reviews are performed for non-municipal clients.

The aging of accounts receivable as at December 31, 2008 was as follows:

	(in thousands of dollars)
Not past due	17,518
Past Due 31-60 days	1,778
Past Due 61-90 days	41
Past Due 91-120 days	1,342
Past Due 121-150 days	860
More Than 151 days	4,047
Accounts Receivable (Gross)	25,586
Allowance for Doubtful Accounts January 1, 2008	799
Increase in Allowance during 2008	526
Allowance for Doubtful Accounts December 31, 2008	1,325
Total Net Accounts Receivable Municipalities and Other Customers	**24,261**

(e) Investments Receivable for Water and Wastewater Facilities

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.

The investments receivable are supported by agreements that bear interest at rates between 5.32% and 10.52%. Scheduled principal repayments of the investments are as follows:

(12 Months Beginning January)	*(in thousands of dollars)*
2009	1,097
2010	762
2011	786
2012	813
2013	815
Thereafter	2,954
	7,227
Less: Current portion	1,097
	6,130
Adjustment to Amortized Cost	119
	6,249

2. Financial Instruments (cont'd)

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, 2008, 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, the Agency has recognized the loan as fully impaired and accordingly the loan amount of $18.6 million has been reflected in an allowance for loan impairment. Commencing with the date the loan was classified as impaired (January 1, 2006), the Agency ceased accruing interest revenue which as at December 31, 2008 totaled $4.2 million.

Other than as described in this note, there are no other provisions established for investment receivables.

(f) Investments in Term Deposits

The Agency has invested $26 million in term deposits with rates ranging from 4.21% to 4.25% which have a 2 year term.

(g) Financing Revenue

Financing revenue is broken down as follows:

	(in thousands of dollars)
(a) Interest from Cash and Short-Term Investments	1,365
(b) Interest from Investment Receivable	563
(c) Interest from Investment in Term Deposits	115
(d) Interest from Loan Receivable-Infrastructure Ontario	3,993
Total	**6,036**

(h) Facilities Under Construction

Facilities under construction represent water and wastewater facilities or major capital improvements to existing facilities that have been undertaken by the Agency on behalf of its clients.

(i) Municipal Contributions Payable

At December 31, 2008, the Agency held funds on behalf of the municipalities amounting to $0.3 million (2007 - $0.3 million). These funds are included in cash and short-term investments.

(j) 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.

(k) Other

Other than as described in these notes, the Agency is not exposed to any additional currency, liquidity or other price risk on its financial instruments.

3. Fixed Assets

(in thousands of dollars)	Cost	Accumulated Amortization	**Net Dec. 31, 2008**	Net Dec. 31, 2007
Furniture and Fixtures	1,762	1,550	**212**	283
Automotive Equipment	222	155	**67**	22
Computer Hardware	8,183	7,237	**946**	1,175
Computer Software	4,594	4,146	**448**	442
Machinery and Equipment	751	470	**281**	147
Financial Information System	1,958	338	**1,620**	1,302
Leasehold Improvements	6,720	6,285	**435**	1,171
	24,190	20,181	**4,009**	4,542

4. 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)	
2009	2,448
2010	2,069
2011	1,791
2012	926
2013	199
	7,433

5. Equity Of Ontario

(a) Available Capital

During the last several years, the Agency has been moving towards full cost recovery in its water and wastewater operations.

The Agency works closely with the Province, its sole shareholder, regarding the investment of its large amount of capital resources, including the $120 million variable-rate interest rate loan to Infrastructure Ontario and its cash balance and investments in term deposits of $52 million. The Province has considerable influence on the use of these resources.

5. Equity Of Ontario (cont'd)

(b) 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. Recoveries of past charges to contributed surplus are reflected as an increase to contributed surplus. 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 $5.7 million has been spent.

(in thousands of dollars)	**December 31, 2008**	December 31, 2007
Opening balance, January 1	**95,820**	95,872
Adjustments to opening balance	**227**	(52)
	96,047	95,820

6. Contingencies

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.

7. Related Party Transactions

(a) Non-Pension Employee Future Benefits

The Agency is responsible for its accrued legislated severance, unpaid vacation, and workers compensation obligations.

The costs of these employee future benefits have been estimated at $12.5 million (2007 - $11.1 million) of which $2.6 million has been classified as current liability. The amount charged to the income statement in 2008 was $1.9 million (2007 - $1.4 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 $2.5 million (2007 - $1.6 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, 2007.

It is management's opinion that the balance at December 31, 2008 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 Province and therefore is not included in the financial statements.

(b) 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 $2.5 million (2007 - $2.3 million) and is included in salaries and benefits in the Statement of Income and Retained Earnings.

(c) Other

As a result of the relationship of the Agency with the Province, the following related party transactions exist:

(i) The Agency received revenue of $2.8 million (2007 - $2.3 million) 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.

(ii) The Agency received revenue of $2.6 million (2007 - $1.9 million) 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.

(iii) The Agency has a $120 million loan receivable with Infrastructure Ontario, as described in note 2 (j).

(iv) The Agency relies on the Province to process its payroll and administer it benefits, and to obtain some internal audit and legal services. The Province absorbs some of these administrative costs.

8. Reclassification

Some of the prior year numbers have been reclassified to conform with the current year presentation.

9. Future Accounting Pronouncements

An exposure draft has been issued to replace Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (IFRS) for most publicly accountable enterprises. The exposure draft proposes that IFRS be effective for fiscal years commencing on or after January 1, 2011. In February 2009, the Public Sector Accounting Board issued an Invitation to Comment on the financial reporting to be used by government organizations. It is anticipated that the results of the invitation to comment will determine whether or not the Agency will be considered a publicly accountable enterprise and be required to adopt IFRS standards.

10. 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 2008.

Name	Position	Salary Paid	Other Benefits
Atkinson, Daniel	Vice-President, Operations, Southern Ontario	136,234.47	231.04
Baker, Brenda	Vice-President, Finance and Corporate Services	128,195.41	231.04
Cameron, Janice	Director, Human Resources	109,901.28	186.38
Cameron, Kirk	Director, Information Technology	107,233.78	191.36
Clappison, Stephen	Shift Engineer	101,574.19	150.84
Dormer, Robert	Project Manager	116,029.79	191.94
Edwards, David	Regional Manager, South Peel	111,069.85	193.56
Ethier, Marc	Regional Manager, Waterloo	114,229.51	193.56
Fernandes, Mervyn	Shift Engineer	101,144.89	150.84
Jenkins, Robert	Project Manager	109,129.21	191.94
Kempenaar, Gary	Regional Manager, Operational Efficiency and Innovation	113,176.63	193.56
Kind, Robin	General Counsel	203,639.44	341.58
Komulainen, Ilmari	Regional Manager, Eastern Region	111,069.85	193.56
Love, Steven	Legal Counsel	118,221.67	212.10
Matson, David	Management Support, Training and Process	101,583.28	181.70
McCully, David	Project Manager	109,092.76	167.47
Mollard, Beverly	Regional Manager, Western Region	100,520.82	177.67
Pontone, Dante	President/CEO	182,733.72	294.60
Reid, Nicholas	Vice-President, Business Development	128,004.15	222.31
Rinas, Wilhelm	Assistant General Counsel	163,687.47	292.07
Rooplal, Prem	Manager, Accounting and Finance	105,126.65	183.23
Terry, George	Vice-President, Operations, Northern Ontario and First Nations	128,811.80	225.37
Thompson, John	Director, Engineering Services	113,851.80	203.91
Valickis, Andy	Project Manager	114,604.92	191.94
West, Philip	Assistant Shift Engineer	103,960.60	142.20
Williams, Gordon	Regional Manager, Northern Region	114,229.51	193.56
Witlarge, Sandra	Corporate Controller	110,535.34	186.38
Witte, Ralph	Manager, Business Process Engineer	104,864.69	182.66

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.

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

Kelly McDougald
Chief Executive Officer

John Black
Chief Financial Officer

June 16, 2009

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge St.
Suite 200
North York, ON M2P 2H3

Grant Thornton LLP
Chartered Accountants
Management Consultants
5th Floor
421 Bay Street
Sault Ste. Marie, ON P6A 1X3

AUDITORS' REPORT

To the Board of Directors of the Ontario Lottery and Gaming Corporation and to the Minister of Energy and Infrastructure:

We have audited the consolidated balance sheet of the Ontario Lottery and Gaming Corporation as at March 31, 2009 and the consolidated statements of income and other comprehensive income, cash flows, retained earnings and contributed surplus 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of the Corporation for the year ended March 31, 2008, prepared in accordance with Canadian generally accepted accounting principles, were audited in accordance with Canadian generally accepted audited standards by KPMG LLP and Grant Thornton LLP, who expressed an opinion without reservation on those statements in the Auditor’s report dated May 16, 2008.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

June 16, 2009

Ontario Lottery and Gaming Corporation
Consolidated Balance Sheet
As at March 31, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 323,952	$ 361,152
Accounts receivable	60,384	78,899
Prepaid expenses	36,834	30,478
Inventories (Note 2)	21,723	23,180
Current portion of loans receivable (Note 5)	7,209	7,892
	450,102	501,601
Restricted cash (Note 3)	192,887	183,491
Pre-opening and deferred expenditures (Note 4)	6,590	4,593
Loans receivable (Note 5)	29,248	37,604
Property, plant and equipment (Note 6)	2,483,198	2,500,217
Goodwill	1,776	1,776
Assets contributed to Chippewas of Mnjikaning (Note 7)	12,893	13,975
Cash and short-term investments held for First Nations (Note 8)	176,249	208,048
	$ 3,352,943	**$ 3,451,305**
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 342,200	$ 366,671
Due to operators (Note 9)	44,464	42,337
Due to Chippewas of Mnjikaning (Note 9)	1,675	1,957
Due to Government of Canada (Note 19)	5,376	8,534
Deferred revenues	17,555	16,131
Current portion of due to First Nations (Note 8)	-	47,374
Current portion of long-term debt (Note 10)	86,765	191,381
	498,035	674,385
Due to First Nations (Note 8)	176,249	160,674
Long-term debt (Note 10)	169,607	105,781
Accrued future benefit costs (Note 17)	15,709	26,072
Asset retirement obligation	1,499	1,352
Equity		
Retained earnings	2,299,610	2,251,737
Contributed surplus	62,345	62,345
Reserves (Note 3)	129,889	168,959
	2,491,844	2,483,041
	$ 3,352,943	**$ 3,451,305**

Commitments (Notes 3, 5, 9 and 13)
Contingencies (Notes 9 and 14)
Subsequent events (Note 14)

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 and Other Comprehensive Income

Year ended March 31, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Revenues		
Lotteries and bingo	$ 2,947,616	$ 2,773,125
Resort casinos	1,408,813	1,395,319
Casinos and slots at racetracks	2,070,559	2,050,831
	6,426,988	**6,219,275**
Operating expenses		
Lotteries and bingo	2,192,732	2,090,639
Resort casinos	1,502,952	1,470,746
Casinos and slots at racetracks	1,104,698	1,096,120
	4,800,382	**4,657,505**
Income before the undernoted	**1,626,606**	**1,561,770**
Interest and other income	37,795	48,141
Interest on long-term debt	-9,316	-14,204
Foreign exchange gain	17,762	11,724
Net income and other comprehensive income	$ **1,672,847**	**$ 1,607,431**

Segmented information (Note 15)

See accompanying notes to consolidated financial statements.

Ontario Lottery and Gaming Corporation
Consolidated Statement of Retained Earnings
Year ended March 31, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Retained earnings, beginning of year	$ 2,251,737	$ 2,127,773
Net income	1,672,847	1,607,431
Transfers (to) from reserves, net	39,070	(46,868)
Distribution to First Nations on behalf of the Province of Ontario	(67,805)	(54,672)
Payments to the Province of Ontario	(1,596,239)	(1,381,927)
Retained earnings, end of year	**$ 2,299,610**	**$ 2,251,737**

Consolidated Statement of Contributed Surplus
Year ended March 31, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Contributed surplus, beginning of year	$ 62,345	$ 60,645
Contributed property, plant and equipment	-	1,700
Contributed surplus, end of year	**$ 62,345**	**$ 62,345**

See accompanying notes to consolidated financial statements.

Ontario Lottery and Gaming Corporation
Consolidated Statement of Cash Flows
Year ended March 31, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Cash flows from operating activities		
Net income	$ 1,672,847	$ 1,607,431
Amortization of property, plant and equipment and asset retirement obligation	258,163	255,190
Amortization of other long-lived assets	5,670	4,317
Accretion expense	147	186
Loss on disposal of property, plant and equipment	5,240	7,415
Accrued future benefit costs	(10,363)	8,170
Change in non-cash working capital:		
Accounts receivable	18,515	(200)
Prepaid expenses	(6,356)	1,365
Inventories	1,457	4,253
Accounts payable and accrued liabilities	(24,471)	235
Due to operators	2,127	(8,417)
Due to Chippewas of Mnjikaning	(282)	(577)
Due to Government of Canada	(3,158)	2,492
Deferred revenues	1,424	2,765
Due to First Nations	(4,466)	(12,293)
Net cash from operating activities	1,916,494	1,872,332
Cash flows used in financing activities		
Increase in long-term debt	144,068	82,415
Repayments of long-term debt	(184,858)	(176,973)
Payments to Province of Ontario	(1,596,239)	(1,381,927)
Distributions to First Nations	(63,339)	(42,379)
Net cash used in financing activities	(1,700,368)	(1,518,864)
Cash flows used in investing activities		
Pre-opening and deferred expenditures	(6,585)	(2,278)
Issuance of loans receivable	(190)	(814)
Repayment of loans receivable	9,229	12,560
Capital expenditures	(248,588)	(352,234)
Proceeds on disposal of property, plant and equipment	2,204	3,465
Increase in restricted cash	(9,396)	(61,091)
Net cash used in investing activities	(253,326)	(400,392)
Decrease in cash and cash equivalents	(37,200)	(46,924)
Cash and cash equivalents, beginning of year	361,152	408,076
Cash and cash equivalents, end of year	**$ 323,952**	**$ 361,152**
Cash and cash equivalents are comprised of:		
Cash	$ 314,642	$ 325,342
Cash equivalents	9,310	35,810
	$ 323,952	$ 361,152
Supplemental disclosure of cash flow information:		
Cash interest received	$ 9,423	$ 15,507
Cash paid for interest	5,951	14,585

See accompanying notes to consolidated financial statements.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

The Ontario Lottery and Gaming Corporation (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 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 (or Ontario Casino Corporation, one of its predecessor corporations) 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 Caesars Windsor (formerly Casino Windsor), Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (Fallsview) and the Great Blue Heron Charity Casino Slot Machine Facility, respectively.

1. Significant accounting policies

a. Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary.

In addition, the consolidated financial statements include the financial position and results of operations of the resort casinos at Caesars Windsor, Casino Rama, Casino Niagara and Fallsview, and of the Great Blue Heron Charity Casino Slot Machine Facility.

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.

b. Revenue recognition

Lottery and bingo games are sold to the public by contracted lottery retailers and bingo service providers. Revenue from lottery games, for which results are determined based on a draw, is recognized when tickets are sold to consumers and the related draw occurs. Revenue from instant games is recognized when retailers make them available for sale to the public, as indicated by the retailer's activation of tickets. Revenue from sports wagering games and bingo gaming is recognized when the ticket, paper, or electronic game 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 difference between amounts earned through gaming wagers less the payouts from those wagers, with liabilities recognized for funds deposited by patrons before gaming play occurs, for chips, and 'ticket-in, ticket-out' coupons in the patrons' possession, and for accruals related to the anticipated payout of progressive jackpots. Significant base jackpots for progressive slot machines are charged to revenue over the estimated jackpot life cycle. Progressive slot machines, which contain base jackpots that increase at a progressive rate based on the number of coins or credits played, are charged to revenue as the amounts of the jackpots increase.

Discretionary and non-discretionary incentive programs are recorded in accordance with the Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee Abstract 156, 'Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)' (EIC 156). EIC 156 requires that sales incentives and points earned in loyalty programs be recorded as a reduction of revenue. However, the Corporation recognizes incentives related to gaming play and points earned in loyalty programs as a promotional allowance, as described in Note 1(c), as the points are granted. Discretionary incentive programs, such as non-cashable free play, are offered based on past levels of play or to induce future play. Discretionary, non-cashable free play is not recorded as revenue. Non-discretionary incentive programs, such as point-based loyalty programs, are offered based on past levels of play.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

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

c. Promotional allowances

Promotional allowances include the retail value of accommodations, food and beverage and other goods and services provided to patrons on a complimentary basis, as well as the cost of points for the loyalty programs.

The players' loyalty programs at the resort casinos and casinos and slots at racetracks allow patrons to earn points based on the volume of play. These points, with the exception of the Total Rewards described below, are accrued as a liability based on estimated redemption and are redeemable for complimentary goods and services and/or cash rebates. The patron's point balance will be forfeited if the patron does not earn additional points over the prior 12-month period. Promotional allowances include the estimated redemption value of the points as they are earned.

Patrons of Caesars Windsor participate in the Harrah's Entertainment Inc.'s (Harrah's) Total Rewards customer loyalty program. Total Rewards offers incentives to patrons who game at Caesars Windsor as well as at any of Harrah's casinos throughout the United States. Under the program, patrons are able to accumulate, or bank, reward credits over time, which they may redeem at their discretion under the terms of the program. The reward credit balance will be forfeited if the patron does not earn a reward credit over the prior six-month period. Caesars Windsor's portion of Total Rewards points earned by patrons are accrued as a liability based on estimated redemption.

Promotional allowances also include the retail value of coupons (accommodations, 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 also included in non-gaming revenue.

The estimated costs of providing these promotional allowances have been included as expenses in the consolidated statement of income and other comprehensive income.

d. Lottery prizes

Prize expense for lottery and bingo games is recognized based on the predetermined prize structure for each game in the period revenue is recognized. Prize expense for annuity-based top prizes is based on the cost of the annuity purchased by the Corporation from a third party. An estimate for lottery prizes that will not be claimed is recognized as unclaimed prizes in the period revenue is recognized. Periodically, prize expense is adjusted to reflect amounts actually won and/or unclaimed.

Unclaimed prizes on national games are returned to the players' through guaranteed jackpots and bonus draws. Unclaimed prizes on regional games are returned to the Province of Ontario through distributions to the Province. National games are administered by the Interprovincial Lottery Corporation and sold throughout Canada, while regional games are administered by the Corporation and sold only in Ontario.

e. Commissions and bonuses

Lottery retailers receive a commission of 8 per cent on all instant tickets and a commission of 5 per cent on all on-line tickets sold. Where a commission has been paid to retailers for ticket sales relating to future draws, this fee is recorded as a prepaid expense until the related revenue is recognized. Lottery retailers also receive a 3 per cent commission on instant tickets redemptions and a commission of 2 per cent on on-line ticket redemptions. A $1,000 bonus is paid to any retailer who sells a major prize winning on-line ticket, excluding sports and daily games.

Bingo service providers receive a commission based on a percentage of total revenue, plus or minus incentive adjustments for achieving sales, prize payout, and cost of goods sold targets. Municipalities who

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements

Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

host the Corporation's bingo halls receive a commission based on a percentage of total revenue.

Racetrack operators and the horse racing industry (typically, horse people) each receive a predetermined percentage of revenue from slots, as outlined in the site holder agreement with the corresponding racetrack operator. Municipalities who host an OLG Casino or Slots at Racetrack facility receive 5 per cent of revenue from slots up to 450 machines and 2 per cent of revenue from slot machines over 450. As the host community of the slot machines at Great Blue Heron Charity Casino, the Mississaugas of Scugog Island First Nation receive 5 per cent of the revenue from the slot machines.

f. 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, 2009, cash and cash equivalents include bank term deposits amounting to $9,310,000 (2008 - $35,810,000) at an interest rate of 0.35 per cent (2008 – 2.2 to 3.5 per cent).

g. Retailer and bingo service provider accounts receivable

Retailer accounts receivable represents lottery proceeds due from lottery retailers for lottery ticket sales net of commissions and prizes paid by the retailers. Also included are bingo proceeds due from bingo service providers for bingo sales net of commissions and prizes paid. An allowance for bad debts of $2,720,000 (2008 - $20,000) has been recorded on this receivable balance. As at March 31, 2009, the net book value of retailer and bingo service provider accounts receivable is $29,378,000 (2008 - $46,465,000).

h. Pre-opening and deferred expenditures

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

i. Property, plant and equipment

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	Over term of lease
Lottery gaming assets	3 to 7 years
Casino and racetrack slot operations gaming assets	2 to 10 years
Energy centre assets	15 to 20 years

Property, plant and equipment are amortized when available for use.

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

Interest charges incurred during the construction and development of property, plant and equipment are capitalized and amortized over the estimated useful life of the associated property, plant and equipment.

j. Impairment of long-lived assets

Long-lived assets, including pre-opening and deferred expenditures, assets contributed to Chippewas of Mnjikaning, and property, plant and equipment, 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

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

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, 2009 and March 31, 2008, no impairments in the carrying value of these assets existed.

k. Deferred revenues

Funds collected from retailers for lottery games for which results are determined based on a draw, sold in advance of the game draw, are recorded as deferred revenue and recognized as revenue once the related draw occurs.

l. 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. The resultant changes to the obligation that result from the passage of time are expensed in the period as accretion expense and any changes resulting from changes in the estimated future cash flows are capitalized to the cost of the leasehold improvements.

For the year ended March 31, 2009, the Corporation recorded amortization expense of $105,000 (2008 - $306,000) in the consolidated statement of income and other comprehensive income. The Corporation recorded a liability of $1,499,000 (2008 - $1,352,000) 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 $406,000 (2008 - $366,000).

The gross amount of the obligation is $1,446,000 (2008 - $1,431,000), which is expected to be paid out in one to six years. The credit adjusted risk-free rate is 4.5 per cent. The accretion expense for the year was $147,000 (2008 - $186,000).

m. 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

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

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 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, 2009 and March 31, 2008, no impairment in the carrying value of this asset existed.

n. Assets contributed to Chippewas of Mnjikaning

Assets contributed to Chippewas of Mnjikaning, consisting primarily of funding for the construction of a community centre, seniors' centre and certain infrastructure facilities, and are amortized over the term of the Casino Rama ground lease, which expires in March 2021.

o. Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the year-end exchange rates. Non-monetary assets and liabilities are translated at historical exchange rates. Consolidated statement of income and other comprehensive 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 and other comprehensive income in the period in which they arise.

p. 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 property, plant and equipment, other long-lived assets and goodwill, unclaimed prize liabilities, employee future benefit obligations, asset retirement obligations, the patrons' loyalty program provision, the amount due to Government of Canada and the outstanding chip, ticket and token liability. Actual results could differ from those estimates.

q. Financial instruments

All financial instruments have been classified into one of the following categories: available-for-sale, held-to-maturity, held-for-trading, loans and receivables or other financial liabilities. All financial instruments, including derivatives, are recorded on the consolidated balance sheet and are measured at fair value with the exception of held-to-maturity loans and receivables, and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend upon their initial classification.

The Corporation classified all cash and cash equivalents, accounts receivables, restricted cash, cash and short-term investments held for First nations as held-for-trading assets, which are measured at fair value and the changes in fair value are recognized in net income. Loans receivable is classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, due to operators, due to Chippewas of Mnjikaning, due to Government of Canada, due to First Nations and long-term debt are classified as other financial liabilities. They are measured at amortized cost. The Corporation did not have available-for-sale or held-to-maturity assets or liabilities during the years ended March 31, 2009 and March 31, 2008.

All derivatives, including embedded derivatives that must be separately accounted for, are measured at fair value, with changes in fair value recorded in the consolidated statement of income and other

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

comprehensive income unless they are effective cash flow hedging instruments. The changes in fair value of cash flow hedging derivatives are recorded in other comprehensive income, to the extent effective, until the hedged asset or liability is recognized in the consolidated statement of income and other comprehensive income. Any hedge ineffectiveness is recognized in net income immediately.

The Corporation records all transaction costs and loan fees for financial assets and liabilities as a component of the related asset or liability and amortizes the costs using the effective interest rate method to interest expense over the life of the related asset or liability.

The Corporation uses derivative financial instruments to manage risks from market price fluctuations for energy. These instruments include forward pricing agreements. The Corporation does not enter into financial instruments for trading or speculative purposes. Changes in the fair value of derivatives are recorded in the consolidated statement of income and other comprehensive income.

r. Adoption of new accounting standards

i. Financial instruments

Effective April 1, 2008, the Corporation adopted CICA Handbook Section 3862, Financial Instruments – Disclosures (CICA 3862) and CICA Handbook Section 3863, Financial Instruments – Presentation (CICA 3863).

CICA 3862 requires disclosure about the significance of financial instruments on the Corporation's financial position and performance, the nature and extent of risks arising from financial instruments to which the Corporation is exposed during the year and at the balance sheet date, and how the Corporation manages those risks.

CICA 3863 establishes standards for the presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards did not have an impact on the classification and measurement of the Corporations' financial instruments. The additional disclosures required as a result of adoption of these standards are included in Note 11.

ii. Capital Disclosures

Effective April 1, 2008, the Corporation adopted CICA Handbook Section 1535, Capital Disclosures (CICA 1535). CICA 1535 requires the Corporation disclose information that enables users of its financial statements to evaluate the Corporation's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences for non-compliance. These new disclosures are included in Note 12.

iii. Inventories

Effective April 1, 2008, the Corporation adopted CICA Handbook Section 3031, Inventories (CICA 3031). CICA 3031 provides enhanced guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The impact of adopting this new standard was immaterial to opening retained earnings as at April 1, 2008.

Inventories include spare parts for gaming, security and surveillance equipment, paper and ticket stock relating to lottery and bingo games, food and beverage inventory and retail inventory.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

s. Recent Canadian accounting pronouncements

i. Goodwill and intangible assets:

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets (CICA 3064). CICA 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Under the new standard, the Corporation will no longer be allowed to defer pre-opening costs. The Corporation will adopt this new standard effective April 1, 2009 and is assessing the impact of the new standard on its consolidated financial statements.

ii. International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Boards (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian publicly accountable companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period.

In February 2008, the AcSB confirmed that IFRS will be mandatory in Canada for government business enterprises for fiscal periods beginning on or after January 1, 2011. The Corporation's first annual IFRS financial statements will be for the year ending March 31, 2012 and will include the comparative period of 2011.

The Corporation has completed a preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP, however, management has not yet finalized its determination of the impact of these differences on the consolidated financial statements. As this assessment is finalized, the Corporation intends to disclose such impacts in its future consolidated financial statements.

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Corporation's consolidated financial statements will only be measured once all the IFRS standards, applicable at the conversion date, are known.

2. Inventories

	2009	2008
Slot machine and table game parts	$ 9,772	$ 9,625
Lottery tickets and paper	7,912	9,948
Security and surveillance parts	1,488	1,487
Food and beverage	3,177	2,705
Retail	704	312
Other	3,229	3,655
	26,282	27,732
Less allowance	(4,559)	(4,552)
	$ 21,723	$ 23,180

Inventory costs, included in operating expenses, for the year ended March 31, 2009 was $108,032,000 (2008 – $108,383,000). During the year ended March 31, 2009, the Corporation recorded inventory write-downs in operating expenses of $1,228,000 and reversals of previously written-down amounts of nil.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements

Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

3. Restricted cash and reserves

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

	2009	2008
Reserves		
Capital renewals	$31,449	$45,416
Operating	59,106	87,063
Severance	39,334	36,480
	129,889	168,959
Less unrestricted capital renewals and operating	6,765	43,339
Funded reserves balance	123,124	125,620
Prize funds on deposit	45,913	41,900
Term loan proceeds	23,850	15,971
	$192,887	$183,491

The Corporation has established 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 property, plant and equipment additions other than normal repairs, and to satisfy specified obligations in the event that cash flows will be insufficient to meet such obligations;

ii) Operating reserves - To satisfy specified obligations in the event that cash flows 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

In fiscal 2009, the Corporation transferred cash of $35,500,000 to Caesars Windsor for their working capital requirements. The Corporation has committed to transferring additional amounts of up to $68,500,000 to Caesars Windsor in fiscal 2010.

In fiscal 2008, the Corporation transferred cash of $95,000,000 and $14,000,000 to Caesars Windsor's operating and capital renewals reserves, respectively, to replenish the reserve accounts to the balances specified by the terms of the operating agreement. The Corporation and the Operator have agreed that both the operating and capital renewals reserves, although contractually set aside for the above uses, are available to fund current operations, given the continuing negative cash flows at Caesars Windsor.

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 and Caesars Windsor.

4. Pre-opening and deferred expenditures

			2009	2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Pre-opening expenditures				
Resort casinos	$23,046	$16,931	$6,115	$2,082
Casinos and slots at racetracks	4,845	4,410	435	1,559
	27,891	21,341	6,550	3,641
Deferred expenditures	21,597	21,557	40	952
	$49,488	$42,898	$6,590	$4,593

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

Amortization of pre-opening and deferred expenditures for the year ended March 31, 2009 was $4,588,000 (2008 - $3,235,000).

5. Loans receivable

	2009	2008
Loans receivable	$38,307	$48,329
Less allowance for loans receivable	1,850	2,833
	36,457	45,496
Less current portion of loans receivable	7,209	7,892
	$29,248	$37,604

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.

During fiscal 2009, additional funds were advanced to two racetrack operators for development and expansion of their respective properties. As at March 31, 2009 $15,210,000 (2008 - $14,509,000) had been advanced and has been included in loans receivable.

The Corporation's maximum remaining commitment as at March 31, 2009 is $7,378,000 to one racetrack operator.

6. Property, plant and equipment

			2009	2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$137,824	$ –	$137,824	$137,343
Buildings	1,858,585	248,407	1,610,178	1,297,377
Furniture and fixtures	659,737	481,638	178,099	181,355
Leasehold improvements	579,778	350,174	229,604	248,314
Lottery gaming assets	120,630	106,023	14,607	37,082
Casino and racetrack slot operation gaming assets	654,846	443,030	211,816	227,377
Energy centre assets	37,351	748	36,603	–
Construction in progress and assets not in use	64,467	-	64,467	371,369
	$4,113,218	$1,630,020	$2,483,198	$2,500,217

Amortization for the year was $258,058,000 (2008 - $254,884,000). During the year, net interest of $1,054,000 (2008 – $490,000) was capitalized.

7. Assets contributed to Chippewas of Mnjikaning

			2009	2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Assets contributed to Chippewas of Mnjikaning	$32,337	$19,444	$12,893	$13,975

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

Amortization for the year was $1,082,000 (2008 - $1,082,000).

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

	2009	2008
Segregated bank account, beginning of year	$195,755	$173,113
Distributions to the segregated bank account during the year	21,763	14,687
Distributions from the segregated bank account during the year – per Court Order	(62,441)	-
Interest earned during the year	4,413	7,955
Segregated bank account, end of year	159,490	195,755
Current distribution due to First Nations	16,759	12,293
	$176,249	$208,048
Less current portion of due to First Nations – per Court Order	-	47,374
	$176,249	$160,674

On June 9, 2000, the Corporation, the First Nations of Ontario and the Province of Ontario entered into the Casino Rama Revenue Agreement (the Agreement) which 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 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 Ontario First Nations Limited Partnership (OFNLP) and the Chippewas of Mnjikaning with respect to a new revenue distribution formula. This matter is currently the subject of an action brought by the Chippewas of Mnjikaning against the Province of Ontario and until the matter is decided by the Courts or, alternatively, the Chippewas of Mnjikaning and the OFNLP reach an agreement on a new revenue distribution formula, the Corporation is required to retain these funds. On June 10, 2008 the Corporation, pursuant to an Order of the Superior Court Justice of Ontario, released $47,374,000 from the segregated bank account to the OFNLP. During fiscal 2009, two additional orders were received from the Superior Court Justice of Ontario which required a total of $15,067,000 to be released from the segregated bank account to the OFNLP. The balance of funds will continue to be retained in a segregated interest-bearing bank account until the matter is decided by the Courts or, alternatively, the Chippewas of Mnjikaning and the OFNLP reach agreement on a new revenue distribution formula.

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation and OFNLP, among others, entered into a Gaming Revenue Sharing and Financial Agreement. The key terms of this new agreement are outlined in Note 9(f) to the consolidated financial statements.

The payment related to the monthly distribution of the net revenue for March 2009 of $16,759,000 is included above as a current distribution due to First Nations.

9. Related party transactions

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a. The Corporation is related to various other government agencies, ministries and Crown corporations. All transactions with these related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

b. Under the terms of the development and operating agreements for each of the resort casinos and the Great Blue Heron 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

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements

Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

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, a subsidiary of Casinos Austria; and Caesars 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 Caesars 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 resort 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 and other comprehensive income.

c. Under the terms of the development and operating agreement for Casino Rama, the Chippewas of Mnjikaning receive an annual fee, adjusted for inflation, relating to the provision of ongoing operating services. During the year, $5,780,000 (2008 - $5,616,000) was expensed. Other Chippewas of Mnjikaning charges amounting to $7,821,000 (2008 - $6,884,000) 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, $683,000 (2008 - $674,000) 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, adjusted for inflation, for warehouse space is paid to a company related to the Chippewas of Mnjikaning. During the year, $349,000 was expensed (2008 - $342,000).

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, adjusted for inflation, 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, $4,460,000 (2008 – $4,402,000) 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, $2,004,000 (2008 - $1,977,000) was expensed.

Under the terms of a Letter of Agreement entered into by the Corporation in January 2007 regarding the management and administration of leasehold improvement projects at Casino Rama, the Chippewas of Mnjikaning contract directly with the contractors selected by the Corporation. During the year, $3,606,000 (2008 - $3,696,000) was paid to the Chippewas of Mnjikaning under this Letter of Agreement to pay contractors involved in the acquisition of leasehold improvements.

d. 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 Slot Machine Facility in consideration for provision of the lands used for the Slot Machine Facility. During the year,

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

$4,556,000 (2008 – $4,498,000) was paid to the Mississaugas of Scugog Island First Nation.

e. 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, 2009, the Operator's fees, due to the Operator, included an Attractor fee accrual of $5,058,000 (2008 - $5,088,000).

f. 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 February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation and the OFNLP entered into a Gaming Revenue Sharing and Financial Agreement (Agreement). The key terms of the Agreement, relevant to OLG, are as follows:

i) The Province of Ontario shall pay, or require the Corporation to pay, to the Ontario First Nations Limited Partnership, commencing with fiscal year 2012 and in each fiscal year during the remainder thereafter of the 20-year term, an amount equal to 1.7 per cent of the Gross Revenues of the Corporation, as defined. These payments will take the place of the net revenues that the OFNLP would otherwise have been entitled to under the Casino Rama Revenue Agreement; and,

ii) The Chiefs of Ontario and the Ontario First Nations Limited Partnership shall, subject to acceptance by the Courts, discontinue the litigation related to the 20 per cent win contribution and release her Majesty the Queen in Right of Ontario and the Corporation.

During fiscal 2009, the Notice of Discontinuance of the litigation related to the 20 per cent win contribution was accepted by the Courts.

10. Long-term debt

	2009	2008
Niagara Fallsview Casino Resort loan	$43,880	$214,747
Caesars Windsor loan	212,492	82,415
	256,372	297,162
Less current portion	86,765	191,381
	$169,607	$105,781

a. Niagara Fallsview Casino Resort loan

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 developer). 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.

b. Caesars Windsor loan

In November 2008, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario, a related party) for purposes of financing the renovation and expansion of Caesars

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

Windsor and for financing the construction of the Windsor Clean Energy Centre (the Energy Centre). The Energy Centre is being constructed to provide electricity, heating and cooling to the expanded Caesars Windsor facilities. It is expected that the Energy Centre will also be able to provide excess electricity to the Windsor energy market. The initial loan balance of $226,482,970 plus interest is repayable over five years. The loan bears interest at a rate of 3.2 per cent per annum and is unsecured.

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

2010	$86,765
2011	44,289
2012	45,738
2013	47,235
2014	32,345

On March 25, 2008, the Province of Ontario introduced a bill which, if passed, would amend the *Ontario Lottery and Gaming Corporation Act, 1999,* to require the Corporation to finance certain of its capital expenditures with debt obtained from the Ontario Financing Authority. The approval of the Minister of Energy and Infrastructure and the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures. Although the bill has not yet passed, the Corporation has operated under the spirit of the proposed legislation since the beginning of the fiscal year.

11. Financial risk management and financial instruments

a. Overview

The Corporation has exposure to credit risk, liquidity risk, and market risk from its use of financial instruments. This note presents information about the Corporation's exposure to each of the above risks and the Corporation's objectives, policies and processes for measuring and managing these risks.

b. Credit risk

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its financial or contractual obligations with the Corporation. The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of accounts receivable, loans receivable and liquid investments.

Accounts receivable include credit provided to retailers of lottery products, bingo service providers and patrons of resort casinos. Loans receivable consist of loans to racetrack operators. The Corporation performs ongoing credit evaluations of retailers, bingo service providers, patrons and racetrack operators and maintains reserves for potential credit losses on both accounts receivable and loans receivable balances. The carrying amount of these financial assets represents the maximum credit exposure.

The amounts disclosed in the consolidated balance sheet are net of allowances for doubtful accounts, which consists of a specific provision that relates to individually significant exposures, estimated by management based on prior experience and their assessment of the current economic environment. The Corporation establishes an allowance for doubtful accounts that represents its estimate of potential credit losses but historically has not experienced any significant losses. As at March 31, 2009 the Corporation had an allowance for doubtful accounts of $11,144,000 (2008 - $5,937,000), which represented approximately 10.3 per cent (2008 – 4.6 per cent) of the Corporation's consolidated accounts receivable and loans receivable. The Corporation believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk.

The Corporation limits its exposure to credit risk by investing only in short term debt securities with high credit ratings and minimal market risk. The Corporation has a formal policy in place for short-term investments which provides direction for management to minimize risk. All investments held by the Corporation are low risk and have a term to maturity of less than 90 days, and as a result the risk is considered minimal.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

c. Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without jeopardizing the Corporation's revenue commitment to the Province of Ontario. The Corporation currently settles its financial obligations using cash provided by operations. As discussed in Note 3, the Corporation has established reserves at the resort casinos in accordance with their respective operating agreements, or other terms as otherwise agreed. In addition, all investments held by the Corporation are low risk and have a term to maturity of less than 90 days further reducing liquidity risk.

The Corporation manages its liquidity risk by performing regular reviews of gross profit and cash flows from operations and continuously monitoring the forecast against future liquidity needs. Given the Corporation's unique line of business, which historically has generated positive cash flows, liquidity risk is of minimal concern.

The contractual maturities of the financial liabilities are as follows:

	Carrying amount	Contractual cash flows	< 1 year	1 – 2 years	2 – 5 years	> 5 years
Accounts payable and accrued liabilities	$342,200	$342,200	$342,200	$ -	$ -	$ -
Due to operators	44,464	44,464	44,464	-	-	-
Due to Chippewas of Mnjikaning	1,675	1,675	1,675	-	-	-
Due to Government of Canada	5,376	5,376	5,376	-	-	-
Due to First Nations	176,249	176,249	-	-	176,249	-
Long-term debt	256,372	256,372	86,765	44,289	125,318	-

d. Market risk

Market risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of interest rate risk, foreign currency risk and other market price risk.

i. Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation has financial assets and liabilities that potentially expose it to interest rate risk.

The Corporation is subject to interest rate risk on its cash and cash equivalents, including short-term investments with maturity dates of less than 90 days, loans receivable, and long-term debt..

Loans receivable consist of loans to racetrack operators and interest earned on these loans is tied to changes in the prime interest rate. The interest rate risk is limited to the interest earned on the assets and the underlying value of the asset is not at risk due to fluctuations in interest rates.

Long term debt currently consists of two loan agreements entered into with the Ontario Financing Authority.
These term loan agreements have a fixed interest rate for the entire term and are currently subject to limited interest rate risk.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

The impact of fluctuations in interest rates is not significant and accordingly, a sensitivity analysis of the impact of fluctuations in interest rates on net income has not been provided.

ii. Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation is exposed to foreign currency risk by settling certain obligations in foreign currencies (primarily US dollars) and by holding bank accounts and investments in US dollars.

The majority of the Corporation's suppliers and patrons are based in Canada and, therefore transact in Canadian dollars (CAD). Some suppliers and patrons are based outside of Canada. The suppliers located outside of Canada typically transact in US dollars (USD). The Corporation's border properties attract US players who are required to exchange their US currency to Canadian currency prior to play. The Corporation exchanges US currency using the daily market exchange rate, and utilizes both a "buy" and "sell" rate. The Corporation holds US dollar cash and bank accounts for the purposes of transacting in US currency with patrons, as well as paying its US based suppliers. The balances held in US dollars are closely monitored to ensure future US dollar requirements are met. As a result, there is some exposure to foreign currency fluctuations and the Corporation's foreign exchange gain for the year ended March 31, 2009 was $17,762,000 (2008 - $11,724,000).

The Corporation does not enter into financial instruments for trading or speculative purposes.

The Corporation's exposure to currency risk is as follows, based on carrying amounts:

	2009	2008
	US dollars	**US dollars**
Cash and cash equivalents	$ 11,327	$ 27,123
Accounts payable and accrued liabilities	(1,207)	(1,046)
Net exposure	$ 10,120	$ 26,077

All USD balances are show in CAD equivalents.

Sensitivity analysis

A ten per cent increase in USD at March 31, 2009 would have increased net income by $1,012,000 CAD (2008 - $2,608,000). A ten percent decrease in the USD at March 31, 2009 would have had the equal, but opposite effect. This analysis assumes that all other variables, including interest rates, remain constant.

iii. Other market price risk

The Corporation offers sports based lottery products in the marketplace. The Corporation manages risks associated with these products by setting odds for each event within a short time frame before the actual event, by establishing sales liability thresholds by sport, by providing credit management controls, by posting conditions and prize structure statements on www.OLG.ca, and by limiting the aggregate amount of prizes that may be won on any given day for all sports based products. The Corporation also has the authority to suppress sales of any game at any time when liability risk is a concern.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

iv. Fair values versus carrying amounts

The Corporation has determined the fair value of its financial instruments as follows:

The carrying amounts in the consolidated balance sheet of cash and cash equivalents, accounts receivable, restricted cash, cash and short-term investments held for First Nations, accounts payable and accrued liabilities, due to operators, due to Chippewas of Mnjikaning, due to Government of Canada and due to First Nations approximate fair values because of the short-term nature of these financial instruments.

Loans receivable are carried at amortized cost using the effective interest method. The carrying value of loans receivable approximates the fair value.

The fair value of the Corporation's long-term debt is not determinable given its related party nature.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

12. Capital risk management

The capital structure of the Corporation consists of cash and cash equivalents, long-term debt and equity, comprised of retained earnings, contributed surplus and reserves.

The Corporation's objectives in managing capital are to ensure sufficient resources are available for it to continue to fund future development and growth of its operations and to provide returns to the Province of Ontario.

The Board of Directors is responsible for the oversight of management including its policies related to financial and risk management issues. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The operating agreements require the resort casinos to establish reserve funds, as described in Note 3. The Corporation is not subject to any externally imposed capital requirements.

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:

2010	$21,233
2011	13,299
2012	5,833
2013	811
2014	582
	41,758
Thereafter	6,685
	$48,443

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

b. Suppliers

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

2010	$19,978
2011	12,942
2012	11,684
2013	11,316
2014	2,721
	$58,641

c. Caesars Windsor

In connection with the terms of an agreement between Caesars Windsor and the City of Windsor, 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.

On June 19, 2008, the redevelopment project was completed and the newly re-branded Caesars Windsor (formerly Casino Windsor) opened to the public. The redevelopment project included a 22-storey hotel tower, a 5,000-seat entertainment centre and new non-gaming amenities. The Corporation estimated the total cost of the project to be $439,000,000, and as at March 31, 2009 $430,465,000 (2008 - $379,500,000) had been expended.

In conjunction with the redevelopment project, the Corporation entered into a trademark licence agreement with Caesars World, Inc. (Caesars), a wholly-owned indirect subsidiary of Harrah's. This agreement provides Caesars Windsor the rights, systems and processes for the use of the Caesar's brand, including Total Rewards, the Caesars customer loyalty program. The Corporation estimated the total cost of the re-branding project to be $40,700,000, and as at March 31, 2009 $38,569,000 (2008 - $36,772,000) had been expended.

The Corporation is committed to the design, construction and commissioning of the Energy Centre on Caesars Windsor property with total costs currently estimated to be $81,000,000. As at March 31, 2009, $75,953,000 (2008 - $50,555,000) has been expended.

d. Niagara Fallsview Casino Resort

In connection with the terms of an agreement between Fallsview and the City of Niagara Falls (the City), the Corporation agreed to provide 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 thereafter, adjusted for Consumer Price Index as defined in the agreement.

e. Casinos and Slots at Racetracks

The Corporation is committed to the establishment of an additional Slots at Racetrack operation in eastern Ontario at an estimated cost of $18,940,000 and the expansion of two existing Slots at Racetrack operations in the Province at a total estimated cost of $66,309,000, of which $7,371,000 has been expended to date. In addition, the Corporation has committed to the construction of a water treatment facility at a Casino located in eastern Ontario. The Corporation's share of these construction costs is estimated at $5,000,000, of which $420,000 has been expended to date.

f. Mississaugas of Scugog Island First Nation (MSIFN)

The Corporation and the MSIFN have agreed on a development plan for a new casino facility, on MSIFN reserve lands, at an estimated cost of $165,000,000. The new development will replace the existing tent structure. On February 18, 2009, the Corporation's Board of Directors approved the expenditure of $83,800,000 as the Corporation's share of the project costs. The approval was conditional on MSIFN obtaining a commitment for financing for their portion of the project costs of $81,200,000. The Corporation is currently awaiting approval of its funding through the Ontario Financing Authority and MSIFN is completing discussions with various financial institutions for its funding. Construction is anticipated to commence in the summer of 2009 with completion and opening in the summer of 2011.

Concurrent with the development, the Corporation, MSIFN and the casino operator will be entering into a number of legal agreements that will govern the construction of the facility and the operation of the casino going forward. These agreements include a development agreement, an operating agreement, a support agreement and sublicense agreement.

14. Contingencies

a. 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 property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment purchased for use in the development and operation of Casino Rama be transferred to the Plaintiff. If the Plaintiff was successful in this claim, reimbursement of retail sales tax that has been paid or accrued in respect of purchases of property, plant and equipment would be made by her Majesty the Queen in Right of Ontario, not by the Corporation. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

b. 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.

c. On April 27, 2007, the Corporation and the Interprovincial Lottery Corporation were served with a statement of claim, related to a class action for general damages of $1,000,000,000 and punitive damages of $100,000,000. 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, no class has been certified by the Courts, 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.

d. On June 10, 2008, the Corporation was served with a statement of claim, related to a class action for general damages and punitive damages totaling $3,500,000,000. The statement of claim alleges that the Corporation was negligent in its duty of care to prohibit self-excluded patrons from gaming at the Corporation’s gaming sites. The action is at a very early stage, no class has been certified by the Courts, 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 its 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 and other comprehensive income in the period in which the settlement occurs.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

f. On March 17, 2009, the Corporation was served with a statement of claim from a patron, related to a slot machine malfunction. The claim is for prize payment, general damages, aggravated damages and punitive damages totaling $45,900,000. The statement of claim alleges the Corporation refused to pay the prize won by the patron due to a slot machine malfunction. 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. The Corporation may have a claim for indemnity and/or contribution against the manufacturer of the machine in question to the extent it is found liable to the plaintiff.

g. On May 20, 2009, the Corporation was served with a statement of claim, related to a class action for general damages and punitive damages for an amount yet to be determined. The statement of claim alleges that the Corporation was in breach of contract by not discontinuing the sales of certain Instant lottery game tickets once the top prize was won. The action is at a very early stage, no class has been certified by the Courts, 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.

15. Segmented information

The Corporation's reportable operating segments are distinct revenue generating business units that offer different products and services. The Corporation has three reportable operating segments: lotteries and bingo, resort casinos, and casinos and slots at racetracks. Lotteries and bingo derives its revenue from the sale of lottery and bingo products, which includes on-line, instant and sports products. Resort casinos are full-service casinos which offer patrons a variety of amenities, in addition to slot and table games, including accommodations, entertainment and food and beverage services. The Casinos and Slots at Racetracks are scaled-down gaming facilities. The Casinos offer slot and table games, as well as food and beverage services. The Slots at Racetracks are located at racetrack sites and include only slot games, however, some locations offer food and beverage.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

2009	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
Revenues				
Lotteries and bingo	$2,947,616	$ –	$ –	$2,947,616
Slots	–	1,033,527	2,059,273	3,092,800
Tables	–	403,526	50,415	453,941
Non-gaming	–	270,982	28,172	299,154
	2,947,616	1,708,035	2,137,860	6,793,511
Less promotional allowances	–	299,222	67,301	366,523
	2,947,616	**1,408,813**	**2,070,559**	**6,426,988**
Operating expenses				
Non-gaming	–	254,548	30,571	285,119
Gaming and lottery operations	130,575	291,118	279,490	701,183
Lottery prizes	1,655,987	–	–	1,655,987
Commissions	215,975	–	418,936	634,911
Marketing and promotion	55,014	161,617	81,473	298,104
Operators' fees (Note 9b)	–	64,822	5,024	69,846
Amortization	31,899	146,301	85,633	263,833
General and administration (Note 17)	41,669	102,286	72,863	216,818
Facilities	8,108	154,590	80,861	243,559
Win contribution (Note 18)	–	287,449	18,188	305,637
Payments to Government of Canada (Note 19)	53,505	40,221	31,659	125,385
	2,192,732	**1,502,952**	**1,104,698**	**4,800,382**
Income before the undernoted	**754,884**	**(94,139)**	**965,861**	**1,626,606**
Interest and other income	3,085	18,833	15,877	37,795
Interest on long-term debt	(100)	(9,216)	–	(9,316)
Foreign exchange gain	667	14,341	2,754	17,762
	3,652	**23,958**	**18,631**	**46,241**
Net income (loss)	**$758,536**	**($70,181)**	**$984,492**	**$1,672,847**

2008	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
Revenues				
Lotteries and bingo	$2,773,125	$ –	$ –	$2,773,125
Slots	–	1,025,188	2,040,137	3,065,325
Tables	–	401,380	54,593	455,973
Non-gaming	–	245,087	28,874	273,961
	2,773,125	1,671,655	2,123,604	6,568,384
Less promotional allowances	–	276,336	72,773	349,109
	2,773,125	**1,395,319**	**2,050,831**	**6,219,275**
Operating expenses				
Non-gaming	–	236,352	31,613	267,965
Gaming and lottery operations	122,090	307,733	278,623	708,446
Lottery prizes	1,566,091	–	–	1,566,091
Commissions	203,254	–	413,431	616,685
Marketing and promotion	58,619	149,414	76,108	284,141
Operators' fees (Note 9b)	–	63,145	4,929	68,074
Amortization	33,211	137,679	88,617	259,507
General and administration (Note 17)	42,394	104,237	69,224	215,855
Facilities	8,129	145,150	81,424	234,703
Win contribution (Note 18)	–	285,304	17,939	303,243
Payments to Government of Canada (Note 19)	56,851	41,732	34,212	132,795
	2,090,639	**1,470,746**	**1,096,120**	**4,657,505**
Income before the undernoted	**682,486**	**(75,427)**	**954,711**	**1,561,770**
Interest and other income	5,678	23,051	19,412	48,141
Interest on long-term debt	(976)	(13,228)	–	(14,204)
Foreign exchange gain	41	9,705	1,978	11,724
	4,743	**19,528**	**21,390**	**45,661**
Net income (loss)	**$687,229**	**($55,899)**	**$976,101**	**$1,607,431**

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

16. Post employment plans

The Corporation provides pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employee's Union Pension Fund (OPSEU Pension Fund), which are multi-employer defined benefit pension plans established by the Province of Ontario. The cost of post-employment benefits is included in the pension contributions made by the Corporation to the PSPF and OPSEU Pension Fund and accordingly the Corporation accounted for these post-employment benefits as defined contribution pension plans and has recorded no additional liability for these future costs. The Corporation's contribution and pension expense during the year was $18,332,000 (2008 - $17,926,000).

The operators of the resort casinos and the Great Blue Heron Slot Machine Facility have created defined contribution pension plans for their employees. The pension expense for the year amounted to $21,078,000 (2008 - $22,452,000).

17. Future benefit costs

As a Schedule 2 employer under the Workplace Safety and Insurance Act, 1997, (Act) the Corporation is individually responsible for the full cost of accident claims filed by its workers. The Workplace Safety and Insurance Board (WSIB) maintains full authority over the claims entitlement process, administers, and processes claims payments on the Corporation's behalf. CICA Handbook Section 3461, Employee Future Benefits, requires that WSIB liabilities for self-insured employers be reported on the financial statements.

In fiscal 2009, the cost of claim payments was $3,375,000 (2008 - $3,586,000) and is included in General and Administration expenses in the consolidated statement of income and other comprehensive income. The accrued future benefit costs as at March 31, 2009 is $17,074,000 (2008 - $28,339,000) of which $1,365,000 (2008 - $2,267,000) is classified as a current liability. The accrued benefit costs are based on actuarial assumptions.

The operators of the resort casinos and the Great Blue Heron Slot Machine Facility are Schedule 1 employers under the Act and are not subject to the financial reporting requirements of self-insured employers.

18. 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.

19. Payments to Government of Canada

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

	2009	2008
Payments on behalf of the Province of Ontario	$25,482	$24,921
Goods and Services Tax	99,903	107,874
	$125,385	$132,795

As at March 31, 2009, the amount due to Government of Canada was $5,376,000 (2008 - $8,534,000).

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.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

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 10 per cent (12 per cent prior to January 1, 2008) 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.

On March 26, 2009, the Province of Ontario announced plans to combine its provincial sales tax (PST) with the Federal Government's GST to create a single, harmonized sales tax (HST) with a 13 per cent rate (5 per cent GST plus 8 per cent PST), effective July 1, 2010. The Corporation is currently assessing the impact of this new legislation on its operations.

20. Comparative amounts

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

ONTARIO POWER GENERATION INC.

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 controls 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 CEO and Chief Financial Officer ("CFO"), are responsible for maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICOFR"). DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with GAAP.

An evaluation of the effectiveness of design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2008. 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 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 11, 2009

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, 2008 and 2007 and the consolidated statements of income, changes in shareholder's equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of Ontario Power Generation Inc.'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 Ontario Power Generation Inc. as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants,
Licensed Public Accountants

Toronto, Canada
February 11, 2009

Consolidated Statements of Income

Years Ended December 31 (millions of dollars except where noted)	2008	2007
Revenue (Note 19)		
Revenue before revenue limit rebate	**6,359**	5,887
Revenue limit rebate (Note 17)	**(277)**	(227)
	6,082	5,660
Fuel expense (Note 19)	**1,191**	1,270
Gross margin (Note 19)	**4,891**	4,390
Expenses (Note 19)		
Operations, maintenance and administration	**2,967**	2,974
Depreciation and amortization (Note 6)	**743**	695
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	**581**	507
Losses (earnings) on nuclear fixed asset removal and nuclear waste management funds (Note 10)	**93**	(481)
Property and capital taxes	**80**	85
	4,464	3,780
Income before the following:	**427**	610
Other (gains) and losses (Notes 3 and 18)	**(9)**	(10)
Income before interest and income taxes	**436**	620
Net interest expense (Note 9)	**165**	143
Income before income taxes	**271**	477
Income tax expense (recovery) (Note 11)		
Current	**255**	1
Future	**(72)**	(52)
	183	(51)
Net income	**88**	528
Basic and diluted income per common share (dollars)	**0.34**	2.06
Common shares outstanding (millions)	**256.3**	256.3

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Years Ended December 31 (millions of dollars)	2008	2007
Operating activities		
Net income	88	528
Adjust for non-cash items:		
Depreciation and amortization (Note 6)	743	695
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	581	507
Losses (earnings) on nuclear fixed asset removal and nuclear waste management funds (Notes 10 and 19)	93	(481)
Pension costs (Note 12)	187	243
Other post employment benefits and supplementary pension plans (Note 12)	226	244
Future income taxes (Note 11)	(72)	(52)
Mark-to-market on derivative instruments	(33)	1
Provision for used nuclear fuel	33	30
Regulatory assets and liabilities (Note 7)	44	(39)
Other (gains) and losses (Note 18)	(9)	(10)
Provision for other liabilities	–	54
Other	19	25
	1,900	1,745
Contributions to nuclear fixed asset removal and nuclear waste management funds (Note 10)	(454)	(788)
Expenditures on fixed asset removal and nuclear waste management (Note 10)	(195)	(200)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management (Note 10)	82	119
Contributions to Pension Fund (Note 12)	(253)	(268)
Expenditures on other post employment benefits and supplementary pension plans (Note 12)	(81)	(73)
Revenue limit rebate (Note 17)	(292)	(167)
Expenditures on restructuring	–	(2)
Net changes to other long-term assets and liabilities	90	(56)
Changes in non-cash working capital balances (Note 24)	73	69
Cash flow provided by operating activities	870	379
Investing activities		
Increase in regulatory assets (Note 7)	(6)	(30)
Investment in fixed assets (Notes 6 and 19)	(661)	(666)
Net proceeds from sale of long-term assets	15	–
Cash and cash equivalents transferred to long-term investments (Note 4)	–	(58)
Cash flow used in investing activities	(652)	(754)
Financing activities		
Issuance of long-term debt (Note 8)	395	900
Repayment of long-term debt (Note 8)	(408)	(406)
Net decrease in short-term notes (Note 9)	–	(15)
Cash flow (used in) provided by financing activities	(13)	479
Net increase in cash and cash equivalents	205	104
Cash and cash equivalents, beginning of year	110	6
Cash and cash equivalents, end of year	315	110

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheets

As at December 31 (millions of dollars)	2008	2007
Assets		
Current assets		
Cash and cash equivalents	**315**	110
Accounts receivable (Note 5)	**525**	315
Fuel inventory	**736**	604
Prepaid expenses	**32**	35
Future income taxes (Note 11)	**6**	12
Materials and supplies (Note 3)	**132**	125
	1,746	1,201
Fixed assets (Notes 6 and 19)		
Property, plant and equipment	**18,333**	17,772
Less: accumulated depreciation	**5,546**	4,995
	12,787	12,777
Other long-term assets		
Deferred pension asset (Note 12)	**797**	731
Nuclear fixed asset removal and nuclear waste management funds (Note 10)	**9,209**	9,263
Long-term investments (Note 4)	**74**	93
Long-term materials and supplies	**338**	353
Future income taxes (Note 11)	**62**	–
Regulatory assets (Note 7)	**522**	356
Long-term accounts receivable and other assets	**44**	65
	11,046	10,861
	25,579	24,839

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheets

As at December 31 (millions of dollars)	**2008**	2007
Liabilities		
Current liabilities		
Accounts payable and accrued charges	**1,015**	953
Revenue limit rebate payable (Note 17)	**85**	100
Long-term debt due within one year (Note 8)	**357**	407
Deferred revenue due within one year	**12**	12
Income and capital taxes payable	**104**	66
	1,573	1,538
Long-term debt (Note 8)	**3,483**	3,446
Other long-term liabilities		
Fixed asset removal and nuclear waste management (Note 10)	**11,384**	10,957
Other post employment benefits and supplementary pension plans (Note 12)	**1,703**	1,556
Long-term accounts payable and accrued charges	**445**	184
Deferred revenue	**108**	120
Future income taxes (Note 11)	**–**	217
Regulatory liabilities (Note 7)	**54**	14
	13,694	13,048
Shareholder's equity		
Common shares	**5,126**	5,126
Retained earnings	**1,752**	1,664
Accumulated other comprehensive (loss) income	**(49)**	17
	6,829	6,807
	25,579	24,839

Commitments and Contingencies (Notes 4, 8, 13, and 16)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Honourable Jake Epp
Chairman

M. George Lewis
Director

Consolidated Statements of Changes in Shareholder's Equity

Years Ended December 31 (millions of dollars)	2008	2007
Common shares (Note 15)	**5,126**	5,126
Retained earnings		
Balance at beginning of year	**1,664**	623
Transition adjustment on adoption of financial instruments accounting standards	**–**	513
Net income	**88**	528
Balance at end of year	**1,752**	1,664
Accumulated other comprehensive (loss) income, net of income taxes		
Balance at beginning of year	**17**	–
Transition adjustment on adoption of financial instruments accounting standards	**–**	21
Other comprehensive loss for the year	**(66)**	(4)
Balance at end of year	**(49)**	17
Total shareholder's equity at end of year	**6,829**	6,807

Consolidated Statements of Comprehensive Income

Years Ended December 31 (millions of dollars)	2008	2007
Net income	**88**	528
Other comprehensive (loss) income, net of income taxes		
Net (loss) gain on derivatives designated as cash flow hedges[1]	**(52)**	11
Reclassification to income of gains on derivatives designated as cash flow hedges[2]	**(14)**	(15)
Other comprehensive loss for the year	**(66)**	(4)
Comprehensive income	**22**	524

1 Net of income tax expense of $3 million and $1 million for the years ended December 31, 2008 and 2007, respectively.

2 Net of income tax recoveries of $9 million for each of the years ended December 31, 2008 and 2007.

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007

1. DESCRIPTION OF BUSINESS

Ontario Power Generation Inc. ("OPG" or the "Company") 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 and presented in Canadian dollars. 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, revenue 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 2007 comparative amounts have been reclassified from financial statements previously presented to conform to the 2008 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 $13 million (2007 – $5 million) at an average effective rate of 3.0 percent (2007 – 4.4 percent) 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.

Inventories

Fuel inventory is valued at weighted average cost.

Materials and supplies are valued at the lower of average cost and net realizable value. The determination of net realizable value of materials and supplies takes into account various factors including the remaining useful life of the related facilities in which the materials and supplies are expected to be used.

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.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

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 55 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, Bruce A, and Bruce B nuclear generating stations ranges between 2014 and 2035. 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, however Bruce Power L.P. decided to refurbish the Bruce A generating station contributing to an increase in the asset retirement obligation and an increase in the carrying value of the Bruce A station. Changes to the end of station life for depreciation purposes are described under the heading *Changes in Accounting Policies and Estimates*.

2 The end of station life for depreciation purposes disclosed above excludes the impact of life extensions commencing January 1, 2008, which are described under the heading *Changes in Accounting Policies and Estimates*.

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

A regulation pursuant to the *Electricity Restructuring Act*, *2004* (Ontario) provides that, effective April 1, 2005, OPG receives regulated prices for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. This includes electricity generated from Sir Adam Beck 1, 2 and Pump generating stations, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B, and Darlington nuclear facilities. The regulation established regulated prices up to April 1, 2008. The Ontario Energy Board ("OEB") determined the new prices in the fourth quarter of 2008 effective April 1, 2008 using a forecast cost of service methodology. This methodology establishes regulated prices based on a revenue requirement taking into account a forecast of production volumes and total operating costs, and a return on rate base. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital. Regulated prices prior to April 1, 2008 were established by the Province of Ontario (the "Province") using the forecast cost of service methodology. The impact of the regulation and the OEB's decision on OPG's revenue recognition policies is described under the heading, *Revenue Recognition*.

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 and Infrastructure. It regulates market participants in 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.

The regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) required OPG to establish certain variance and deferral accounts for the period up to April 1, 2008. In its decision on OPG's new regulated prices, the OEB ruled on the disposition of the balances recorded in these accounts as at December 31, 2007. The OEB also authorized the continuation and establishment of certain existing and new variance and deferral accounts effective April 1, 2008.

The balances in variance and deferral accounts are recognized as regulatory assets and liabilities in OPG's consolidated financial statements, as Canadian accounting standards recognize that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled with, the ratepayers. When the regulator provides assurance that incurred expenses will be recovered in the future, then OPG may defer those expenses and report them as a regulatory asset. If current recovery is provided for expenses expected to be incurred in the future, then OPG reports a regulatory liability. Similarly, if the regulator provides for lesser or greater than planned revenue to be received or returned by OPG through future regulated prices, then OPG recognizes a regulatory asset or liability, respectively. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation and the OEB's decisions.

Regulatory asset and liability balances approved by the regulator for inclusion in regulated prices are amortized based on approved recovery periods. Disallowed balances, including associated interest, are charged to operations in the period that the regulator's decision is issued. OPG applies interest to regulatory balances as prescribed by the regulation or the OEB, in order to recognize the cost of financing amounts to be recovered from, or repaid to, ratepayers.

See Notes 7 and 11 to these consolidated financial statements for additional disclosure related to regulatory assets and liabilities and rate regulated accounting.

Investments in OPG Ventures

In accordance with Accounting Guideline 18, *Investment Companies* ("AcG-18"), investments owned by the Company's wholly owned subsidiary OPG Ventures Inc. ("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 using a methodology that is appropriate in light of the nature, facts and circumstances of the respective investments and considers reasonable data and market inputs, assumptions and estimates.

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 Segregated Fund ("Used Fuel Fund") and a Decommissioning Segregated Fund ("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. Effective January 1, 2007, OPG adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. As a result of the adoption of this new section, the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading. Accordingly, the Nuclear Funds and the corresponding payables to the Province are measured at fair value based on the bid prices of the underlying securities with gains and losses recognized in net income.

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"). 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 up to April 1, 2008 was recognized based on a regulated price of 4.95¢/kWh. The regulated prices for nuclear generation increased to 5.50¢/kWh retrospectively to April 1, 2008, based on the OEB's decision issued in the fourth quarter of 2008. This price includes a rate rider of 0.20¢/kWh for recovery of approved nuclear variance and deferral account balances. The regulated price received by OPG up to April 1, 2008 for the first 1,900 megawatt hours ("MWh") of production from the regulated hydroelectric facilities in any hour was 3.3¢/kWh. The OEB increased the price to 3.67¢/kWh for the first 1,900 MWh of regulated hydroelectric production for the period April 1, 2008 to November 30, 2008. Any production from these regulated hydroelectric facilities above 1,900 MWh in any hour for the period April 1, 2005 to November 30, 2008 received the Ontario electricity spot market price. Following the OEB's decision, effective December 1, 2008, the threshold of 1,900 MWh no longer applies. Effective December 1, 2008, the actual average hourly net energy production

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

from these hydroelectric facilities in the month receives the regulated price of 3.67¢/kWh. In the hours when the net actual energy production in Ontario is greater or less than the average hourly net volume in the month, OPG's revenues are adjusted by the difference between the average hourly net volume and the actual net energy production multiplied by spot market price. The retrospective increase in the regulated prices for production from regulated facilities for the period from April 1, 2008 to November 30, 2008 was recognized in the period that the OEB's decision was issued.

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 percent of the generation output from OPG's other generating assets, excluding the Lennox generating station, stations whose generation output is subject to a Hydroelectric Energy Supply Agreement ("HESA") with the Ontario Power Authority ("OPA") pursuant to a ministerial directive, 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.

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 returned to 4.7¢/kWh and increased to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the 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 limits are returned to the IESO for the benefit of consumers. The term of the revenue limit rebate ends on May 1, 2009.

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 $177 million in 2008 and $120 million in 2007 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 and revenues for engineering analysis and design, technical and ancillary services.

Prior to April 1, 2008, OPG accounted for lease revenue from Bruce Power using the cash basis of accounting. Under the cash basis of accounting, OPG recognized lease income as stipulated in the lease agreement to the extent that the lease payments were expected to be included in future regulated prices charged to customers. Pursuant to the OEB's decision during the fourth quarter of 2008, certain lease payments from Bruce Power were included in the determination of regulated prices effective April 1, 2008 on a straight-line basis over the term of the lease. Accordingly, OPG recognized these lease payments on a straight-line basis over the term of the lease effective April 1, 2008.

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 and real estate rentals. Revenues from these activities are recognized as services are provided or as products are delivered.

Financial Instruments

On January 1, 2007, OPG adopted three new accounting standards that were issued by the CICA: Handbook Section 1530, *Comprehensive Income*; Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; and Handbook Section 3865, *Hedges*.

Under the new standard, for accounting purposes, financial assets are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale, and financial liabilities are classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading are 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, are measured at amortized cost. Financial assets available-for-sale are measured at fair value with unrealized gains and losses due to fluctuations in fair value recognized in accumulated other comprehensive income. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a trade-date basis. 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. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

The new standard permits designation of any financial instrument as held-for-trading (the fair value option) upon initial recognition. This designation by OPG requires that the financial instrument be reliably measurable, and eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities.

Hedges
The 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 cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

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 unregulated revenue over the term of the contract when the underlying hedged transactions occur. 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. The fair value of such derivative instrument is included in accumulated other comprehensive income ("AOCI") on a net of tax basis and changes to the fair value are recorded on the consolidated statements of comprehensive income. When a derivative hedging relationship is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI 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 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 OPEB 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. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions, experience gains or losses, salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Two critical assumptions—discount rate and inflation—are important elements of benefit costs and obligations. In addition, the expected return on assets is a critical assumption in the determination of pension costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality and employee turnover are evaluated periodically by management in consultation with an independent actuary. During the evaluation process, the assumptions are updated to reflect actual experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors, and in accordance with Canadian GAAP, the impact of these differences are accumulated and amortized over future periods.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

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. The respective discount rates enable OPG to calculate the present value of the expected future cash flows on the measurement date. A lower discount rate increases the present value of benefit obligations and increases benefit plan costs. The expected rate of return on plan assets is based on current and expected asset allocation, as well as the long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

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. 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 percent 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 percent of the greater of the benefit obligation and the market-related value of the plan assets, is also amortized over the expected average remaining service life.

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

Taxes

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

OPG 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 or refunded 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, 2008, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended by two years to 2019 after a review of the technical analysis of the station's life limiting components. The life extension reduced depreciation expense by $18 million annually.

Effective January 1, 2009, the service life of fossil-fuelled stations, for the purpose of calculating depreciation, was extended by two years to 2014 based on the Province of Ontario's announcement to phase out coal generation by 2014. The life extension will reduce depreciation expense by $31 million annually.

The Company extended the service life of Bruce B nuclear generating station to 2014 for depreciation purposes effective January 1, 2008 after reviewing future capacity plans in the OPA's Integrated Power System Plan ("IPSP"), and historical information regarding the service lives of major life limiting components of the station. As a result of the extension, depreciation expense decreased by $7 million annually. In addition, effective January 1, 2008, OPG extended the service life of Bruce A nuclear generating station to 2035 for depreciation purposes after the review of future capacity plans filed with the OPA and other publicly available information. The extension of the service life of the Bruce A nuclear generating station for depreciation purposes decreased depreciation expense by $8 million annually.

Financial Instruments and Capital Disclosures – Disclosure and Presentation

On January 1, 2008, OPG adopted three new presentation and disclosure standards that were issued by the CICA: Handbook Section 3862, *Financial Instruments – Disclosures*, Handbook Section 3863, *Financial Instruments – Presentation*, and Handbook Section 1535, *Capital Disclosures*.

Handbook Section 3862, *Financial Instruments – Disclosures*, outlines disclosure requirements for financial instruments and places increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments and how these risks are managed.

Handbook Section 3863, *Financial Instruments – Presentation*, carries forward the presentation requirements from Section 3861, *Financial Instruments – Disclosure and Presentation*.

Handbook Section 1535, *Capital Disclosures*, requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate a company's objectives, policies and processes for managing capital.

Reportable Segments

Commencing in the fourth quarter of 2008, OPG separated the Regulated – Nuclear segment into two reportable segments identified as Regulated – Nuclear Generation segment and Regulated – Nuclear Waste Management segment. The revised segment reporting is consistent with OPG's strategic business unit and reporting structure, and reflects the manner in which operating decisions are made and performance is assessed, given the magnitude and significant growth in nuclear decommissioning and waste management activities, assets and liabilities. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Inventories

The CICA issued Handbook Section 3031, *Inventories*, in March 2007, which is based on International Accounting Standard ("IAS") 2. The section replaced the existing Handbook Section 3030, *Inventories*. Under this section, inventories are required to be measured at the lower of cost and net realizable value, which is different from the previous guidance of lower of cost and market. This section also allows the reversal of any write-downs previously recognized. Further, due to the changes in the section and the consequential amendments, some of OPG's critical spare parts, which were previously reported as materials and supplies on OPG's consolidated balance sheets, are now accounted for as property, plant and equipment. The accounting standard and the consequential amendments were effective for OPG beginning January 1, 2008. OPG reclassified significant critical spare parts of $19 million, net of accumulated depreciation, to property, plant and equipment in 2008. This accounting standard and the consequential amendments did not have a significant impact on OPG's financial position or results of operations for the year ended December 31, 2008.

Future Changes in Accounting Policies

Accounting for Regulated Operations

In December 2007, the CICA revised its guidance on accounting for rate regulated operations. The revision resulted in amendments to Handbook Sections 1100, *Generally Accepted Accounting Principles*, and 3465, *Income Taxes*, and Accounting Guideline 19 ("AcG-19"), *Disclosures by Entities Subject to Rate Regulation*, as follows:

- to remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation;
- to amend Section 3465 to require the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- to amend AcG-19, as necessary, as a result of amendments to Sections 1100 and 3465.

As a result of the changes to Section 3465, OPG is required to recognize future income taxes associated with its rate regulated operations in the same manner as it currently recognizes future income taxes for its unregulated operations. OPG applied the changes prospectively to interim and annual consolidated financial statements beginning January 1, 2009. Accordingly, on January 1, 2009, OPG recorded a future income tax liability of $466 million and a corresponding regulatory asset. The future income tax liability of $466 million includes future income taxes resulting from regulatory assets and liabilities of $126 million that are required to be recorded due to amendments to Section 3465.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Handbook Section 3062, *Goodwill and Other Intangible Assets*, and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard resulted in a reclassification of $42 million from fixed assets to intangible assets on January 1, 2009.

4. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

In August 2007, the Asset-Backed Commercial Paper ("ABCP") market experienced a liquidity event when paper sponsored by third-party non-bank conduits could not be refinanced as it matured. At that time, OPG's total ABCP investment was $103 million. Of that amount, $45 million was restructured, with OPG receiving payment of approximately 98.7 percent of the face value of the notes in December 2007, which resulted in a loss of $1 million. Of the remaining $58 million, OPG recorded an impairment loss of $9 million as at December 31, 2007, plus an additional $14 million impairment loss during 2008. The impairment loss was recorded in other gains and losses. OPG's remaining holdings of third-party ABCP are recorded as long-term investments.

On January 21, 2009, the Pan-Canadian Investors Committee for third-party ABCP announced the restructuring Plan (the "Plan") affecting $32 billion of third-party ABCP had been fully implemented. Pursuant to the terms of the Plan, OPG's short-term commercial paper has been exchanged for longer term notes equal to approximately $58 million. OPG received five classes of notes, which are supported by margin funding facilities from third-party asset providers, Canadian banks, and governments. OPG also received a partial payment of the accrued interest totalling $2 million for its short-term commercial paper held over the past 17 months.

During the fourth quarter of 2008, as a result of the continuing deterioration in credit conditions, OPG concluded that an additional impairment loss of $5 million was required. The loss was determined using the previously developed valuation methodology updated for credit spread and discount rate information.

The restructured notes are expected to have a maturity of eight to nine years. The exact maturity will be impacted by the release of collateral as underlying swap trades mature. The stated maturity of the notes is 2056. OPG continues to monitor the development of a secondary market to assess the fair value of its remaining holdings.

OPG has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect any material adverse impact on its operations as a result of this current third-party ABCP liquidity issue.

5. SALE OF ACCOUNTS RECEIVABLE

In October 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 2008, OPG has recognized pre-tax charges of $12 million (2007 – $15 million) on such sales at an average cost of funds of 3.9 percent (2007 – 5.1 percent). As at December 31, 2008, OPG had sold receivables of $300 million from its total portfolio of $507 million (as at December 31, 2007 – $479 million).

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

	Principal amount of receivables as at December 31		Average balance of receivables for the year ended December 31	
(millions of dollars unless otherwise stated)	**2008**	2007	**2008**	2007
Total receivables portfolio[1]	**507**	479	**471**	454
Receivables sold	**300**	300	**300**	300
Receivables retained	**207**	179	**171**	154
Average cost of funds			**3.9%**	5.1%

1 Amount represents gross IESO receivables outstanding, including receivables that have been securitized, which the Company continues to service.

An immediate 10 percent or 20 percent 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 years ended December 31, 2008 and 2007.

Details of cash flows from securitizations for the years ended December 31, 2008 and 2007 are as follows:

(millions of dollars)	**2008**	2007
Collections reinvested in revolving sales[1]	**3,600**	3,600
Cash flows from retained interest	**2,020**	1,759

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.

6. FIXED ASSETS, DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense consists of the following as at December 31, 2008 and 2007:

(millions of dollars)	**2008**	2007
Depreciation and amortization	**626**	587
Amortization of regulatory assets and liabilities (Note 7)	**111**	96
Nuclear waste management costs	**6**	12
	743	695

Fixed assets consist of the following as at December 31, 2008 and 2007:

(millions of dollars)	**2008**	2007
Property, plant and equipment		
Nuclear generating stations	**6,615**	6,466
Regulated hydroelectric generating stations	**4,425**	4,411
Unregulated hydroelectric generating stations	**3,559**	3,525
Fossil-fuelled generating stations	**1,618**	1,553
Other fixed assets	**844**	867
Construction in progress	**1,272**	950
	18,333	17,772
Less: accumulated depreciation		
Generating stations	**5,182**	4,636
Other fixed assets	**364**	359
	5,546	4,995
	12,787	12,777

Interest capitalized to construction in progress at six percent during the years ended December 31, 2008 and 2007 was $56 million and $42 million, respectively.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

7. REGULATORY ASSETS AND LIABILITIES AND SUMMARY OF RATE REGULATED ACCOUNTING

Under a regulation pursuant to the *Electricity Restructuring Act*, *2004* (Ontario), OPG was required to establish certain variance and deferral accounts for the period April 1, 2005 to March 31, 2008. The OEB's determination of new regulated prices effective April 1, 2008 included the disposition of OPG's regulatory asset and liability balances as at December 31, 2007 as well as the authorization of certain variance and deferral accounts effective subsequent to March 31, 2008. During 2008, OPG recorded additions to its regulatory balances up to March 31, 2008 pursuant to the regulation and in accordance with the OEB's decision subsequent to that date. OPG also began amortizing regulatory balances approved for recovery effective April 1, 2008. Regulatory balances disallowed by the OEB were charged to operations upon the issuance of its decision in the fourth quarter of 2008. OPG also recorded interest on its regulatory balances at the interest rate of six percent for the period up to March 31, 2008 as per the regulation, and starting on April 1, 2008, at the interest rate prescribed by the OEB from time to time for variance and deferral accounts of entities it regulates. This interest rate fluctuated in the range of three to four percent during the nine months ended December 31, 2008. OPG will apply for recovery of regulatory balances recorded subsequent to December 31, 2007 in its next application to the OEB.

The regulatory assets and liabilities recorded as at December 31, 2008 and 2007 are as follows:

(millions of dollars)	**2008**	2007
Regulatory assets		
Bruce revenues and costs variance	**260**	–
Pickering A return to service costs	**123**	183
Nuclear liabilities deferral account	**132**	131
Nuclear generation development costs – Capacity refurbishment	**–**	16
Nuclear generation development costs – New nuclear development	**–**	12
Hydroelectric production variance	**–**	7
Ancillary services revenue variance	**–**	5
Other	**7**	2
Total regulatory assets	**522**	356
Regulatory liabilities		
Nuclear generation development costs – Capacity refurbishment	**6**	–
Nuclear generation development costs – New nuclear development	**21**	–
Hydroelectric production variance	**22**	–
Ancillary services revenue variance	**4**	–
Other	**1**	14
Total regulatory liabilities	**54**	14

The changes in the regulatory assets and liabilities for 2008 and 2007 are as follows:

(millions of dollars)	Bruce Revenues and Costs Variance	Pickering A Return to Service Costs	Nuclear Liabilities Deferral Account	Nuclear Generation Development Costs – Capacity Refurbishment	Nuclear Generation Development Costs – New Nuclear Development	Hydro -electric Production Variance	Ancillary Services Revenue Variance	Other (net)
Regulatory assets (liabilities), January 1, 2007	–	249	–	–	–	(4)	–	(5)
Increase (decrease) during the year	–	–	127	15	12	10	5	(6)
Interest	–	30	4	1	–	1	–	(1)
Amortization during the year	–	(96)	–	–	–	–	–	–
Regulatory assets (liabilities), December 31, 2007	–	183	131	16	12	7	5	(12)
Increase (decrease) during the year	259	–	31	(6)	(30)	(25)	(7)	5
Interest	1	6	6	–	–	–	–	–
Amortization during the year	–	(66)	(36)	–	(3)	(4)	(2)	–
Other charges	–	–	–	(16)	–	–	–	13
Regulatory assets (liabilities), December 31, 2008	**260**	**123**	**132**	**(6)**	**(21)**	**(22)**	**(4)**	**6**

Bruce Revenues and Costs Variance

As per the requirements of the regulation, the OEB required OPG to include the difference between OPG's revenues and costs associated with its ownership of the two nuclear stations on lease to Bruce Power in the determination of the regulated prices for production from OPG's regulated nuclear facilities. The OEB also established a variance account, effective April 1, 2008, that captures differences between the forecast revenues and costs associated with the Bruce generating stations that are included in the approved regulated nuclear prices, and the actual amounts. In 2008, OPG recorded a regulatory asset of $260 million in this variance account, including $1 million of interest on the balance. The regulatory asset includes a $333 million variance from forecast as a result of losses from the Nuclear Funds related to the Bruce generating stations since April 1, 2008, partially offset by a related variance in income tax expense of $95 million. The remaining net variance of $21 million includes variances for lease revenues, and accretion expense related to Nuclear Liabilities associated with the Bruce generating stations.

Pickering A Return to Service Costs

Effective January 1, 2005, in accordance with the regulation, OPG was required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005 that were associated with the planned return to service of all units at the Pickering A nuclear generating station. As at December 31, 2008, the balance in the deferral account was $123 million, including interest of $43 million and net of accumulated amortization of $191 million. As at December 31, 2007, the balance in the deferral account was $183 million, including interest of $37 million and net of accumulated amortization of $125 million. No additional costs were deferred in the account in the years ended December 31, 2008 and 2007. OPG commenced amortization of the deferral account balance for the period November 2005, when Unit 1 of the Pickering A nuclear generating station was returned to service, to March 31, 2008 in accordance with the terms of the regulation. In its decision, the OEB authorized the recovery of the unamortized balance in the account as at December 31, 2007 over a 45-month period ending December 31, 2011. Therefore, effective retrospectively to April 1, 2008, OPG amortizes the balance of the account on a straight-line basis over this period.

Nuclear Liabilities Deferral Account

In February 2007, the Province amended the regulation pursuant to the *Electricity Restructuring Act*, *2004* (Ontario) to direct OPG to establish a deferral account in connection with changes to its liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management. The deferral account represents the revenue requirement impact associated with the changes in the nuclear liabilities arising from an approved reference plan, approved after April 1, 2005, in accordance with the terms of the ONFA.

On December 31, 2006, OPG recorded an increase in its nuclear liabilities of $1,386 million arising from an update to the approved reference plan in accordance with the terms of the ONFA. Therefore, commencing January 1, 2007 and up to March 31, 2008, OPG recorded a regulatory asset associated with this increase in the nuclear fixed assets removal and nuclear waste management liabilities ("Nuclear Liabilities") arising from the approved reference plan. During the year ended December 31, 2008, OPG recorded additions to the deferral account of $37 million, including $6 million of interest. During the year ended December 31, 2007, OPG recorded additions to the account of $131 million, including $4 million of interest. In its decision in 2008, the OEB authorized the recovery of the balance recorded in the account as at December 31, 2007 over a 33-month period ending December 31, 2010. Accordingly, OPG began amortizing the approved balance retrospective to April 1, 2008 in the fourth quarter of 2008 on a straight-line basis over the 33-month period.

Nuclear Generation Development Costs

In accordance with its interpretation of the regulation, OPG recorded regulatory assets related to non-capital costs for nuclear generation development initiatives up to March 31, 2008. Specifically, the costs recorded were those made in the course of planning and preparing for the development of proposed new nuclear facilities incurred on or after June 13, 2006, as well as those related to the potential refurbishment of the Pickering B and Darlington nuclear stations to the extent that they had not been previously included in the forecast provided to the Province for the purposes of establishing regulated prices for the period up to March 31, 2008.

OPG deferred costs totalling $4 million related to new nuclear generation development initiatives during the three months ended March 31, 2008 and $12 million during the year ended December 31, 2007. OPG did not record any costs related to the potential refurbishment of existing stations during the three months ended March 31, 2008 and recorded $16 million, including $1 million of interest, during the year ended December 31, 2007. The OEB's decision authorized the recovery of the costs recorded up to December 31, 2007 related to new nuclear development over a 33-month period ending December 31, 2010. Accordingly, OPG began amortizing the approved balance retrospective to April 1, 2008 in the fourth quarter on a straight-line basis over this period. The OEB determined that it did not have jurisdiction to approve the recovery of the costs recorded prior to April 1, 2008 for capacity refurbishment. Therefore, the associated regulatory asset in the amount of $16 million was charged to operations in the fourth quarter of 2008.

The OEB also established variance accounts effective April 1, 2008 for new nuclear generation development and capacity refurbishment costs for deviations from the forecast costs approved by the OEB in setting the new regulated prices. Accordingly, OPG recorded additional operations, maintenance and administration ("OM&A") expenses of $34 million for new nuclear generation development costs and $6 million for capacity refurbishment costs during the nine months ended December 31, 2008.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

Hydroelectric Production and Ancillary Services Revenue Variances

The OEB's decision authorized the continuation of previously existing variance accounts effective April 1, 2008 for the difference in hydroelectric electricity production due to differences between forecast and actual water conditions, as well as the difference between forecast and actual ancillary services revenue. Forecast water conditions and ancillary services revenues refer to those approved by the OEB in setting the new regulated prices. Prior to April 1, 2008, variances were determined by reference to the forecast information previously provided to the Province for the purposes of establishing regulated prices. OPG recorded a decrease in revenue during the year ended December 31, 2008 of $32 million reflecting actual water conditions and ancillary services revenue that were favourable compared to those approved by the OEB, or included in the forecast provided to the Province for the purposes of establishing regulated prices, as appropriate. OPG recorded an increase in revenue during the year ended December 31, 2007 of $15 million reflecting actual water conditions and ancillary services revenue that were unfavourable compared to the forecast provided to the Province for the purposes of establishing regulated prices.

The OEB's decision authorized the recovery of balances in these variance accounts related to regulated hydroelectric operations recorded up to December 31, 2007 over a 21-month period ending December 31, 2009. Accordingly, OPG began amortizing the approved balances in the fourth quarter on a straight-line basis retrospective to April 1, 2008.

Other Regulatory Assets and Liabilities

Other regulatory assets include $5 million recorded in the fourth quarter of 2008 for the under-recovery of approved regulatory balances during the period April 1, 2008 to December 31, 2008. The under-recovery results from the collection of approved balances based on actual production, which varies from the forecast production approved by the OEB. The OEB's decision stated that OPG is entitled to recover and is obligated to repay through future regulated prices any under or over-recovery of approved regulatory balances resulting from variances from the forecast production. Other regulatory assets also include the variance account related to transmission outages and transmission restrictions recorded prior to April 1, 2008.

The other regulatory liability of $1 million, as at December 31, 2008, represents the balance in the nuclear fuel variance account approved by the OEB effective April 1, 2008. The other regulatory liability as at December 31, 2007 includes a portion of segregated mode of operations and water transactions net revenues and related interest, which the OEB determined OPG should not refund to ratepayers in its decision. As such, OPG reversed a regulatory liability of $13 million to income in the fourth quarter of 2008 when the OEB's decision was issued.

Summary of Rate Regulated Accounting

The following tables summarize the impact of applying rate regulated accounting for selected income statement information:

Years Ended December 31	2008			2007		
(millions of dollars)	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting
Revenue	6,082	(4)	6,078	5,660	9	5,669
Fuel expense	1,191	(3)	1,188	1,270	(5)	1,265
Operations, maintenance and administration	2,967	(52)	2,915	2,974	27	3,001
Depreciation and amortization	743	(102)	641	695	(42)	653
Losses (earnings) on segregated funds	93	333	426	(481)	–	(481)
Accretion on fixed asset removal and nuclear waste management liabilities	581	28	609	507	75	582
Property and capital taxes	79	1	80	85	3	88
Net interest expense	165	11	176	143	33	176
Income taxes	183	(95)	88	(51)	–	(51)

8. LONG-TERM DEBT

Long-term debt consists of the following:

(millions of dollars)	2008	2007
Notes payable to the Ontario Electricity Financial Corporation	**3,660**	3,665
Share of non-recourse limited partnership debt	**180**	188
	3,840	3,853
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	**350**	400
Share of limited partnership debt	**7**	7
	357	407
Long-term debt	**3,483**	3,446

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, 2008 for notes payable to the OEFC are as follows:

		Principal Outstanding (millions of dollars)		
Year of Maturity	Interest Rate (%)	Senior Notes	Subordinated Notes	Total
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
2017	5.35%	900	–	900
2018	5.27%	395	–	395
		2,910	750	3,660

Debt financing for the Niagara Tunnel, the Portlands Energy Centre ("PEC") and the Lac Seul hydroelectric generating station projects is provided by the OEFC. As at December 31, 2008, debt financing for these projects consists of the following:

(millions of dollars)	Niagara Tunnel	Portlands Energy Centre	Lac Seul Hydroelectric Generating Station
Debt financing, as at December 31, 2007	240	210	20
New borrowing	100	95	–
Debt financing, as at December 31, 2008	**340**	**305**	**20**

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. As at December 31, 2008, OPG issued $340 million against this facility, which included new borrowing of $100 million under the facility in 2008.

In December 2006, OPG reached an agreement with the OEFC to provide debt financing for the Lac Seul Hydroelectric Generating Station and the PEC projects. There will be up to $50 million available for the Lac Seul project and up to $400 million available for the PEC 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. As at December 31, 2008, OPG issued $20 million against the Lac Seul project credit facility and $305 million against the PEC credit facility, which included new borrowing of $95 million under the PEC facility in 2008.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

In 2007, OPG reached an agreement with the OEFC for a $500 million general corporate facility and for a $950 million credit agreement to refinance senior notes as they mature over the period September 22, 2007 to September 22, 2009. As of December 31, 2008, OPG borrowed $500 million under its general corporate facility and refinanced $400 million senior notes under the $950 million credit facility, which included new refinancing of $200 million in 2008.

The non-recourse limited partnership debt is secured by a first charge on the assets of one of the joint venture limited partnerships, an assignment of the joint venture's bank accounts, and an assignment of the joint venture's project agreements. OPG's share of the total assets was $275 million as at December 31, 2008 (December 31, 2007 – $284 million). The minimum principal repayments of the non-recourse limited partnership debt for the next five calendar years range from $14 million to $19 million annually. OPG's share of the non-recourse limited partnership debt included a note payable of $127 million at an interest rate of 6.9 percent, with an effective interest rate of 7.0 percent. This note payable is repayable in quarterly payments commencing March 31, 2006 to March 31, 2024. The remaining non-recourse limited partnership debt is at various floating rates. The interest rates of the floating rate debt are referenced to various interest rate indices, such as the bankers' acceptance rate and the London Interbank Offered Rate, plus a margin. The joint venture has entered into floating-to-fixed interest rate hedges to manage the risks arising from fluctuation in interest rates.

Interest paid in 2008 was $242 million (2007 – $224 million), of which $225 million (2007 – $203 million) relates to interest paid on long-term corporate debt. Interest on the notes payable to the OEFC is paid semi-annually.

9. SHORT-TERM CREDIT FACILITIES AND NET INTEREST EXPENSE

OPG maintains a $1 billion revolving committed bank credit facility which is divided into two tranches – a $500 million 364-day term tranche and a $500 million five-year term tranche. OPG renewed and extended the maturity date of the 364-day term tranche to May 20, 2009 and the five-year term tranche to May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at December 31, 2008, no commercial paper was outstanding, and OPG had no other outstanding borrowings under the bank credit facility. In the second quarter of 2008, OPG entered into a $100 million five-year revolving committed bank credit facility in support of the Upper Mattagami Project. As at December 31, 2008, there was no borrowing under this credit facility.

OPG also maintains $25 million (2007 – $25 million) of short-term uncommitted overdraft facilities and $276 million (December 31, 2007 – $238 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other purposes. At December 31, 2008, there was a total of $243 million of Letters of Credit issued (December 31, 2007 – $205 million), which included $212 million for the supplementary pension plans (December 31, 2007 – $175 million) and $16 million related to the construction and operation of the PEC (December 31, 2007 – $16 million).

The following table summarizes the net interest expense for the year ended December 31, 2008 and 2007:

(millions of dollars)	2008	2007
Interest on long-term debt	**231**	205
Interest on short-term debt	**18**	19
Interest income	**(13)**	(6)
Capitalized interest	**(56)**	(42)
Interest applied to regulatory assets and liabilities	**(13)**	(33)
Other	**(2)**	–
Net interest expense	**165**	143

10. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

The liability for fixed asset removal and nuclear waste management on a present value basis consists of the following for the years ended December 31:

(millions of dollars)	2008	2007
Liability for nuclear used fuel management	**6,213**	5,938
Liability for nuclear decommissioning and low and intermediate level waste management	**5,020**	4,843
Liability for non-nuclear fixed asset removal	**151**	176
Fixed asset removal and nuclear waste management liabilities	**11,384**	10,957

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31, 2008 and 2007, are as follows:

(millions of dollars)	2008	2007
Liabilities, beginning of year	**10,957**	10,520
Increase in liabilities due to accretion	**608**	582
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	**47**	76
Liabilities settled by expenditures on waste management	**(195)**	(200)
Decrease in the liabilities for non-nuclear fixed asset removal	**(33)**	(21)
Liabilities, end of year	**11,384**	10,957

OPG's fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred up to and beyond 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. Nuclear station decommissioning consists of original placement of stations into a safe store condition followed by a nominal 30-year store period prior to station dismantling.

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; and
- The present value of the variable cost portion of any nuclear waste management program taking into account actual waste volumes generated 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. The most recent update of the estimates for the nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management liabilities was performed as at December 31, 2006. The update resulted in an increased estimate of costs mainly due to additional used fuel and waste quantities resulting from station life extensions, experience in decommissioning reactors, and changes in economic indices. The increase was partially offset by the impact of later end of life dates for some stations, which results in later decommissioning dates and a reduced present value of decommissioning costs. The change in the cost estimate resulted in an updated Reference Plan, the 2006 Approved Reference Plan, which was approved by the Province in accordance with the terms of the ONFA.

As a result of the approval of the 2006 Approved Reference Plan, OPG recognized 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 starting on January 1, 2007. The impact of these additional expenses for the period up to March 31, 2008 was reduced by the recognition of a regulatory asset, as prescribed by the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario). OPG began recovering this regulatory asset through regulated prices effective April 1, 2008, as per the OEB's decision. This is discussed in Note 7 to the consolidated financial statements.

For the purposes of calculating OPG's fixed asset removal and nuclear waste management liabilities, nuclear and fossil-fuelled plant closures are projected to occur over the next 6 to 28 years. End of life dates may change as decisions on life extensions are made. The 2006 Approved Reference Plan includes cash flow estimates for decommissioning nuclear stations for approximately 40 years after station shutdown and to 2065 for placement of used fuel into the long-term disposal repository followed by extended monitoring. The undiscounted amount of estimated future cash flows associated with the liabilities is approximately $24 billion in 2008 dollars. The discount rate used to calculate the present value of the liabilities was 5.75 percent for liabilities established prior to December 31, 2006. The increase in cost estimates related to the 2006 Approved Reference Plan and subsequent increases to the value of the undiscounted estimated cash flows for OPG's liability for nuclear waste management and decommissioning are discounted at 4.6 percent. The cost escalation rates ranged from 1.8 percent to 3.6 percent. 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.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

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 federal Nuclear Fuel Waste Act ("NFWA") released in 2002 required that Canada's nuclear fuel waste owners form a Nuclear Waste Management Organization ("NWMO") and that each waste owner establish a trust fund for used fuel management costs. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the Adaptive Phased Management concept approved by the Government of Canada, which assumes a deep geologic repository in-service date in 2035.

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 management 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 a targeted in-service date of year end 2017. Agreement has been reached with local municipalities for OPG to develop a deep geologic repository for the long-term management of low and intermediate level waste adjacent to the Western Waste Management Facility. A federal environmental assessment in respect of this proposed facility is in progress.

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 2014 and 2034.

In addition to the $87 million liability for active sites, OPG also has an asset retirement obligation liability of $64 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 was established 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. As at December 31, 2008, the Decommissioning Fund was in an underfunded position. The Decommissioning Fund was in an overfunded position as at December 31, 2007. 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 $10.1 billion in December 31, 2008 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 beyond 2.23 million as projected in the 2006 Approved 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 2008 under the ONFA was $454 million, including a contribution to The Ontario NFWA Trust (the "Trust") of $100 million.

In 2007, OPG made a one-time contribution of approximately $334 million to the Used Fuel Fund to satisfy the extraordinary payment specified within the ONFA and related to the Bruce Lease transaction with Bruce Power as discussed in Note 19. This payment constituted a Triggering Event under the ONFA, which has subsequently resulted in an Amended Payment Schedule. The Amended Payment Schedule was approved by the Ontario Financing Authority in March 2008. The Amended Payment Schedule requires contribution amounts of $454 million in 2008 and from $339 million to $240 million over the years 2009 to 2012 (Note 16).

The NFWA was proclaimed into force in November 2002. As required under the NFWA, OPG established the Trust in November 2002 and made an initial deposit of $500 million into the Trust. The NFWA requires OPG to make annual contributions of $100 million to the Trust. These contributions are to be deposited into the Trust no later than the November anniversary of the NFWA. In accordance with the NFWA, the NWMO proposed a funding formula to address the future financial costs of implementing the Adaptive Phased Management approach in its 2007 Annual Report. The proposed funding formula is under review by the Federal Government. The NFWA specifies that contributions to the Trust are to continue at the present rate of $100 million until the funding formula is approved by the Minister of Natural Resources. The Trust forms part of the Used Fuel Fund, and contributions to the Trust as required by the NFWA are applied towards the ONFA payment obligations.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") since 2003, on behalf of OPG. The *Nuclear Safety and Control Act* (Canada) requires OPG to have 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 value of this guarantee is for $1,545 million for years 2009 to 2012. The guarantee, taken together with the Used Fuel Fund and Decommissioning Fund, are in satisfaction of OPG's nuclear licensing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount guaranteed by the Province. In 2008, OPG paid the annual guarantee fee of $3.8 million based on a Provincial Guarantee amount of $760 million (2007 – $8 million on a Provincial Guarantee amount of $1,510 million).

Effective January 1, 2007, OPG adopted the CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. As a result of the adoption of this new section, the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's consolidated financial statements.

Decommissioning Fund

Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund over the estimated completion costs as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA Reference Plan. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA Reference Plan is approved with a higher estimated decommissioning liability. When the Decommissioning Fund is underfunded, the earnings on the Decommissioning Fund reflect actual fund returns based on the market value of the assets.

The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its earnings at 5.15 percent, which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status. If the Decommissioning Fund were underfunded, the earnings for the Decommissioning Fund would reflect actual fund returns based on the market value of the assets.

The Decommissioning Fund's asset value on a fair value basis was $4,325 million at December 31, 2008, which was less than the liability per the approved 2006 Approved ONFA Reference Plan. At December 31, 2007, the Decommissioning Fund's asset value on a fair value basis was $5,075 million, which exceeded the value of the liability as per the 2006 Approved Reference Plan. As a result of the overfunded status, OPG reported a payable to the Province of $3 million, reflecting an amount due to the Province if the Decommissioning Fund were terminated under the ONFA. Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the most recently approved ONFA Reference Plan, are at least 120 percent funded, OPG may direct up to 50 percent of the surplus over 120 percent to be treated as a contribution to the Used Fuel Fund, and the OEFC would be entitled to a distribution of an equal amount.

The investments in the Decommissioning Fund include a diversified portfolio of equities and fixed income securities that are invested across many geographic markets. The Nuclear Funds are invested to fund long-term liability requirements, and as such, the portfolio asset mix is structured to achieve the required return over a long-term horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Funds remains the primary goal.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index ("committed return") for funding related to the first 2.23 million used fuel bundles. OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the Used Fuel Fund's assets, which includes realized and unrealized returns, is recorded as due to or due from the Province.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

As at December 31, 2008, the Used Fuel Fund asset value on a fair value basis was $4,424 million. The asset value included a receivable from the Province of $460 million related to the committed return adjustment. As at December 31, 2007, the Used Fuel Fund asset value on a fair value basis was $4,702 million. The asset value was offset by a payable to the Province of $511 million related to the committed return adjustment.

Under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 percent compared to the value of the associated liabilities.

The nuclear fixed asset removal and nuclear waste management funds as at December 31, 2008 and 2007 consist of the following:

	Fair Value	
(millions of dollars)	**2008**	2007
Decommissioning Fund	**4,325**	5,075
Due to Province – Decommissioning Fund	**–**	(3)
	4,325	5,072
Used Fuel Fund[1]	**4,424**	4,702
Due from (to) Province – Used Fuel Fund	**460**	(511)
	4,884	4,191
	9,209	9,263

1 The Ontario NFWA Trust represented $1,386 million as at December 31, 2008 (December 31, 2007 – $1,244 million) of the Used Fuel Fund on a fair value basis.

The fair value of the securities invested in the Nuclear Funds, which include the Used Fuel Fund and Decommissioning Fund, as at December 31, 2008 and 2007, are as follows:

	Fair Value	
(millions of dollars)	**2008**	2007
Cash and cash equivalents and short-term investments	**503**	833
Marketable equity securities	**4,451**	5,391
Bonds and debentures	**3,805**	3,559
Administrative expense payable	**(10)**	(6)
	8,749	9,777
Due to Province – Decommissioning Fund	**–**	(3)
Due from (to) Province – Used Fuel Fund	**460**	(511)
Total	**9,209**	9,263

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2008 and 2007 mature according to the following schedule:

	Fair Value	
(millions of dollars)	**2008**	2007
1 – 5 years	**1,618**	1,631
5 – 10 years	**962**	879
More than 10 years	**1,225**	1,049
Total maturities of debt securities	**3,805**	3,559
Average yield	**4.6%**	4.9%

The change in the Nuclear Funds for the years ended December 31, 2008 and 2007, are as follows:

	Fair Value	
(millions of dollars)	2008	2007
Decommissioning Fund at beginning of year	5,072	4,875
(Decrease) increase in fund due to return on investments	(681)	5
Decrease in fund due to reimbursement of expenditures	(69)	(99)
Decrease in Due to Province	3	291
Decommissioning Fund, end of year	4,325	5,072
Used Fuel Fund, beginning of year	4,191	3,238
Increase in fund due to contributions made	454	788
(Decrease) increase in fund due to return on investments	(719)	55
Decrease in fund due to reimbursement of expenditures	(13)	(20)
Decrease in Due to Province	511	130
Increase in Due from Province	460	–
Used Fuel Fund, end of year	4,884	4,191

The earnings (losses) from the Nuclear Funds during 2008 were partially mitigated by the establishment of a variance account for revenues and costs associated with the Bruce nuclear stations, as a result of the OEB's decision. The earnings on the Nuclear Funds for 2008 and 2007 are as follows:

(millions of dollars)	2008	2007
Decommissioning Fund	(678)	296
Used Fuel Fund	252	185
Bruce Variance Account	333	–
Total earnings (losses)	(93)	481

11. 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 or refunded through future regulated prices charged to customers.

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

(millions of dollars unless otherwise stated)	2008	2007
Income before income taxes	271	477
Combined Canadian federal and provincial statutory income tax rates, including surtax	33.5%	36.1%
Statutory income tax rates applied to accounting income	91	172
Increase in income taxes resulting from:		
Income tax component of the Bruce variance account	95	–
Lower future tax rate on temporary differences	(33)	(10)
Non-taxable income items	(15)	(7)
Unrecorded future income tax related to regulated operations	151	(127)
Change in income tax positions	(106)	(13)
Changes in future tax rate	–	(66)
	92	(223)
Income tax expense (recovery)	183	(51)
Effective rate of income taxes	67.5%	(10.7%)

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

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 were unique to OPG and related 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*. In 2008, all outstanding tax matters related to the 1999 tax audit were resolved. As a result, OPG reduced its income tax liability by $106 million.

The audit of OPG's taxation years subsequent to 1999 is expected to commence in 2009. 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.

The Bruce variance account authorized by the OEB in its decision on OPG's application for new regulated prices for its regulated production effective April 1, 2008 is discussed in Note 7 to these consolidated financial statements. In its decision, the OEB also approved a taxation variance account effective April 1, 2008. The scope of the account with respect to income taxes includes variances in the income tax expense for the Company's rate regulated segments caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), as modified by the *Electricity Act*, *1998*, as well as variances caused by reassessments due to audits of OPG's taxation years subsequent to 1999. Variances are to be determined with respect to the forecast to be approved by the OEB. OPG did not record any amounts in the account for the year ended December 31, 2008.

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

(millions of dollars)	**2008**	2007
Current income tax expense (recovery):		
Current payable	**169**	1
Change to income tax position	**86**	–
	255	1
Future income tax expense (recovery):		
Change in temporary differences	**25**	(2)
Change to income tax position	**(192)**	–
Changes in future tax rate	**–**	(30)
Income tax component of the Bruce variance account	**95**	–
Other	**–**	(20)
	(72)	(52)
Income tax expense (recovery)	**183**	(51)

The income tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2008 and 2007 are presented in the table below:

(millions of dollars)	**2008**	2007
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**30**	22
Other liabilities and assets	**163**	125
Future recoverable Ontario minimum tax	**–**	87
	193	234
Future income tax liabilities:		
Fixed assets	**(56)**	(263)
Other liabilities and assets	**(69)**	(176)
	(125)	(439)
Net future income tax assets (liabilities)	**68**	(205)
Represented by:		
Current portion – asset	**6**	12
Long-term portion – asset (liability)	**62**	(217)
	68	(205)

The following table summarizes the difference in the consolidated statements of income and consolidated statements of comprehensive income under the taxes payable method used by the Company to account for income taxes for the regulated businesses compared to what would have been reported had OPG applied the liability method for the regulated businesses for 2008 and 2007:

(millions of dollars)	2008	2007
As stated:		
Future income tax expense	(72)	(52)
Future income tax: Other comprehensive income – upon transition	–	16
Future income tax: Other comprehensive income – for the year	(6)	(8)
Liability method[1]:		
Future income tax expense	(50)	75
Future income tax: Other comprehensive income – upon transition	–	12
Future income tax: Other comprehensive income – for the year	(19)	(6)

1 OPG accounted for certain lease revenues relating to the regulated businesses for the three months ended March 31, 2008 and for the year ended December 31, 2007 using the cash basis of accounting. The related future income tax impact is excluded from the above.

The following table summarizes the difference in the consolidated 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, 2008 and 2007. The amounts of future income taxes not recorded do not include the future income taxes resulting from regulatory assets and liabilities that are required to be recorded effective January 1, 2009 due to amendments to the CICA Handbook Section 3465, *Income Taxes*.

	2008		2007	
(millions of dollars)	As Stated[1]	Liability Method[1,2]	As Stated	Liability Method[2]
Current future income tax recoverable (liabilities)	6	47	12	39
Long-term future income tax liabilities	62	(319)	(217)	(680)

1 The future income tax asset and liability balances above include adjustments during 2008 related to changes in income tax positions resulted from the resolution of the 1999 income tax audit. In addition, the income tax component of the Bruce variance account was reflected in the Bruce Regulatory Asset account and not in the future income tax asset (liability) balance above.

2 OPG accounted for certain lease revenues relating to the regulated businesses for the three months ended March 31, 2008 and for the year ended December 31, 2007 using the cash basis of accounting. The related future income tax impact is excluded from the above.

The amount of cash income taxes paid for 2008 was $49 million (2007 – $64 million).

12. PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS

The pension and OPEB obligations, and the pension fund assets, are measured at December 31, 2008. Details of OPG's pension and OPEB obligations, pension fund assets and costs are presented in the following tables:

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2008	2007	2008	2007
Weighted Average Assumptions – Benefit Obligation at Year End				
Rate used to discount future benefits	7.50%	5.60%	7.46%	5.59%
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	–	–	6.58%	6.91%
Ultimate health care trend rate	–	–	4.69%	4.68%
Year ultimate rate reached	–	–	2018	2014
Rate of increase in disability benefits	–	–	2.00%	2.25%

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2008	2007	**2008**	2007
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	**5.60%**	5.25%	**5.59%**	5.22%
Salary schedule escalation rate	**3.25%**	3.00%	**–**	–
Rate of cost of living increase to pensions	**2.25%**	2.00%	**–**	–
Initial health care trend rate	**–**	–	**6.91%**	7.34%
Ultimate health care trend rate	**–**	–	**4.68%**	4.68%
Year ultimate rate reached	**–**	–	**2014**	2014
Rate of increase in disability benefits	**–**	–	**2.25%**	2.00%
Average remaining service life for employees (years)	**11**	11	**11**	11

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2008**	2007	**2008**	2007	**2008**	2007
Changes in Plan Assets						
Fair value of plan assets at beginning of year	**8,924**	8,829	**–**	–	**–**	–
Contributions by employer	**253**	268	**10**	7	**71**	66
Contributions by employees	**75**	66	**–**	–	**–**	–
Actual return on plan assets net of expenses	**(1,566)**	159	**–**	–	**–**	–
Benefit payments	**(432)**	(398)	**(10)**	(7)	**(71)**	(66)
Fair value of plan assets at end of year	**7,254**	8,924	**–**	–	**–**	–
Changes in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	**9,603**	9,313	**162**	152	**2,064**	2,067
Employer current service costs	**217**	224	**6**	6	**59**	70
Contributions by employees	**75**	66	**–**	–	**–**	–
Interest on projected benefit obligation	**540**	493	**9**	8	**116**	109
Benefit payments	**(432)**	(398)	**(10)**	(7)	**(71)**	(66)
Net actuarial (gain) loss	**(2,563)**	(95)	**(25)**	3	**(577)**	(116)
Projected benefit obligation at end of year	**7,440**	9,603	**142**	162	**1,591**	2,064
Funded Status – Deficit at end of year	**(186)**	(679)	**(142)**	(162)	**(1,591)**	(2,064)

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 percent of plan assets.

	2008	2007
Registered pension plan fund asset investment categories		
Equities	**60%**	60%
Fixed income	**37%**	35%
Cash and short-term investments	**3%**	5%
Total	**100%**	100%

Based on the most recently filed actuarial valuation, as at January 1, 2008, there was an unfunded liability on a going-concern basis of $239 million and a deficiency on a wind-up basis of $2,846 million. In the previously 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, 2011, could be significantly different.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $212 million (2007 – $175 million).

(millions of dollars)	Registered Pension Plan 2008	2007	Supplementary Pension Plans 2008	2007	Other Post Employment Benefits 2008	2007
Reconciliation of Funded Status to Accrued Benefit Asset (Liability)						
Funded status – deficit at end of year	**(186)**	(679)	**(142)**	(162)	**(1,591)**	(2,064)
Unamortized net actuarial loss (gain)	**937**	1,346	**(3)**	22	**(70)**	538
Unamortized past service costs	**46**	64	**2**	3	**16**	20
Accrued benefit asset (liability) at end of year	**797**	731	**(143)**	(137)	**(1,645)**	(1,506)
Short-term portion	**–**	–	**(6)**	(7)	**(79)**	(80)
Long-term portion	**797**	731	**(137)**	(130)	**(1,566)**	(1,426)

(millions of dollars)	Registered Pension Plan 2008	2007	Supplementary Pension Plans 2008	2007	Other Post Employment Benefits 2008	2007
Components of Cost Recognized						
Current service costs	**217**	224	**6**	6	**59**	70
Interest on projected benefit obligation	**540**	493	**9**	8	**116**	109
Expected return on plan assets net of expenses	**(623)**	(569)	**–**	–	**–**	–
Amortization of past service costs	**18**	18	**1**	–	**4**	5
Amortization of net actuarial loss	**35**	77	**–**	1	**31**	45
Cost recognized	**187**	243	**16**	15	**210**	229

(millions of dollars)	Registered Pension Plan 2008	2007	Supplementary Pension Plans 2008	2007	Other Post Employment Benefits 2008	2007
Components of Cost Incurred and Recognized						
Current service costs	**217**	224	**6**	6	**59**	70
Interest on projected benefit obligation	**540**	493	**9**	8	**116**	109
Actual return on plan assets net of expenses	**1,566**	(159)	**–**	–	**–**	–
Net actuarial (gain) loss	**(2,563)**	(95)	**(25)**	3	**(577)**	(116)
Cost incurred in year	**(240)**	463	**(10)**	17	**(402)**	63
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	**(2,189)**	(410)	**–**	–	**–**	–
Past service costs	**18**	18	**1**	–	**4**	5
Net actuarial loss (gain)	**2,598**	172	**25**	(2)	**608**	161
Cost recognized	**187**	243	**16**	15	**210**	229

A one percent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2008 OPEB cost recognized of $33 million (2007 – $37 million) or a decrease in the service and interest components of the 2008 OPEB cost recognized of $24 million (2007 – $29 million), respectively. A one percent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2008 of $213 million (2007 – $328 million) or a decrease in the projected OPEB obligation at December 31, 2008 of $170 million (2007 – $256 million).

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

13. FINANCIAL INSTRUMENTS

OPG's Board of Directors has approved, and management has implemented, a risk management governance structure designed to effectively identify, measure, monitor and report on key risks across the Company. Risk management activities are coordinated through a centralized risk management group, separate and independent from operational management. Risk information from the business units is independently assessed and aggregated by the Risk Services Group, and is reported by the Chief Risk Officer to the Executive Risk Committee and to the Audit/Risk Committee of the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in interest rates, and movements in foreign currency that affect its assets, liabilities, and forecast transactions. Select derivative instruments are used to limit such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

The following is a summary of OPG's financial instruments as at December 31, 2008:

Financial Instruments[1] (millions of dollars)	Designated Category	Fair Value
Cash and cash equivalents	Held-to-maturity	**315**
Long-term investments[2]	Held-to-maturity	**35**
Nuclear fixed asset removal and nuclear waste management funds	Held-for-trading	**9,209**
Long-term debt (including current portion)	Other liabilities	**3,828**
Other commodity derivative instruments included in current and long-term accounts receivable[3]	Held-for-trading	**49**
Other commodity derivative instruments included in current and long-term accounts payable[3]	Held-for-trading	**(19)**

1 The carrying value of other financial instruments included in accounts receivable and accounts payable and accrued charges approximates their fair value due to the immediate or short-term maturity of these financial instruments.

2 Excludes investments of $39 million owned by the Company's wholly-owned subsidiary, OPGV, that are recorded at fair value in accordance with AcG-18.

3 Derivative instruments not qualifying for hedge accounting.

Risks Associated with Financial Instruments

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument might fail to meet its obligation under the terms of a financial instrument. To manage credit risk, the Company enters into transactions with creditworthy counterparties, limits the amount of exposure to each counterparty where possible, and monitors the financial condition of counterparties.

The following table provides information on credit risk from energy trading activities (excluding fuels) as at December 31, 2008:

			Potential Exposure for Largest Counterparties	
Credit Rating[1]	Number of Counterparties[2]	Potential Exposure[3]	Number of Counterparties	Counterparty Exposure
		(millions of dollars)		(millions of dollars)
Investment grade	28	118	4	84

1 Credit ratings are based on OPG's own analysis, taking into consideration external rating agency analysis where available, as well as recognizing explicit credit support provided through guarantees and Letters of Credit or other security.

2 OPG's counterparties are defined by each master agreement.

3 Potential exposure is OPG's assessment of maximum exposure over the life of each transaction at a 95 percent confidence interval.

The majority of OPG's revenues are derived from sales through the IESO administered spot market. Net credit exposure to the IESO at December 31, 2008 was $207 million (Note 5). Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure was a diverse group of generally high quality counterparties. OPG's allowance for doubtful debts at December 31, 2008 was less than $1 million.

OPG also enters into financial transactions with highly rated financial institutions in order to hedge interest rate and currency exposures. The potential credit exposure with these counterparties was less than $10 million at December 31, 2008. Other credit exposures include the investing of excess cash.

Investments
The Company limits its exposure to credit risk by investing in reasonably liquid (i.e., in normal circumstances, capable of liquidation within one month) securities that are rated by a recognized credit rating agency in accordance with a minimum investment quality standards. In regard to derivative contracts, the Company limits its exposure to credit risk by engaging with high credit-quality counterparties.

Current exposure to credit risk has changed due to the Company's exposure to the restructuring of the ABCP market in Canada. Additional details with respect to OPG's exposure to the restructuring program are described in Note 4.

Guarantees
As part of normal business, OPG and certain of its subsidiaries and joint ventures enter into various agreements providing financial guarantees to third-parties on behalf of certain subsidiaries and joint ventures. Such agreements include guarantees, standby Letters of Credit and surety bonds.

Liquidity Risk
Liquidity risk arises through excess financial obligations over available financial assets, due at any point in time. The Company's approach to managing liquidity is to continuously monitor its ability to maintain sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

The table below summarizes the maturity profile of the Company's long-term debt at December 31, 2008:

(millions of dollars)	2009	2010	2011	2012	2013 and Thereafter
Long-term debt	357	978	383	409	1,713
Interest on long-term debt	215	183	134	106	465

Non-recourse limited partnership debt is secured by a first charge on the assets of one of the joint venture limited partnerships, an assignment of the joint venture's bank accounts, and an assignment of the joint venture's project agreements.

Market Risk
Market risk is the risk that changes to market prices, such as foreign exchange rates, interest rates, electricity prices and equities, will affect OPG's income or the value of the Company's holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Company manages its exposure to market risks using forwards and various derivative products in the ordinary course of business. All such transactions are carried out within the guidelines set by the Executive Risk Committee.

Foreign Exchange Risk
OPG's foreign exchange exposure is attributable to two primary factors: United States dollar ("USD") denominated transactions such as the purchase of fossil fuels; and the influence of USD denominated commodity prices on Ontario electricity spot market prices. OPG enters into derivative contracts with major financial institutions to manage the Company's exposure to foreign currency movements.

Interest Rate Risk
Interest rate risk is the risk that the value of OPG's assets and liabilities can decrease and increase respectively because of a change in the related interest rates. OPG considers interest rate risk related to cash and cash equivalents and short-term borrowings to be low because of their short-term nature. Changes in interest rates do not currently have a significant impact on the Company's interest expense, since long-term borrowings are on a fixed rate basis.

The Company is exposed to interest rate risk on its long-term borrowings expected to be issued in the future. The Company manages the exposure to changes in market interest rates on anticipated issuance of long-term borrowings by entering into forward start interest rate contracts and floating-to-fixed interest rate swap contracts.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

Electricity Price Risk

Electricity price risk for the Company is the potential for adverse movements in the market price of electricity. Exposure to electricity price risk is reduced as a result of regulated prices for a significant portion of OPG's business, and is also affected by the revenue limit rebate mechanism that applies to generation from OPG's unregulated generating stations. To manage this risk, the Company seeks to maintain a balance between the commodity price risk inherent in its electricity production and electricity forward sales contracts to the extent that trading liquidity in the electricity commodity market provides the economic opportunity to do so.

The table below summarizes a sensitivity analysis for significant unsettled market risk exposures with respect to the Company's financial instruments as at December 31, 2008, with all other variables held constant. It shows how net income and other comprehensive income before tax would have been affected by changes in the relevant risk variable that were reasonably possible, at that date, over the year.

(millions of dollars except where noted)	A Change of:	Impact on Net Income Before Tax	Impact on Other Comprehensive Income Before Tax
Foreign exchange – USD	+/- 0.04	–	1
Interest rate[1]	+/- 35 basis points	–	7
Electricity price – Hedge[2]		n/a	7
Electricity price – Trading[2]		1	n/a

1 The interest rate sensitivity analysis was determined based on the exposure to interest rates for derivative instruments designated as hedges at the date of the consolidated balance sheets.

2 The sensitivity analysis around electricity prices was constructed using forward price volatilities that were based on historical daily forward electricity contract prices. The analysis considered contracts of varying time frames, traded in Ontario and neighbouring electricity markets.

Nuclear Funds Equity Price Risk

Equity price risk is the risk of loss or unexpected volatility due to a decline in the values of individual equities and/or equity indices. The Company is exposed to equity price risk primarily related to equity investments held in the Nuclear Funds that are classified on the consolidated balance sheets as held-for-trading and measured at fair value. To manage this risk, OPG has established investment policies and procedures that set out an investment framework for the funds, including the investment assumptions, permitted investments, and various investment constraints for the Nuclear Funds. Such policies and procedures are approved annually by OPG and the Province in the case of the Decommissioning Fund, and by the Province in the case of the Used Fuel Fund.

Under the ONFA, the annual return in the Used Fuel Fund is guaranteed by the Province for funding related to the first 2.23 million used fuel bundles. Therefore, OPG is not currently exposed to equity price risk in the Used Fuel Fund. OPG is, however, exposed to equity price risk in the Decommissioning Fund. Due to the long-term nature of the Decommissioning Fund's liabilities, the target asset mix of the fund was established with the goal of meeting the long-term liabilities. As such, the Company is prepared to accept shorter term market fluctuations with the expectation that equity securities will provide adequate returns over the long-term.

The table below approximates the potential dollar impact on OPG's pre-tax profit, associated with a one percent change in the specified equity indices. This analysis is based on the market values of the Decommissioning Fund's equity holdings at December 31, 2008, as well as on the assumption that when one equity index changes by one percent, all other equity indices are held constant.

(millions of dollars)	December 31, 2008
S&P/TSX Capped Composite Index	9
S&P 500	4
MSCI EAFE Index	4
MSCI World Index	5

Derivatives and Hedging

At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. OPG also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

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 a derivative instrument hedge 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.

Derivative Instruments Qualifying for Hedge Accounting

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 in net income upon settlement when the underlying transactions occur.

OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

	Notional Quantity	**Terms**	**Fair Value**	Notional Quantity	Terms	Fair Value
(millions of dollars except where noted)	**December 31, 2008**			December 31, 2007		
Electricity derivative instruments	**0.9 TWh**	**1 year**	**20**	1.8 TWh	1-3 yrs	35
Foreign exchange derivative instruments	**USD $35**	**July/09**	**6**	USD $48	Sep./08	(1)
Floating-to-fixed interest rate hedges	**40**	**1-11yrs**	**8**	43	1-11 yrs	(2)
Forward start interest rate hedges	**272**	**1-12yrs**	**(50)**	692	1-12 yrs	(6)

Foreign exchange derivative instruments are used to hedge the exposure to anticipated USD denominated purchases. The weighted average fixed exchange rate for contracts outstanding at December 31, 2008 and December 31, 2007 was USD $0.95 and $0.99, respectively, 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 percent. OPG's proportionate interest in the swap is 50 percent and is accounted for as a hedge.

Net losses of $14 million and $15 million related to derivative instruments qualifying for hedge accounting were recognized in net income during the years ended December 31, 2008 and 2007, respectively. This amount was previously recorded in other comprehensive income. Existing net gains of $8 million deferred in accumulated other comprehensive income at December 31, 2008 are expected to be reclassified to net income within the next 12 months.

In the third quarter of 2008, OPG de-designated certain forward start interest rate hedges as the previously anticipated future borrowings associated with these instruments were no longer expected to occur. As a result of the de-designation, a net loss of $3 million was reclassified to net income in the third quarter of 2008.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

Derivative Instruments Not Qualifying for Hedge Accounting

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

(millions of dollars except where noted)	**Notional Quantity**	**Fair Value**	Notional Quantity	Fair Value
	December 31, 2008		December 31, 2007	
Foreign exchange derivative instruments	**–**	**–**	USD $14	(2)
Commodity derivative instruments				
Assets	**6.9 TWh**	**49**	9.9 TWh	14
Liabilities	**2.2 TWh**	**(19)**	1.2 TWh	(10)
		30		2
Market liquidity reserve		**(4)**		(2)
Total		**26**		–

Foreign exchange derivative instruments that are not designated as hedges had a weighted average exchange rate of USD $0.86 at December 31, 2007.

Fair Value

Fair value is the value that a financial instrument can be closed out or sold, in a transaction with a willing and knowledgeable counterparty. The fair value of financial assets and liabilities, including exchange traded derivatives and other financial instruments for which quoted prices are available in an active market, are determined directly from those quoted market prices.

For financial instruments which do not have quoted market prices directly available, fair values are estimated using forward price curves developed from observable market prices or rates which may include the use of valuation techniques or models based, wherever possible, on assumptions supported by observable market prices or rates prevailing at the dates of the consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and ABCP issued by third-party trusts. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate.

Forward pricing information is inherently uncertain so that fair values of 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. These reserves decreased trading revenue by $2 million during the year ended December 31, 2008 (December 31, 2007 – no change).

14. CAPITAL MANAGEMENT

The Board of Directors' objectives when managing capital are to safeguard the Company's assets and its ability to operate on a commercial basis, while undertaking future development projects that provide an adequate return to the shareholder, and benefits to other stakeholders. The Company attempts to maintain an optimal capital structure and minimize the cost of capital.

The Company is owned 100 percent by the Province. To minimize its cost of capital, the Company targets financial metrics consistent with an investment grade credit rating. This provides the Company with access to capital markets in the future, while targeting a low cost of debt financing.

The Company monitors capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, including long-term debt due within one year, long-term debt and the amount of the Letters of Credit. Total capitalization is calculated as total debt plus total shareholder's equity as shown in the consolidated balance sheets. A financial covenant in OPG's $1 billion revolving committed bank credit facility requires OPG to maintain, on a fully consolidated basis, a ratio of debt to total capitalization of not greater than 0.65:1.0 at any time.

As per the OEB's decision in November 2008, the deemed capital structure for the regulated business is 53 percent debt and 47 percent equity.

The table below summarizes OPG's debt to total capitalization position as at December 31, 2008 and 2007:

(millions of dollars unless otherwise noted)	2008	2007
Long-term debt due within one year	**357**	407
Long-term debt	**3,483**	3,446
Letters of Credit	**243**	205
Total debt	**4,083**	4,058
Total shareholder's equity	**6,829**	6,807
Total capitalization	**10,912**	10,865
Total debt to total capitalization	**37%**	37%

There were no changes in the Company's approach to capital management during the year ended December 31, 2008.

15. COMMON SHARES

As at December 31, 2008 and 2007, 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. Any issue of new shares is subject to the consent of all of OPG's shareholders.

16. 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.

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 is scheduled to proceed in September 2009. It 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 in doing so.

On September 2, 2008, a certain First Nation served a Notice of Action against the Government of Canada, the Province of Ontario, OPG and the OEFC claiming damages in the amount of $200 million arising from breach of contract, fiduciary duty, trespass to property, negligence, nuisance, misrepresentation, breach of riparian rights and unlawful and unjustifiable infringement of the aboriginal and treaty rights and $0.5 million in special damages. A Notice of Arbitration was served at the same time upon OPG pursuant to an agreement between OPG and the said First Nation to address OPG's role in the sharing of benefits related to hydro development. OPG assessed the merits of the litigation, and neither the arbitration nor the claim is likely to have any material impact on the Company's financial position, and therefore, OPG has minimal exposure with respect to this claim.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations involve joint and several liabilities with other parties and total approximately $45 million and claims by others are for unspecified amounts.

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.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

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. As at December 31, 2008, the remaining provision was $41 million (December 31, 2007 – $45 million).

Current operations are subject to regulation with respect to emissions to air, water and land as well as 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, 2008, are as follows:

(millions of dollars)	2009	2010	2011	2012	2013	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	743	626	265	217	157	309	2,317
Contributions under the ONFA	339	264	250	240	157	852	2,102
Long-term debt repayment	350	970	375	400	–	1,565	3,660
Interest on long-term debt	204	172	124	96	82	323	1,001
Unconditional purchase obligations	17	16	12	13	12	156	226
Long-term accounts payable	–	–	–	–	–	–	–
Operating lease obligations	23	25	25	26	27	1	127
Operating licence	30	30	33	36	39	–	168
Pension contributions[1]	260	270	–	–	–	–	530
Other	47	35	30	22	15	84	233
Significant commercial commitments:	2,013	2,408	1,114	1,050	489	3,290	10,364
Niagara Tunnel	113	260	–	–	–	–	373
Other hydroelectric projects	140	58	–	–	–	–	198
Total	2,266	2,726	1,114	1,050	489	3,290	10,935

1 The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuation as at January 1, 2008. 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 2010 are excluded due to significant variability in the assumptions required to project the timing of future cash flows.

Niagara Tunnel

As of December 31, 2008, the tunnel boring machine had advanced 3,306 metres. The progress of the tunnel boring machine continues to be slower than anticipated under the original contractor schedule primarily due to excess overbreak of the Queenston shale in the tunnel crown. To minimize further excavation in the Queenston shale, a change in the vertical alignment has been initiated.

A dispute review hearing process was initiated earlier in 2008 to assess, among other things, whether the actual subsurface conditions encountered are materially different from those that were anticipated as part of the design-build contract. The Dispute Review Board issued its non-binding recommendations in late August 2008. OPG and the contractor are using the Dispute Review Board recommendations as a basis for negotiating revisions to the design-build contract. These revisions are expected to have significant impacts on the project completion schedule and the cost estimate of the project. The negotiations are underway and are targeted for completion in the first quarter of 2009. Uncertainties will continue with respect to cost and schedule.

The capital project expenditures for the year ended December 31, 2008 were $132 million and life-to-date capital expenditures were $435 million. The project is debt financed through the OEFC.

Lac Seul

The Lac Seul hydroelectric generating station is expected to be declared in-service in February 2009. The station has a capacity of 12.5 MW. The project was originally expected to be in-service by the end of the third quarter of 2007. However, it was delayed as a result of various contractor difficulties. A settlement in principle has been negotiated to compensate the contractor for recovery of certain additional costs.

At December 31, 2008, life-to-date expenditures were $54 million. The final project cost is expected to be $55 million. The project is debt financed through the OEFC.

OPG has entered into a partnership agreement with the Lac Seul First Nations ("LSFN"). The partnership is a first for OPG and the LSFN, who will own 25 percent of the new facility.

Portlands Energy Centre

OPG entered into a partnership with TransCanada Energy Ltd., through the Portlands Energy Centre L.P., to pursue the development of a 550 MW gas-fired, combined cycle generating station on the site of the former R.L. Hearn generating station, near downtown Toronto. OPG has a 50 percent ownership interest in the joint venture.

In May 2008, the construction for the simple cycle mode of operations for the PEC was completed. The station was available to operate in a simple cycle mode as needed during the summer of 2008.

In September 2008, the simple cycle mode of operations for the PEC ended and the plant was returned to the custody of the contractor for completion of the combined cycle plant. Final system commissioning and preparation for the guarantee performance testing and the demonstration runs were conducted during the last two months of 2008. The PEC is expected to be in-service in a combined cycle mode in the first quarter of 2009, earlier than its contractual in-service date of June 1, 2009.

OPG's share of capital expenditures for the year ended December 31, 2008 was $87 million, and life-to-date expenditures were $360 million. Total project costs continue to be within the $730 million approved budget, excluding capitalized interest. A significant proportion of the capital cost relates to an engineer-procure-construct contract to construct the facility. OPG's share of the project is debt financed through the OEFC.

Upper Mattagami and Hound Chute

In December 2007, OPG's Board of Directors approved the replacement of four existing hydroelectric generating stations. Three of the generating stations are on the Upper Mattagami River (Wawaitin, Sandy Falls and Lower Sturgeon) and the fourth (Hound Chute) is located on the Montreal River. The project includes the demolition and decommissioning of the four existing powerhouses that are at the end of their useful lives. Upon completion of the project, the total installed capacity of the four stations will increase from 23 MW to 44 MW, and the annual energy will increase from 134 gigawatt hours ("GWh") to 223 GWh.

Design and construction activities are in progress at all four sites. Sandy Falls and Lower Sturgeon have been demolished to make way for construction of the new stations.

Life-to-date expenditures as of December 31, 2008 were $62 million and total project costs are expected to be $300 million. A significant proportion of this capital cost relates to a design-build contract to construct the facilities.

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 at December 31, 2008, OPG had approximately 12,000 regular employees and approximately 90 percent 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 monitor 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.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

17. REVENUE LIMIT REBATE

Eighty-five percent of the generation output from OPG's unregulated generating assets, excluding the Lennox generating station, stations whose generation output is subject to a HESA with the OPA pursuant to a ministerial directive, 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.

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 returned to 4.7¢/kWh and increased to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the 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 limits are returned to the IESO for the benefit of consumers. The revenue limit rebate is expected to terminate effective May 1, 2009.

The changes in the revenue limit rebate liability for 2008 and 2007 are as follows:

(millions of dollars)	2008	2007
Liability, beginning of year	100	40
Increase to provision during the year	277	227
Payments made during the year	(292)	(167)
Liability, end of year	85	100

18. OTHER GAINS AND LOSSES

(millions of dollars)	2008	2007
Change in estimated cost required to decommission fossil-fuelled generating stations	(21)	(20)
Impairment loss on investments in ABCP (Note 4)	14	10
Other	(2)	–
Other gains and losses	(9)	(10)

In 2007, OPG recorded a recovery of $20 million to reflect a change in the estimated costs required to complete decommissioning of the Lakeview generating station. The demolition of the Lakeview generating station was substantially completed during 2007.

Other gains and losses of $21 million were recognized in 2008 to reflect a change in estimated costs to decommission the other fossil-fuelled generating stations, including the expected costs associated with environmental and site remediation work.

19. BUSINESS SEGMENTS

Prior to the fourth quarter of 2008, OPG had four reportable business segments. The business segments were Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Fossil-Fuelled.

Commencing in the fourth quarter of 2008, OPG separated the Regulated – Nuclear segment into two reportable segments identified as Regulated – Nuclear Generation segment and Regulated – Nuclear Waste Management segment. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Regulated – Nuclear Generation Segment

OPG's Regulated – Nuclear Generation business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that it owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations. This business segment also includes revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This arrangement includes lease revenue and revenue from engineering analysis and design, technical and other services. Revenue is also earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control and reactive support.

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 OPEB for these employees. OPG made payments to Bruce Power in respect of OPEB 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 percent 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, a $225 million note receivable was paid to OPG, and lease payments commenced to be paid monthly. Proceeds from the note and applicable interest were to be applied by March 2008 against OPG's funding requirements with respect to the nuclear fixed asset removal and nuclear waste management liabilities. OPG made an extraordinary contribution of $334 million to the Used Fuel Fund in December 2007.

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 Consumer Price Index), 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.

During 2008, OPG recorded lease revenue related to the Bruce generating stations of $258 million (2007 – $253 million). In late 2008, OPG re-evaluated the Bruce lease for accounting purposes due to a modification to the lease. As a result of the re-evaluation, the timing in which certain of the lease revenues are recognized for accounting purposes has been revised. The revision will result in reductions to the lease revenue for accounting purposes during initial years of the remaining lease term, and increases in lease revenue for accounting purposes during the later years of the remaining lease term. The impact of these timing changes on the amount of lease revenue recognized during 2008 was offset by the impact of the Bruce variance account described in Note 7 to these consolidated financial statements. The net book value of fixed assets on lease to Bruce Power at December 31, 2008 was $1,140 million (2007 – $1,201 million).

Regulated – Nuclear Waste Management

OPG's Regulated – Nuclear Waste Management segment engages in the management of used nuclear fuel and low and intermediate level waste, the decommissioning of OPG's nuclear generating stations (including the stations on lease to Bruce Power), the management of the Nuclear Funds, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense on the Nuclear Liabilities and losses (earnings) from the Nuclear Funds are reported under this segment.

As the nuclear generating stations operate over time, OPG incurs variable costs related to nuclear used fuel and low and intermediate level waste generated. These costs increase the Nuclear Liabilities through the generation of additional used nuclear fuel bundles and other waste. These variable costs are charged to current operations in the Regulated – Nuclear Generation segment in order to appropriately reflect the cost of producing energy and the earning of revenues under the lease arrangement with Bruce Power that are recorded in this segment. Since variable costs increase the Nuclear Liabilities in the Regulated – Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments. The impact of the inter-segment charge between these segments is eliminated on OPG's consolidated statements of income and balance sheets.

The Regulated – Nuclear Waste Management segment is considered regulated because the costs associated with the Nuclear Liabilities are included in the OEB's determination of regulated prices for production from OPG's regulated nuclear facilities by the OEB.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

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 and 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 and 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 Brighton Beach related to an energy conversion agreement between Brighton Beach and Coral. The Other category also includes OPG's share of joint venture revenues and expenses from the PEC gas-fired generating station. 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.

OM&A expenses of the generation business segments include an inter-segment 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, 2008, the service fee was $29 million for Regulated – Nuclear Generation, $3 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric and $9 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $45 million for the Other category. For the year ended December 31, 2007, the service fee was $33 million for Regulated – Nuclear Generation, nil for Regulated – Nuclear Waste Management, $2 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric and $11 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $50 million for the Other category.

Segment Income (Loss) for the Year Ended December 31, 2008 (millions of dollars)	Regulated			Unregulated				
	Nuclear Generation	Nuclear Waste Management	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	Elimination	Total
Revenue	2,987	46	754	974	1,491	153	(46)	6,359
Revenue limit rebate	–	–	–	(72)	(205)	–	–	(277)
	2,987	46	754	902	1,286	153	(46)	6,082
Fuel expense	167	–	254	111	659	–	–	1,191
Gross margin	2,820	46	500	791	627	153	(46)	4,891
Operations, maintenance and administration	2,098	50	108	198	552	7	(46)	2,967
Depreciation and amortization	462	–	70	76	94	41	–	743
Accretion on fixed asset removal and nuclear waste management liabilities	–	573	–	–	8	–	–	581
Losses on nuclear fixed asset removal and nuclear waste management funds	–	93	–	–	–	–	–	93
Property and capital taxes	25	–	12	9	21	13	–	80
Income (loss) before other gains and losses	235	(670)	310	508	(48)	92	–	427
Other (gains) and losses	–	–	–	–	(23)	14	–	(9)
Income (loss) before interest and income taxes	235	(670)	310	508	(25)	78	–	436

Segment (Loss) Income for the Year Ended December 31, 2007 (millions of dollars)	Regulated			Unregulated				
	Nuclear Generation	Nuclear Waste Management	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	Elimination	Total
Revenue	2,581	76	695	763	1,713	135	(76)	5,887
Revenue limit rebate	–	–	–	(64)	(163)	–	–	(227)
	2,581	76	695	699	1,550	135	(76)	5,660
Fuel expense	133	–	244	81	812	–	–	1,270
Gross margin	2,448	76	451	618	738	135	(76)	4,390
Operations, maintenance and administration	2,053	84	123	207	573	10	(76)	2,974
Depreciation and amortization	426	–	68	68	82	51	–	695
Accretion on fixed asset removal and nuclear waste management liabilities	–	499	–	–	8	–	–	507
Earnings on nuclear fixed asset removal and nuclear waste management funds	–	(481)	–	–	–	–	–	(481)
Property and capital taxes	31	–	11	10	21	12	–	85
(Loss) income before other gains and losses	(62)	(26)	249	333	54	62	–	610
Other (gains) and losses	(4)	–	–	4	(20)	10	–	(10)
(Loss) income before interest and income taxes	(58)	(26)	249	329	74	52	–	620

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

Selected Consolidated Balance Sheet Information As at December 31, 2008 (millions of dollars)	Regulated Nuclear Generation	Regulated Nuclear Waste Management	Regulated Hydro-electric	Unregulated Hydro-electric	Unregulated Fossil-Fuelled	Other	Total
Segment fixed assets in service, net	3,845	–	3,823	2,971	396	480	11,515
Segment construction work in progress	227	–	444	190	29	382	1,272
Segment property, plant and equipment, net	4,072	–	4,267	3,161	425	862	12,787
Segment materials and supplies inventory, net:							
Short-term	77	–	–	–	55	–	132
Long-term	336	–	–	1	1	–	338
Segment fuel inventory	301	–	–	–	435	–	736
Fixed asset removal and nuclear waste management liabilities	–	(11,233)	–	–	(117)	(34)	(11,384)
Nuclear fixed asset removal and nuclear waste management funds	–	9,209	–	–	–	–	9,209

Selected Consolidated Balance Sheet Information As at December 31, 2007 (millions of dollars)	Regulated Nuclear Generation	Regulated Nuclear Waste Management	Regulated Hydro-electric	Unregulated Hydro-electric	Unregulated Fossil-Fuelled	Other	Total
Segment fixed assets in service, net	4,030	–	3,871	2,996	422	508	11,827
Segment construction work in progress	210	–	299	88	49	304	950
Segment property, plant and equipment, net	4,240	–	4,170	3,084	471	812	12,777
Segment materials and supplies inventory, net:							
Short-term	73	–	1	–	51	–	125
Long-term	346	–	–	3	4	–	353
Segment fuel inventory	231	–	–	–	373	–	604
Fixed asset removal and nuclear waste management liabilities	–	(10,781)	–	–	(141)	(35)	(10,957)
Nuclear fixed asset removal and nuclear waste management funds	–	9,263	–	–	–	–	9,263

Selected Consolidated Cash Flow Information (millions of dollars)	Regulated Nuclear Generation	Regulated Nuclear Waste Management	Regulated Hydro-electric	Unregulated Hydro-electric	Unregulated Fossil-Fuelled	Other	Total
Year ended December 31, 2008							
Investment in fixed assets	**184**	**–**	**160**	**149**	**59**	**109**	**661**
Year ended December 31, 2007							
Investment in fixed assets	206	1	80	66	94	219	666

20. RELATED PARTY TRANSACTIONS

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

These transactions are summarized below:

(millions of dollars)	**Revenue 2008**	**Expenses 2008**	Revenue 2007	Expenses 2007
Hydro One				
Electricity sales	**35**	**–**	28	–
Services	**–**	**7**	–	12
Province of Ontario				
GRC, water rentals and land tax	**–**	**151**	–	129
Guarantee fee	**–**	**4**	–	8
Used Fuel Fund rate of return guarantee	**–**	**(971)**	–	(130)
Decommissioning Fund excess funding	**–**	**(3)**	–	(291)
OEFC				
GRC and proxy property tax	**–**	**215**	–	199
Interest income on receivable	**–**	**–**	–	(6)
Interest expense on long-term notes	**–**	**215**	–	187
Capital tax	**–**	**36**	–	35
Income taxes	**–**	**88**	–	(51)
Indemnity fees	**–**	**–**	–	–
IESO				
Electricity sales	**5,330**	**127**	5,094	104
Revenue limit rebate	**(277)**	**–**	(227)	–
Ancillary services	**155**	**–**	145	–
Other	**–**	**–**	–	1
	5,243	**(131)**	5,040	197

At December 31, 2008, accounts receivable included nil (2007 – $2 million) due from Hydro One and $207 million (2007 – $179 million) due from the IESO. Accounts payable and accrued charges at December 31, 2008 included $1 million (2007 – $2 million) due to Hydro One.

Notes to the Consolidated Financial Statements

(for the years ended December 31, 2008 and 2007)

21. JOINT VENTURES

Significant joint ventures include Brighton Beach and PEC, which are 50 percent owned by OPG.

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

(millions of dollars)	2008	2007
Proportionate joint venture operations		
Revenue	**41**	43
Expenses	**(31)**	(36)
Net income	**10**	7
Proportionate joint venture cash flows		
Operating activities	**33**	1
Investing activities	**(76)**	(165)
Financing activities	**50**	164
Share of changes in cash	**7**	–
Proportionate joint venture balance sheets		
Current assets	**31**	38
Long-term assets	**585**	533
Current liabilities	**(18)**	(24)
Long-term liabilities	**(183)**	(185)
Share of net assets	**415**	362

22. 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 included in the Company's consolidated financial statements. The carrying amount of OPGV's investments was $39 million (2007 – $45 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 2008 decreased by $6 million (2007 – $13 million). The net realized gains and losses for OPGV was $3 million in 2008 (2007 – nil).

The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2008 were $17 million and $19 million, respectively. The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2007 were $19 million and $15 million, respectively.

23. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2008, $75 million (2007 – $93 million) of research and development expenses were charged to operations.

24. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**2008**	2007
Accounts receivable	**(171)**	(97)
Prepaid expenses	**3**	(9)
Fuel inventory	**(132)**	65
Materials and supplies	**(7)**	(13)
Revenue limit rebate payable	**277**	227
Accounts payable and accrued charges	**65**	(42)
Income and capital taxes payable	**38**	(62)
	73	69

TRUSTS AND MISCELLANEOUS 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, C.Dir.
President & CEO

James Maxwell
Chief Administrative and Financial Officer

Toronto, Canada
February 25, 2009

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, 2008 and the Consolidated Statements of Operations and Changes in the Deposit Insurance Reserve Fund, Comprehensive Income 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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
February 25, 2009

Deposit Insurance Corporation of Ontario

Consolidated Statement of Financial Position

December 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
Assets		
Cash (note 2)	**$ 6,125**	$ 9,376
Investments (note 3)	**117,939**	110,011
Loans (net of allowance of $5,603 (2007 - $5,746)) (note 4)	**5,622**	7,115
Premiums receivable	**3,433**	2,965
Interest and other receivables	**496**	631
Deposit insurance advances recoverable	**160**	46
Capital assets (net of accumulated amortization of $3,237 (2007 - $3,619))	**875**	851
Total Assets	**$134,650**	$130,995
Liabilities		
Payables and accruals	**$ 3,644**	$ 3,239
Member shares and deposits of institutions in liquidation (note 5)	**1,276**	13,324
Deferred premium income	**3,465**	3,079
Accrual for deposit insurance losses (note 6)	**30,589**	5,826
Total Liabilities	**38,974**	25,468
Equity		
Deposit Insurance Reserve Fund	**95,638**	105,308
Accumulated other comprehensive income	**38**	219
Total Equity	**95,676**	105,527
Total Liabilities and Equity	**$134,650**	$130,995

Lease Commitments (note 7)

Contingencies (note 12)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

David Yule

Director

Rev Talbot

Director

Deposit Insurance Corporation of Ontario

Consolidated Statement of Operations and Changes in the Deposit Insurance Reserve Fund

Year ended December 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
Income		
Premium income	$ 18,229	$ 17,414
Other income	4,927	5,448
	23,156	22,862
Operating expenses - DICO:		
Salaries and benefits	4,028	3,686
Operating expenses	2,331	2,057
Recovery of operating expenses	(59)	(55)
	6,300	5,688
Operating expenses - institutions in liquidation	2,131	1,282
	8,431	6,970
Excess of income over operating expenses	14,725	15,892
Provision for insurance losses (note 6)	24,395	10,604
Excess of income over total expenses	(9,670)	5,288
Deposit Insurance Reserve Fund, beginning of year	105,308	100,020
Deposit Insurance Reserve Fund, end of year	$ 95,638	$ 105,308

See accompanying notes to consolidated financial statements.

Deposit Insurance Corporation of Ontario

Consolidated Statement of Comprehensive Income

Year ended December 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
Excess of income over total expenses	**$ (9,670)**	$ 5,288
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale investments arising during the year	**(181)**	(6)
Comprehensive income (loss)	**$ (9,851)**	$ 5,282

Statement of Accumulated Other Comprehensive Income
Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Accumulated other comprehensive income, beginning of year (note 3)	**$ 219**	$ 225
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income	**(219)**	(225)
Unrealized gains and losses on available-for-sale investments arising during the year	**38**	219
Net change during the year	**(181)**	(6)
Accumulated other comprehensive income, end of year	**$ 38**	$ 219

See accompanying notes to consolidated financial statements.

Deposit Insurance Corporation of Ontario

Consolidated Statement of Cash Flows

Year ended December 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
Cash received from (applied to)		
Operations:		
Excess of income over total expenses	$ (9,670)	$ 5,288
Items charged to operations not affecting cash		
Provision for losses	24,395	10,604
Loss on disposal of capital assets	1	3
Unrealized (loss) gain on available-for-sale investments arising during the year	(181)	219
Amortization	195	152
Acquisitions of capital assets of institutions in liquidation	-	(83)
Net adjustment with close out institutions during the year	(17)	-
	14,723	16,183
Changes in:		
Loans	1,493	(6,880)
Premiums receivable	(468)	(375)
Interest and other receivables	135	(316)
Payables and accruals	405	299
Membership shares and deposits of institutions in liquidation	(12,048)	13,208
Deferred premium income	386	258
	(10,097)	6,194
Changes in cash balances of institutions in liquidation	242	(9,547)
Net advances by deposit insurer	9,980	9,580
Net deposit insurance advances	(9,968)	(9,575)
Total net deposit insurance recoveries/(advances) (note 6)	254	(9,542)
	4,880	12,835
Investing activities:		
Purchase of investments held at year end	(117,939)	(110,011)
Proceeds on sale of investments	110,011	82,637
Purchase of capital assets	(203)	(687)
Proceeds on sale of capital assets	-	3
	(8,131)	(28,058)
Increase (decrease) in cash position during the year	(3,251)	(15,223)
Cash position, beginning of year	9,376	24,599
Cash position, end of year	$ 6,125	$ 9,376
Supplementary cash flow information:		
Loan guarantee fee paid during the year	$ 7	$ 8
Interest received during the year	$ 4,521	$ 5,350

Cash position is defined as cash and short-term investments less any borrowings (note 2)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended December 31, 2008

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 insured institutions;
- act as stabilization authority for the credit union and caisse populaire sector;
- promote standards of sound business and financial practices;
- collect and publish statistics;
- provide financial assistance to insured institutions;
- act as administrator of insured institutions;
- minimize deposit insurance risk and size of claims.

The Act empowers the Corporation to assess its insured institutions deposit insurance premiums to meet the Corporation's requirements for insurance funding and administrative costs. The Corporation establishes its premium rates annually. They are approved by the Government of Ontario and incorporated into the regulations through appropriate amendments as necessary.

On May 18, 2007 Bill 187 which included amendments to the Act that will revise the Corporation's mandate and its responsibilities received Royal Assent. The amendments are expected to be proclaimed in 2009.

Any borrowings of the Corporation were guaranteed by a Minister of Finance's guarantee on behalf of the Province of Ontario. The guarantee was for a maximum of $150 million and continued until December 31, 2008. Under the loan guarantee arrangement which expired on December 31, 2008, the Province charged a guarantee fee of one-half of one per cent of the average end of day balance outstanding of any debt obligation as well as 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 was in effect. Subsequent to the year end, the Minister of Finance approved a $250 million line of credit (no stand-by fee) with the Ontario Financing Authority which expires on December 31, 2013.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying 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 summarized below.

(A)BASIS OF CONSOLIDATION:

These consolidated financial statements include the assets and liabilities and results of operations of all variable interest entities (VIEs) where the Corporation is the primary beneficiary after elimination of inter-company transactions and balances.

(B) FINANCIAL INSTRUMENTS:

Changes in accounting policy:

On January 1, 2007 the Corporation adopted the new financial instruments accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA). They include Handbook Section 1530, Comprehensive Income and Handbook Section 3855, Financial Instruments - Recognition and Measurement. This change in accounting policy requires that we present a new Consolidated Statement of Comprehensive Income, which is comprised of the excess of income over expenses and changes in unrealized gains or losses related to available-for-sale investments.

(C) VARIABLE INTEREST ENTITIES:

In 2005, the Corporation adopted the accounting guideline on the consolidation of 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, 2008 and 2007.

(D) PREMIUM INCOME:

Premiums are based on a Differential Premium Risk Classification System as defined by regulation applied to insured deposits held by insured institutions. Premium income is calculated based on the Annual Member Institution Return submitted by the insured institution, which is due 75 days after its fiscal year end. Premium income is recognized when earned.

(E) PROVISION FOR LOSSES:

The provision for losses includes allowances against deposit insurance advances to insured 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 insured 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 accrual for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for losses reflects management's best estimate of losses on insured deposits arising from the inherent risk in insured institutions. The provision is established by assessing the aggregate risk in insured 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.

(F) PENSION BENEFITS:

Pension benefits include a defined contribution pension plan covering all of DICO's 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.

(G) 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.

(H) INVESTMENTS:

Investments are classified, based on management's intentions, as available-for-sale. They are measured at fair value with unrealized gains and losses recorded in other comprehensive income until realized or sold. Interest earned is calculated using the effective interest rate.

(I) CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS - DISCLOSURES AND PRESENTATION:

Effective January 1, 2008, the Corporation adopted three new disclosure standards that were issued by the CICA. They include Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments - Presentation.

(J) 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.

(K) 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 recognized in income in the period that includes the date of enactment or substantive enactment.

(L) INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS):

The Canadian Accounting Standards Board (AcSB) confirmed January 1, 2011 as the date IFRS will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for public accountable enterprises. DICO will be required to prepare our December 31, 2011 financial statements including comparative information in compliance with IFRS. In order to prepare for the conversion to IFRS, the Corporation has developed an implementation strategy and timetable plan. The Corporation has also established a cross-functional IFRS team and is providing training to key employees. We are currently assessing the potential impact of the transition to IFRS on our consolidated financial statements, disclosures, and broader financial reporting systems and controls.

2. CASH

	December 31, 2008	December 31, 2007
	Amount (thousands)	Amount (thousands)
Cash	**$1,721**	$3,437
Cash of institutions in liquidation	**$4,404**	$5,939
Total	**$6,125**	$9,376

3. INVESTMENTS

On January 1, 2007, the Corporation adopted the CICA's new accounting requirements for financial instruments. The investments are financial instruments and, as such, classified as available-for-sale and are measured at fair value with unrealized gains and losses recorded in the Consolidated Statement of Comprehensive Income until the investment is sold. On January 1, 2007, the investments were measured at fair value, as appropriate. A net unrealized gain of $225 thousand was recorded in opening accumulated other comprehensive income on available-for-sale investments.

Investments have terms to maturity of 90 days or greater on the date of purchase. They have a weighted-average yield of 2.09% (2007: 4.01%). In compliance with the Corporation's investment policy and relevant statutes, all investments are highly liquid fixed rate contracts and are R1 MID or better on the DBRS scale.

	December 31, 2008			December 31, 2007		
	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	**$ 76,686**	**0.88%**	**92**	$ 72,884	3.83%	94
Bankers' acceptances	**20,847**	**1.55%**	**14**	37,127	4.63%	53
Fixed income-Ontario Prov. Floating rate	**20,406**	**3.76%**	**257**	-	-	-
Total	**$ 117,939**	**2.09%**	**107**	$ 110,011	4.01%	80

The Corporation has contracted with 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*.

4. LOANS (NET OF ALLOWANCE)

Loans (net of allowance) of $5,622,000 (2007 - $7,115,000) are comprised of loans of the estates of credit unions in liquidation as a result of the consolidation of these estates being treated as variable interest entities.

The aggregate allowance of $5,603,000 (2007 - $5,746,000) for impaired loans was established by the management of credit unions now in liquidation based on their own analysis or based on an independent contracted advisor's recommendation prior to DICO's appointment as liquidator. DICO has accepted the allowances as established. Any subsequent adjustments to the allowance are recorded as adjustments to DICO's provision for losses. A total of 4 new institutions were placed in liquidation during 2008. The general process for determining the loan allowances by institution's management is through identification and determination of losses related to specific loan portfolios. It inherently requires the use of management's best judgements and estimates. The liquidator uses the proceeds of the realized assets of each estate, supplemented as necessary by advances from DICO, to pay all depositors and creditors of the estate. The balance of realization proceeds are used to firstly repay DICO's advances and thereafter are distributed on a pro-rata basis to the members of the estate.

5. MEMBER SHARES AND DEPOSITS OF INSTITUTIONS IN LIQUIDATION

Member shares and deposits of institutions in liquidation of $1,276,000 (2007 - $13,324,000) are comprised of $806,000 (2007 - $778,000) in member shares and preferred shares and $470,000 (2007 - $12,546,000) 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 insured institutions not included in their financial statements 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".

	2008	2007
	(thousands)	
Accrual for deposit insurance losses, beginning of year	**$ (5,826)**	$ (4,790)
Increase in accrual for current year's deposit insurance losses	**(25,075)**	(10,800)
Decrease in accrual for prior year's deposit insurance losses	**680**	196
Total net provision for insurance losses for the year	**(24,395)**	(10,604)
(Increase)/Decrease in deposit insurance advances recoverable	**(114)**	26
Less: Accrual for deposit insurance losses, end of year	**(30,589)**	(5,826)
Net deposit insurance recoveries / (advances)	**$ 254**	$ (9,542)

Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for losses included in "Accrual for deposit insurance losses" amounted to $2,500,000 (2007 - $1,750,000) and is calculated in accordance with the methodology as described in note 1(E).

7. LEASE COMMITMENTS

The operating lease for the Corporation's premises has been renewed commencing August 6, 2007 and ending August 5, 2017. The terms of the lease waive basic rent for the first twelve months. The aggregate lease obligations under the new lease are allocated over the term of the lease on a straight-line basis. Future minimum rents for the next 9 years are summarized as follows:

Years	**Rent per annum**
Aug 6, 2008 – Aug 5, 2010	$187,000
Aug 6, 2010 – Aug 5, 2012	$206,000
Aug 6, 2012 – Aug 5, 2017	$218,000

In addition, the Corporation is required to pay property taxes and common area maintenance costs which are currently approximately $250,000 per annum.

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 $19,114,000. They expire as follows:

Originating Taxation Year	Expiring Taxation Year	Amount (thousands)
2002	2009	5,161
2003	2010	4,124
2004	2014	3,790
2005	2015	2,833
2006	2026	1,102
2007	2027	258
2008	2028	1,846
		$ 19,114

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 operates a defined contribution pension plan for its employees. The pension expense charged to income for 2008 was $333,000 (2007 - $331,000).

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, 2008, as actuarially determined, is $1,438,000 (2007 - $1,284,000). The annual benefit cost, including current service cost, interest and amortization of gains and losses was $194,000 (2007 - $198,000). Actuarial valuation for the Corporation's plan is required every three years. The most recent actuarial valuation was conducted as of December 31, 2008 and the date of the next required valuation is December 31, 2011.

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: interest rate of 6.75% (2007 - 5.5%), rate of compensation increase of 3.5% (2007 – 3.5%) and initial weighted average trend rate in health and dental costs of 6.1% (2007 – 5.8%), grading down to 5% per annum by 2029. The Corporation measures its accrued benefit obligations as at December 31st (September 30th for the fiscal years ending December 31, 2007 and before).

RECONCILIATION OF ACCRUED BENEFIT OBLIGATION TO THE ACCRUED BENEFIT LIABILITY	FISCAL YEAR ENDING DECEMBER 31, 2008 (THOUSANDS)	FISCAL YEAR ENDING DECEMBER 31, 2007 (THOUSANDS)
Accrued benefit obligation	**$ 1,513**	$ 1,901
Employer contributions during year	**-**	(9)
Unamortized net actuarial loss	**(75)**	(608)
Accrued benefit liability	**$ 1,438**	$ 1,284

CHANGE IN BENEFIT OBLIGATIONS	FISCAL YEAR ENDING DECEMBER 31, 2008 (THOUSANDS)	FISCAL YEAR ENDING DECEMBER 31, 2007 (THOUSANDS)
Accrued benefit obligation, beginning of the year	**$ 1,901**	$ 1,868
Current service cost	**55**	56
Interest cost	**106**	100
Actuarial loss (gain)	**(510)**	(86)
Benefit payments	**(39)**	(37)
Accrued benefit obligation, end of year	**$ 1,513**	$ **1,901**

11. DIRECTORS' EXPENSE

During the year the directors received an aggregate remuneration of $100,000 (2007 - $93,000). Total directors' expenses were $55,000 (2007 - $46,000). The remuneration for the Chair is a minimum of $2,000 per month which includes a per diem rate of $500. The per diem rate for all other board members is $350 plus an annual retainer of $3,500.

12. CONTINGENCIES

The Corporation is involved in various legal actions in the normal course of business, when acting in the capacity of administrator or liquidator. At the end of 2008 there were no actions brought against the Corporation by third parties. Accordingly, no provisions have been made in these financial statements.

13. RISKS ARISING FROM FINANCIAL INSTRUMENTS

CREDIT RISK

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investment securities. The Corporation minimizes its credit risk by investing in high quality financial instruments and by limiting the amount invested in any one counterparty. All investments in the Deposit Insurance Reserve Fund (DIRF) are limited to those permitted by legislation, where applicable, and to any limits made by the Corporation's investment policy.

The Corporation establishes an allowance for doubtful accounts that represents its estimate of deposit insurance losses in insured institutions. The main components of this allowance are a specific provision that relates to individually significant exposures, and a general provision established in respect of losses that have been incurred but not yet identified. The general provision is determined based on historical data of payment statistics for similar financial assets.

LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations to depositors as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Corporation maintains the following lines of credit approved by the Minister of Finance: $250 million that can be drawn down to provide liquidity to DICO as deposit insurer of insured institutions in the Province of Ontario. The facility is effective from January 01, 2009 to December 31, 2013. Interest would be payable at an annual rate equal to the Province's cost of funds for borrowings for a three month term, plus total of 0.40 percent, as determined by the Ontario Financing Authority at the commencement of each three month period.

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect income or the value of the holdings of financial instruments. The Corporation does not have any dealings with foreign currency transactions. DICO's primary investment objective is to preserve capital and provide necessary liquidity to pay claims and ongoing operating expenses.

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

The Corporation accounts for any fixed rate financial assets as available-for-sale. Therefore a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments. A change of 100 basis points in interest rates would have increased or decreased equity by $866,000. (2007: $933,000).

CAPITAL MANAGEMENT

The Board's policy is to enhance the financial soundness of the credit union and caisse populaire sector. As of December 31, 2008, the Corporation has a deposit insurance reserve fund of $96 million which represents 50 basis points of the sector's insured deposits.

14. FAIR VALUE DISCLOSURE

The fair value of financial assets and liabilities which include cash and short-term investments, investments, loans, premiums receivable, interest and other receivables, payables and accruals, member shares and deposits approximate their carrying amounts. The fair value of accrual for deposit insurance losses has not been determined because it is not practicable to determine fair value with sufficient reliability.

15. COMPARATIVE FIGURES

Certain comparative figures for 2007 have been reclassified to conform with the financial statement presentation adopted for 2008.

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.

John Avgeris
Senior Manager
Motor Vehicle Accident Claims Fund

Peter McGuinness
Manager, Finance and Accounting
Motor Vehicle Accident Claims Fund

Deloitte.

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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, 2009 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, 2009 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
June 17, 2009

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF FINANCIAL POSITION

	As at March 31, 2009 $	As at March 31, 2008 $
ASSETS		
CURRENT		
Funds on Deposit	34,055,714	31,678,894
Accounts Receivable - License Fees	2,918,082	2,922,686
Accounts Receivable - Debtors	42,745,311	41,221,441
Less: Allowance for Doubtful Accounts	27,178,770	25,035,193
	15,566,541	16,186,248
Prepaid Expenses	-	4,018
LONG TERM		
Fixed Assets (Note 3)	551,387	551,387
Less: Accumulated Amortization	319,941	205,000
	231,446	346,387
Unpaid Claims Recoverable (Note 4)	3,783,886	6,984,679
Total Assets	56,555,669	58,122,912
LIABILITIES & FUND DEFICIT		
Accounts Payable and Accrued Expenses	2,011,241	1,343,878
Employee Future Benefits Obligation (Note 3)	530,861	502,094
Deferred Revenue	65,538,122	61,876,776
Unpaid Claims and Adjustment Expenses (Note 4)	179,453,805	185,613,817
	247,534,029	249,336,565
Fund Deficit	-190,978,360	-191,213,653
	-190,978,360	-191,213,653
Total Liabilities & Fund Deficit	56,555,669	58,122,912

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, 2009 $	Year ended March 31, 2008 $
REVENUE		
Fee on Issue or Renewal of Driver's Licences	27,257,155	26,825,641
Change in Deferred Revenue	(3,661,346)	(6,913,339)
Fees Earned	23,595,809	19,912,302
Prior Year Recoveries	1,695,941	1,827,725
Other Revenue	1,845	372
Total Revenue	25,293,595	21,740,399
EXPENSES		
Change in Net Unpaid Claims and Adjustment Expenses	(2,959,219)	10,951,281
Accident Benefits Claims Payments	15,393,719	14,138,021
Administrative Expenses		
Salaries and Wages	1,565,960	1,544,047
Employees' Benefits	247,462	276,133
Transportation and Communication	31,537	28,657
Services:		
Claims (Solicitors' Fees, etc.)	2,172,402	2,009,649
Accident Benefit Claims Expense	1,698,325	1,674,533
Other Services	1,119,884	1,098,297
Bad Debts Expense	5,646,545	3,029,172
Supplies and Equipment	26,747	22,317
Amortization Expense	114,940	105,000
Total Expenses	25,058,302	34,877,107
Excess of Expenses over Revenue	235,293	(13,136,708)
Fund Deficit, Beginning of Year	(191,213,653)	(178,076,945)
Fund Deficit, End of Year	(190,978,360)	(191,213,653)

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF CASH FLOWS

	Year ended March 31, 2009 $	Year ended March 31, 2008 $
OPERATING ACTIVITIES		
Cash Inflows		
Fee on Issue or Renewal of Driver's Licences	27,261,760	26,114,718
Repayment by Debtors	1,307,072	1,629,197
Prior Year Recoveries	1,699,478	1,824,189
Other Revenue	1,845	372
Cash Outflows		
Statutory Payments	(21,160,316)	(19,839,097)
Payments to Employees	(1,778,010)	(1,736,557)
Administrative Expenses	(4,955,009)	(4,820,639)
Net Cash Inflow from Operating Activities	2,376,820	3,172,183
INVESTING ACTIVITIES		
Cash Outflows		
Acquisition of Computer Equipment	-	(23,176)
Acquisition of Furniture	-	-
Acquisition of Office Equipment	-	(6,644)
Net Cash Outflow from Investing Activities	-	(29,820)
Net Increase in Funds on Deposit with Minister of Finance	2,376,820	3,142,363
Funds on Deposit with Minister of Finance, Beginning of Year	31,678,894	28,536,531
Funds on Deposit with Minister of Finance, End of Year	34,055,714	31,678,894

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2009

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 "*SAB*S"). 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, 2009

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 of 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 the accounting principles recommended 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 (AcSB) of the CICA. 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) Fixed Assets

Leasehold improvements, computer equipment, furniture and fixtures, and office equipment are carried at cost less accumulated amortization. The Fund provides for amortization on a straight line basis over the term of the lease (for leasehold improvements) or over the useful life of the asset. Accordingly, leasehold improvements and furniture and fixtures are amortized over 5 years, while computer equipment and office equipment are amortized over 3 years.

Fixed Assets	**2009**			2008
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Leasehold Improvements	**$500,000**	**$300,000**	**$200,000**	$300,000
Computer Equipment	**28,327**	**11,159**	**17,168**	26,610
Furniture & Fixtures	**16,416**	**6,567**	**9,849**	13,133
Office Equipment	**6,644**	**2,215**	**4,429**	6,644
	$551,387	**$319,941**	**$231,446**	$346,387

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Drivers' Licence Fees and Deferred Revenue

The amount the Fund earns changed as of September 2004 from a fee of $5.00 to $15.00 on the issuance or renewal of each driver's five-year licence. The income is earned on a pro-rata basis over the five-year term of the licence and the unearned portion is reflected as deferred revenue.

c) Accounts Receivable – Fees

Under the _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.

d) Accounts Receivable – Debtors

The Fund maintains an accounts receivable portfolio, accumulated over the years as a 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 $4.0 million (2008 - $5.0 million) were processed. Additionally, in the current year $0.5 million of the Accounts Receivable was reinstated through the bad debt expense account.

e) Prior Year Recoveries

Prior year recoveries are generated from three main sources – insurance recoveries, reversionary interest (Note 5) and recoveries of court costs. The Fund is required under the *SABS* to satisfy the payment of accident benefits claims within specified periods. The timeframe does not allow for a complete investigation into available insurance coverage and in some instances information is withheld by police because of criminal investigations.

Accordingly, when new information is available, the Fund may be required to pursue private insurers for recoveries.

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Prior Year Recoveries (cont'd)

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.

f) 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 insurer 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 insurer fails and only to the extent that Assuris, the life insurance industry's insolvency compensation fund, will not cover payments due. The net risk to the Fund is any credit risk related to the life insurers. This credit risk is deemed nil at March 31, 2009. 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 5 – Contingent Gains.

g) 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.

h) a) Employee Future Benefits Obligation

Prior to 2007, 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

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Employee Future Benefits Obligation (cont'd)

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.

	2009	Increase (Decrease)	2008
Employee Future Benefits Obligation	$530,861	$28,767	$502,094

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 is non-actuarially estimated based on one week pay for every year of service for those employees with a minimum of five years of service.

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, 2009

4. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

a) The Fund's unpaid claims and adjustment expenses consist of the following:

	March 31, 2009		March 31, 2008	
	Gross	**Recoverable**	Gross	Recoverable
	(000's)	**(000's)**	(000's)	(000's)
ACCIDENT BENEFITS				
Statutory accident benefits	**$115,229**	$ -	$110,578	$ -
THIRD PARTY LIABLITY (TPL)				
Property damage	**1,361**	**50**	1,511	81
Bodily injury	**62,864**	**3,734**	73,525	6,904
Total TPL	**64,225**	**3,784**	75,036	6,985
Totals	**$179,454**	**$3,784**	$185,614	$6,985

b) The change in gross provision for claims and adjustment expenses is as follows:

	March 31, 2009	March 31, 2008
	(000's)	(000's)
Unpaid claims and adjustment expenses, beginning of year	**$185,614**	$174,546
Increase (decrease) in provision for losses that occurred in prior years	**(15,607)**	3,280
Amounts paid during the year on claims of prior years		
Statutory Payments	**(18,598)**	(17,572)
Claims Expenses	**(6,435)**	(6,195)
Amount paid during the year on claims of the current year		
Statutory Payments	**(619)**	(392)
Claims Expenses	**(214)**	(138)
Provision for losses on claims that occurred in the current year	**35,313**	32,085
Unpaid claims and adjustment expenses, end of year	**$179,454**	$185,614

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2009

5. 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, 2009 for information purposes.

As at March 31, 2009, the amount paid out of the Fund for accident benefit claims in the form of structured settlements was approximately $17.8 million (2008 - $14.2 million) with applicable reversionary interest of approximately $13.7 million (2008- $10.3 million).

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.

Actuaries' Opinion to the Directors of the Ontario Pension Board

Hewitt Associates was retained by the Ontario Pension Board ("OPB") to prepare the following actuarial valuations of the Public Service Pension Plan ("PSPP"):

- An actuarial valuation as at December 31, 2007 on a funding basis, as described in Note 7 of these consolidated financial statements, prepared in accordance with the *Public Service Pension Act* and applicable pension legislation.

- An actuarial valuation as at December 31, 2008 for purposes of these consolidated financial statements, prepared in accordance with the Canadian Institute of Chartered Accountants Handbook, Section 4100.

The actuarial valuation of the PSPP as at December 31, 2007 on a funding basis was based on membership data provided by OPB as at December 31, 2007.

Using the same data as provided by OPB for the funding valuation of the PSPP, we have prepared a valuation of the liabilities as of December 31, 2007 on the basis of the accounting methodology required by the Canadian Institute of Chartered Accountants Handbook, Section 4100, as disclosed in Note 7, and extrapolated the liabilities to December 31, 2008. The valuation as at December 31, 2008 was based on assumptions that reflect OPB's best estimates of future events such as future rates of inflation, future retirement rates and future rates of return on the pension fund. The amounts are set out in the Consolidated Statement of Changes in Accrued Pension Benefits.

We hereby certify that, in our opinion:

- The data provided to us by OPB as of December 31, 2007 are sufficient and reliable;

- The actuarial assumptions used are, in aggregate, appropriate for the purposes of each valuation; emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations; and

- The methods used are appropriate for purposes of each valuation and are consistent with the applicable regulatory requirements.

Our valuations have been prepared, and our opinions given, in accordance with accepted actuarial practice.

HEWITT ASSOCIATES

Allan H. Shapira
Fellow, Canadian Institute of Actuaries

February 27, 2009

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.

Mark J. Fuller
President & CEO

February 27, 2009

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 (deficit) of Ontario Pension Board ("OPB") as at December 31, 2008 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 net assets available for benefits, and accrued pension benefits and excess (deficit) of OPB as at December 31, 2008 and the changes in its net assets available for benefits, accrued pension benefits and excess (deficit) for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 27, 2009

Chartered Accountants
Licensed Public Accountants

Consolidated Statement of Net Assets Available for Benefits, and Accrued Pension Benefits and Excess (Deficit)

As at December 31 *(in thousands of dollars)*	**2008**	2007 (restated – Note 3)
Assets		
Investments (Note 4)	**$ 14,828,127**	$ 16,483,834
Investment-related receivables (Note 4)	**2,516,261**	1,731,161
Contributions receivable (Note 5)	**48,731**	40,564
Capital assets (Note 6)	**4,748**	1,211
Total assets	**17,397,867**	18,256,770
Liabilities		
Investment-related liabilities (Note 4)	**2,757,855**	1,833,294
Accounts payable and accrued charges	**20,722**	33,634
Income taxes withheld on pension payments	**10,625**	10,104
Contributions payable	**1,597**	1,176
Total liabilities	**2,790,799**	1,878,208
Net assets available for benefits	**$ 14,607,068**	$ 16,378,562

Accrued pension benefits and excess (deficit)		
Accrued pension benefits (Note 7)	**$ 17,311,935**	$ 16,315,393
Excess (deficit) (Note 8)	**(2,704,867)**	63,169
Total accrued pension benefits and excess (deficit)	**$ 14,607,068**	$ 16,378,562

See accompanying notes

On behalf of the Board:

M. Vincenza Sera
Chair

J. Urban Joseph
Vice-Chair

Consolidated Statement of Changes in Net Assets Available for Benefits

For the Year Ended December 31 *(in thousands of dollars)*	**2008**	2007 (restated – Note 3)
Increase in net assets		
Net investment income (Note 9)	$ -	$ 306,960
Contributions (Note 10)	**487,534**	451,858
Transfers from other plans	**206,659**	81,754
Increase in net assets	**694,193**	840,572
Decrease in net assets		
Net investment loss (Note 9)	**1,551,919**	-
Pension payments	**810,133**	788,798
Termination payments and transfers	**70,553**	66,969
Operating expenses (Note 11)	**33,082**	27,016
Decrease in net assets	**2,465,687**	882,783
Net decrease in net assets for the year	**(1,771,494)**	(42,211)
Net assets, at beginning of year	**$ 16,378,562**	$ 16,420,773
Net assets, at end of year	**$ 14,607,068**	$ 16,378,562

See accompanying notes

Consolidated Statement of Changes in Accrued Pension Benefits

For the Year Ended December 31 *(in thousands of dollars)*	**2008**	2007
Accrued pension benefits, at beginning of year	**$ 16,315,393**	$ 15,317,628
Increase in accrued pension benefits		
Interest on accrued pension benefits	**997,552**	931,575
Benefits accrued		
Service accrual	**468,871**	420,594
Transfer of service from other plans	**206,659**	81,754
Past service buybacks	**15,066**	13,296
Experience losses	**198,450**	134,755
Change in actuarial assumptions (Note 7)	**-**	271,558
Total increase	**1,886,598**	1,853,532
Decrease in accrued pension benefits		
Benefits paid	**880,686**	855,767
Change in actuarial assumptions (Note 7)	**9,370**	
Total decrease	**890,056**	855,767
Net increase in accrued pension benefits	**996,542**	997,765
Accrued pension benefits, at end of year	**$ 17,311,935**	$ 16,315,393

Consolidated Statement of Changes in Excess (Deficit)

For the Year Ended December 31 *(in thousands of dollars)*	**2008**	2007 (restated – Note 3)
Excess, at beginning of year	**$ 63,169**	$ 1,103,145
Net decrease in net assets available for benefits	**(1,771,494)**	(42,211)
Net increase in accrued pension benefits	**(996,542)**	(997,765)
Net decrease	**(2,768,036)**	(1,039,976)
Excess (deficit), at end of year	**$ (2,704,867)**	$ 63,169

See accompanying notes

Notes to the Consolidated Financial Statements

Note 1 PUBLIC SERVICE PENSION ACT

Effective January 1, 1990, the Province of Ontario ("Province") enacted the *Public Service Pension Act*, 1990 (*"PSPAct"*) to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan ("PSPP" or the "Plan") 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 integration with 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. In the 1990s, 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 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 transfer to another pension plan, or to purchase a life annuity.

g) Escalation of Benefits

Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

a) 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 on the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in excess (deficit) during the reporting period. Actual results could differ from those estimates.

b) Principles of Consolidation

The consolidated accounts of OPB include the accounts of its wholly-owned subsidiaries. All significant balances and transactions between OPB and its subsidiaries have been eliminated on consolidation.

c) Investments

Investments are stated at fair value, including accrued income. For traded investments, 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, which, together with accrued interest or discount earned, approximates fair value.

(ii) Special Province of Ontario Debentures (the "Special Debentures"), bonds and real estate debt are valued at quoted market prices where available. For those instruments for which 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) Equities are valued at quoted market prices at closing.

(iv) Real estate, consisting primarily of income-producing properties, and participating mortgages are valued at estimated fair value determined annually by independent appraisals. The purchase price approximates the fair value of properties acquired and held for less than six months.

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 recorded. Dividend income is recognized on the ex-dividend date. Revenue from real estate includes amounts earned from tenants related to lease agreements for its revenue-producing properties, including property tax and operating cost recoveries. Gains on the sale of properties are recognized when OPB has transferred to the purchaser the significant risks and rewards of ownership of the property, the purchaser has made a substantial commitment demonstrating its intent to honour its obligation, and collection of any additional consideration is reasonably assured. Income from participating mortgages is accrued at the rate stated in the instrument, and any participation income is recognized on an accrual basis. 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. Transaction costs are expensed as incurred.

d) 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 service and management's best estimate of various economic and non-economic assumptions.

e) Contributions

Contributions due to the PSPP at year-end are recorded as receivable. Transfers into the Plan and purchases of prior service are recorded after cash is received and the transfer or purchase transaction is completed.

f) Pension Payments

Payments of pensions, refunds and transfers out of the Plan are recorded in the year in which they are made.

g) 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

h) 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 values of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

i) Changes in Accounting Policies and Prior Period Adjustment

In 2008, OPB changed its accounting policy for the Special Debentures, whereby they are now valued at estimated fair values using discounted cash flows based on current market yields of comparable securities. This policy provides consistency with the actuarial valuation of the Plan. In prior years, the Special Debentures were valued at cost.

The Plan's actuarial funding valuation determines the value of the Special Debentures using discounted cash flows. Beginning with the funding valuation as at December 31, 2007, the discount rate is based on current market yields of comparable securities. Previously, the discount rate used was the assumed investment rate of return used in Plan funding valuations. Combined with the change in accounting for the Special Debentures, there is no longer a difference in the valuation of the Special Debentures for accounting and funding purposes. Consequently, the consolidated statements of net assets available for benefits, and accrued pension benefits and excess (deficit), and changes in excess (deficit) no longer present an actuarial asset value adjustment.

In 2008, OPB also changed its accounting policies for its participating mortgages, whereby the mortgages are now valued at estimated market price, and participation income is now recognized on an accrual basis. In prior years, the mortgages were recorded at cost, and the participation income was recorded when realized. The change in valuing the participating mortgages was to provide consistency with the actuarial valuation for determining accrued pension benefits of the Plan. The change in revenue recognition was implemented to reflect management's increased assurance that participation income is realizable, based on the increased value of the underlying properties and project net earnings to date, from which OPB's participation income is derived.

In addition, the real estate valuation for the prior years has been adjusted to reduce the fair value of real estate by $50.1 million and $45.1 million as at December 31, 2007 and December 31, 2006, respectively, and to reduce net investment income by $5.0 million in 2007. This real estate valuation adjustment reflects deferred costs that were previously not considered in recording the fair value adjustment.

These changes in accounting policies and prior period adjustment have been applied retrospectively, and the comparative financial statements for 2007 have been restated. The impact of the changes is as follows:

(in thousands of dollars)	**2008**	2007
Actuarial value of net assets available for benefits, before accounting changes	**$ 14,371,296**	$ 16,248,247
Change to fair value accounting for Special Debentures	**503,358**	543,642
Change in accounting for participating mortgages	**15,397**	15,941
Elimination of actuarial asset value adjustment	**(282,983)**	(379,153)
Real estate valuation adjustment	**-**	(50,115)
Net assets available for benefits, after accounting changes	**$ 14,607,068**	$ 16,378,562

Deficit, before accounting changes	**$ (2,940,639)**	$ (67,146)
Net adjustment to net assets available for benefits	**235,772**	130,315
Excess (deficit), after accounting changes	**$ (2,704,867)**	$ 63,169

Net increase (decrease) in net assets for the year, before accounting changes	**$ (1,730,667)**	$ 123,815
Change to fair value accounting for Special Debentures	**(40,284)**	(162,909)
Change in accounting for participating mortgages	**(543)**	1,919
Real estate valuation adjustment	**-**	(5,036)
Net decrease in net assets for the year, after accounting changes	**$ (1,771,494)**	$ (42,211)

In addition, the 2007 opening excess balance was increased by $188.2 million to $1,103.1 million as a result of these changes.

Effective January 1, 2008, OPB implemented the recommendations of the Canadian Institute of Chartered Accountants ("CICA") contained within CICA Handbook Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation". These new standards require expanded disclosures related to risks associated with financial instruments and risk management practices. These expanded disclosures are contained in Note 4.

Note 4 INVESTMENTS

As at December 31 *(in thousands of dollars)*	2008 **Fair Value**	**Cost**	2007 Fair Value (restated – Note 3)	Cost
Cash and short-term investments				
Canada	**$ 917,671**	**$ 917,917**	$ 930,843	$ 930,862
United States and other international	**77,889**	**77,429**	35,088	34,947
	995,560	**995,346**	965,931	965,809
Fixed income				
Special Province of Ontario Debentures	**2,686,017**	**2,182,659**	3,010,161	2,466,519
Bonds				
Canada	**2,884,486**	**2,877,508**	2,870,522	2,869,678
United States and other international	**949,348**	**838,011**	785,290	802,736
	6,519,851	**5,898,178**	6,665,973	6,138,933
Equities				
Canada	**1,611,976**	**1,603,983**	2,153,459	1,372,607
United States	**1,939,235**	**2,200,432**	2,407,898	2,479,347
Other international	**1,526,732**	**2,003,015**	1,948,138	1,833,275
	5,077,943	**5,807,430**	6,509,495	5,685,229
Real estate	**2,191,469**	**1,883,707**	2,299,920	1,823,140
Participating mortgages	**43,304**	**27,906**	42,515	26,574
Total investments	**14,828,127**	**14,612,567**	16,483,834	14,639,685
Investment-related receivables				
Pending trades	**16,415**	**16,415**	8,244	8,244
Forward exchange contracts	**2,499,846**	**2,467,810**	1,722,917	1,731,184
	2,516,261	**2,484,225**	1,731,161	1,739,428
Investment–related liabilities				
Real estate debt	**124,104**	**113,332**	127,294	124,505
Pending trades	**21,717**	**21,717**	8,999	8,999
Forward exchange contracts	**2,612,034**	**2,467,810**	1,697,001	1,731,184
	2,757,855	**2,602,859**	1,833,294	1,864,688
Net investments	**$ 14,586,533**	**$ 14,493,933**	$ 16,381,701	$ 14,514,425

a) Asset Mix

Investments are allocated to and maintained in major asset classes within acceptable ranges, with target allocation as follows:

	Effective December 4, 2007	Prior to December 4, 2007
	Target	Target
Cash and short-term	**2%**	5%
Bonds	**38%**	45%
Total interest-bearing instruments	**40%**	50%
Equity		
Canadian	**11%**	15%
International	**36%**	25%
Total equity	**47%**	40%
Canadian real estate	**13%**	10%
Total equity and real estate	**60%**	50%

Investments in certain other asset classes are allowable, subject to Board approval.

b) Financial Instruments Risk

The Plan is subject to financial risks as a result of its investing activities that could impact its cash flows, income, and assets available to meet benefit obligations. These risks include market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. OPB manages these risks in accordance with its 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.

Market Risk - Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. Market risk is comprised of the following:

(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. OPB's fixed income investments have the most significant exposure to interest rate risk. Duration and weighting for the fixed income portfolio are actively managed. Modified duration is a measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. Given the Fund's modified duration of 4.74 years at December 31, 2008, a parallel shift in the yield curve of +/-1% would result in an impact on the net investments of $308.9 million, with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. See the schedule of Fixed Income Maturities for further information.

(ii) **Foreign Currency Risk** - Foreign currency exposure arises from the Plan holding foreign exchange denominated investments and entering into contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the value of the Canadian dollar against these foreign currencies can have an impact on the fair value of investments. The Plan hedges a portion of its foreign currency exposure through the use of foreign exchange forward contracts, which are accounted for at fair value. Total currency exposure, impact of foreign exchange forward contracts and the net currency exposure are as follows:

				2008	2007
As at December 31 *(in thousands of dollars)*	**Gross Exposure**	**Foreign Exchange Contracts Receivable**	**Foreign Exchange Contracts Payable**	**Net Exposure**	Net Exposure
United States dollar	**$ 2,060,015**	**$ 323,409**	**$ (652,865)**	**$ 1,730,559**	$ 2,584,670
Euro	**1,318,478**	**345,069**	**(1,265,485)**	**398,062**	577,177
British pound sterling	**355,897**	**32,125**	**(237,065)**	**150,957**	219,210
Japanese yen	**139,929**	**-**	**(463)**	**139,466**	242,163
Swiss franc	**140,053**	**6,377**	**(47,373)**	**99,057**	106,056
Other	**59,646**	**-**	**(8,239)**	**51,407**	94,559
Total foreign	**4,074,018**	**706,980**	**(2,211,490)**	**2,569,508**	3,823,835
Canadian dollar	**10,624,703**	**1,792,866**	**(400,544)**	**12,017,025**	12,557,866
	$ 14,698,721	**$ 2,499,846**	**$ (2,612,034)**	**$ 14,586,533**	$ 16,381,701

The impact of a 1% absolute change in foreign exchange rates compared to the Canadian dollar, holding all other variables constant, is 1% of the net exposure of the impacted currency, or $25.7 million in total for all foreign currencies as at December 31, 2008.

(iii) **Other Price Risk** – Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices other than those arising from foreign currency or interest rate risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. An absolute change in the fair value of OPB's investments which are exposed to other price risk will have a direct proportional impact on the fair value of the investments. OPB's investments in equities have the most significant exposure to other price risk. The impact of a 1% absolute change in the price of an investment, holding all other variables constant, is 1% of the net exposure of the impacted investment, or $50.8 million, as at December 31, 2008

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, 2008, the Plan's greatest credit exposure is with the Province of Ontario, with Special Debentures valued at $2.686 billion (2007 - $3.010 billion) and bonds and short-term investments valued at $645 million (2007 - $408 million). At December 31, 2008, 96% (2007 - 98%) of bonds held had at least an "A" rating.

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 from the sales of investments, and member and employer contributions. The largest sources of cash during the year were the interest and principal payments from the Special Debentures, which provided $539 million (2007 - $536 million) to the Plan.

c) Cash and Short-Term Investments

As at December 31 *(in thousands of dollars)*	**Fair Value**	**2008** **Cost**	Fair Value	2007 Cost
Canada				
Cash	**$ 4,071**	**$ 4,071**	$ 4,554	$ 4,554
Short-term notes and treasury funds	**910,529**	**910,775**	907,547	907,566
Term deposits	**1,102**	**1,102**	14,435	14,435
Accrued interest	**1,969**	**1,969**	4,307	4,307
	$ 917,671	**$ 917,917**	$ 930,843	$ 930,862
United States and other international				
Cash	**$ 4,921**	**$ 4,921**	$ 5,791	$ 5,791
Short-term notes and treasury funds	**24,051**	**23,591**	16,100	16,025
Term deposits	**48,907**	**48,907**	13,131	13,065
Accrued interest	**10**	**10**	66	66
	$ 77,889	**$ 77,429**	$ 35,088	$ 34,947

d) Fixed Income and Equities

The Special Debentures are recorded at an estimated market value of $2.686 billion (2007 - $3.010 billion) by discounting cash flows based on year-end market yields of comparable bonds. There are currently six Special Debentures maturing over the next six years with a weighted average interest rate of 11.56% (2007 – 11.70%).

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**	**2008** **Cost**	Fair Value	2007 Cost
Bonds - Canada	**$ -**	**$ -**	$ 352,572	$ 365,424
Equities - Canada	**110,238**	**165,605**	121,018	62,979
Equities - United States	**1,291**	**1,249**	2,756	2,841
Equities - Other International	**252,695**	**333,484**	75,487	94,826

See the schedules of Fixed Income Maturities and of Investments over $20 Million for further information.

e) Real Estate

As at December 31 *(in thousands of dollars)*	**Fair Value**	**2008** **Cost**	Fair Value	2007 Cost
Real estate properties	**$ 2,194,793**	**$ 1,887,031**	$ 2,302,364	$ 1,825,584
Other assets, net	**(3,324)**	**(3,324)**	(2,444)	(2,444)
Total assets	**2,191,469**	**1,883,707**	2,299,920	1,823,140
Debt on real estate properties	**(124,104)**	**(113,332)**	(127,294)	(124,505)
Net investment in real estate	**$ 2,067,365**	**$ 1,770,375**	$ 2,172,626	$ 1,698,635

Debt includes mortgages and other secured debt with various terms to maturity up to 2018 and a weighted average interest rate of 6.55% (2007 - 6.56%), against which specific real estate properties are pledged as collateral.

The following schedule shows the total principal payments related to this debt:

For the Year Ended December 31 *(in thousands of dollars)*	
2009	$ 33,735
2010	7,646
2011	16,843
2012	2,551
2013	23,095
2014 and thereafter	29,462

f) Securities Lending

At year-end, $835 million (2007 - $1.536 billion) 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 securities that had credit ratings equal to or better than the securities loaned. OPB does not employ cash collateral in its securities lending program. At year-end, $896 million of securities were held as collateral, providing a 7.3% cushion against market and credit risks.

Note 5 CONTRIBUTIONS RECEIVABLE

As at December 31 *(in thousands of dollars)*	**2008**	2007
Members	**$ 19,498**	$ 16,110
Employers	**29,233**	24,454
Total contributions receivable	**$ 48,731**	$ 40,564

Note 6 CAPITAL ASSETS

As at December 31 *(in thousands of dollars)*	**Cost**	**Accumulated Depreciation**	**2008** **Net Book Value**	2007 Net Book Value
Computer equipment	**$ 2,182**	**$ 1,004**	**$ 1,178**	$ 670
Furniture and fixtures	**2,327**	**190**	**2,137**	397
Leasehold improvements	**1,433**	**-**	**1,433**	144
Total capital assets	**$ 5,942**	**$ 1,194**	**$ 4,748**	$ 1,211

Note 7 ACCRUED PENSION BENEFITS

a) Accounting Basis

The value of accrued pension benefits of $17.312 billion (2007 - $16.315 billion) is an estimate of pension benefit obligations accrued to date for members and pensioners. 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 accrued pension benefits as at December 31, 2008 are computed by extrapolating data used for the December 31, 2007 funding valuation.

Actuarial Assumptions - The actuarial assumptions used in determining the value of accrued pension benefits reflect management's best estimate of future economic and non-economic events. The primary economic assumptions, as at December 31, are:

	2008	2007
Investment return	**6.15%**	6.15%
Inflation	**2.50%**	2.50%
Real rate of return	**3.65%**	3.65%
Salary increases	**3.50% +promotional scale**	3.50% +promotional scale

The non-economic assumptions include mortality, withdrawal and retirement rates. In 2008, changes were made in the assumptions on retirement rates for certain employee groups, and the methodology for applying retirement, termination and pre-retirement mortality rates.

b) Funding Basis

The funding valuation of the PSPP is based on methods required under the *PSPAct* and the *Pension Benefits Act (Ontario) ("PBA")*. The *PBA* 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 most recent filing was a funding valuation as at December 31, 2007 prepared by Hewitt Associates, which disclosed a funding shortfall of $37 million.

Changes prescribed under the *PBA* require minimum funding requirements to be determined using the unit credit actuarial cost method. As a result, the actuarial cost method used for the December 31, 2007 funding valuation was changed from the aggregate cost method to the unit credit cost method. The change transferred a portion of the past service cost incurred by the Plan into current service cost, resulting in additional employer contributions that have been reclassified as employer current service contributions in addition to the matching contributions prescribed by the *PSPAct*. These additional contributions are included in Note 10.

The funding valuation is used as a basis for funding and Plan design decisions.

Note 8 EXCESS (DEFICIT)

In these financial statements, the amount by which net assets available for benefits is less than the accrued pension benefits is represented by the deficit, which as at December 31, 2008 was $2.705 billion (2007 - $63 million excess)

Differences between the accounting and funding valuation results may arise due to such factors as variances between estimated and actual data, economic and demographic assumptions or conditions, actuarial methodology, and subsequent events.

Note 9 NET INVESTMENT INCOME (LOSS)

For the Year Ended December 31			2008					2007
(in thousands of dollars)	**Investment Income[1]**	**Realized Gain (Loss)**	**Unrealized Gain (Loss)[2]**	**Total**	Investment Income[1]	Realized Gain (Loss)	Unrealized Gain (Loss)[2]	Total[2]
						(restated – Note 3)		
Cash and short-term investments								
Canada	**$ 32,429**	**$ 10,579**	**$ (227)**	**$ 42,781**	$ 33,818	$ (3,698)	$ (663)	$ 29,457
United States and other international	**1,987**	**3,355**	**(137,785)**	**(132,443)**	4,967	27,972	59,512	92,451
	34,416	**13,934**	**(138,012)**	**(89,662)**	38,785	24,274	58,849	121,908
Fixed income								
Special Province of Ontario Debentures	**255,056**	**-**	**(40,284)**	**214,772**	288,749	-	(162,909)	125,840
Bonds								
Canada	**142,415**	**(16,314)**	**6,134**	**132,235**	139,861	(12,260)	(36,400)	91,201
United States and other international	**38,845**	**3,650**	**128,783**	**171,278**	27,820	2,775	(45,463)	(14,868)
	436,316	**(12,664)**	**94,633**	**518,285**	456,430	(9,485)	(244,772)	202,173
Equities								
Canada	**43,789**	**8,789**	**(772,859)**	**(720,281)**	44,769	323,062	(158,724)	209,107
United States	**56,526**	**(358,917)**	**(189,748)**	**(492,139)**	57,164	4,037	(385,465)	(324,264)
Other international	**66,192**	**(187,684)**	**(591,146)**	**(712,638)**	61,298	173,406	(318,205)	(83,501)
	166,507	**(537,812)**	**(1,553,753)**	**(1,925,058)**	163,231	500,505	(862,394)	(198,658)
Real estate	**150,249**	**-**	**(177,001)**	**(26,752)**	147,660	4,529	56,891	209,080
Participating mortgages	**1,332**	**-**	**(543)**	**789**	2,685	-	1,919	4,604
Total investment income (loss)	**$ 788,820**	**$ (536,542)**	**$ (1,774,676)**	**$ (1,522,398)**	$ 808,791	$ 519,823	$ (989,507)	339,107
Investment fees				**(29,521)**				(32,147)
Net investment income (loss)				**$ (1,551,919)**				$ 306,960

[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.
[2]Unrealized gain (loss) on cash and short-term investments include foreign exchange contracts.

a) Interest Income

For the Year Ended December 31 *(in thousands of dollars)*	**2008**	2007
Cash and short-term investments		
Canada		
Cash	**$ 2,984**	$ 1,924
Short-term notes and treasury funds	**27,944**	30,867
Term deposits	**1,501**	1,027
	$ 32,429	$ 33,818

United States and other international		
Cash	**$ 127**	$ 185
Short-term notes and treasury funds	**323**	1,830
Term deposits	**1,537**	2,952
	$ 1,987	$ 4,967

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds. Canadian bond interest includes $14.164 million (2007 - $15.473 million) from pooled bond funds.

b) Dividend Income

Canadian dividend income includes $817 thousand (2007 - $2.473 million) from pooled equity funds. United States dividend income includes $59 thousand (2007 - $26 thousand) from pooled equity funds. Other international dividend income includes $7.223 million (2007 - $8.786 million) from pooled equity funds.

c) Real Estate

The following is selected information from OPB's real estate operations:

For the Year Ended December 31

(in thousands of dollars)	**2008**	2007 (restated – Note 3)
Revenue		
Rental	**$ 259,622**	$ 253,042
Other income	**6,123**	5,975
	265,745	259,017
Expenses		
Operating expenses	**94,609**	91,162
General, administrative and other	**14,249**	13,451
	108,858	104,613
Operating income, before interest	**156,887**	154,404
Interest expense	**7,838**	8,232
Net operating income	**149,049**	146,172
Unrealized gain (loss)		
Appraisal adjustment	**(169,018)**	56,734
Fair value adjustment on debt	**(7,983)**	889
	(177,001)	57,623
Realized gain	**-**	2,233
Transaction costs	**(375)**	(412)
Net income (loss)	**$ (28,327)**	$ 205,616

d) Investment Fees

For the Year Ended December 31

(in thousands of dollars)	**2008**	2007
Portfolio fund management	**$ 17,428**	$ 18,533
Transaction costs	**7,787**	8,873
Custody	**1,714**	2,181
Real estate	**2,408**	1,880
Consulting	**184**	680
	$ 29,521	$ 32,147

Transaction costs include commissions and fees on trades. Additional transaction costs included in real estate expense total $782 thousand (2007 - $571 thousand).

Note 10 CONTRIBUTIONS

For the Year Ended December 31 *(in thousands of dollars)*	**2008**	2007
Members		
Current service	**$ 208,436**	$ 191,376
Prior service	**11,729**	8,825
	220,165	200,201
Employers		
Current service		
Regular contributions	**208,263**	191,953
PSSBA transfer	**(10,764)**	(10,177)
For members receiving Long Term Income Protection benefits	**6,424**	6,020
	203,923	187,796
Prior service	**3,337**	4,471
Special Payments	**3,757**	59,390
Additional current service	**56,352**	-
	267,369	251,657
Total contributions	**$ 487,534**	$ 451,858

The contribution requirements are set out in the *PSPAct* and summarized in Note 2(b).

Members who are receiving benefits on Long Term Income Protection ("LTIP") have their contributions to the PSPP paid by their employers.

The Province contributed $3.757 million in Special Payments in 2008 towards the funding shortfall identified in the filed funding valuation as at December 31, 2007 (2007 - $59.390 million as identified in the filed funding valuation as at December 31, 2005). In 2008, the Province made $56.352 million in additional employer current service contributions.

Note 11 OPERATING EXPENSES

For the Year Ended December 31 *(in thousands of dollars)*	**2008**	2007
Staffing	**$ 16,756**	$ 13,327
Information technology and project management	**6,309**	5,448
Office premises and operations	**3,767**	3,470
Professional services	**2,947**	2,106
Staff development and support	**1,137**	964
Communication	**769**	626
Depreciation	**815**	568
Audit	**394**	338
Board remuneration	**188**	169
Total operating expenses	**$ 33,082**	$ 27,016

Fees for services provided by the firm of Ernst & Young LLP include:

For the Year Ended December 31 *(in thousands of dollars)*	**2008**	2007
Audit and related services provided to Ontario Pension Board	**$ 98**	$ 82
Audit and related services provided to OPB Realty Inc.	**141**	123
Total fees	**$ 239**	$ 205

Note 12 COMPENSATION

Compensation to the senior management team includes base salary, incentives, insured benefits and supplementary retirement incentives. Compensation totals, excluding retirement benefits, for the CEO, President and all Senior Vice-Presidents:

For the Year Ended December 31	Year	Base Salary	Incentives[1]	Taxable Benefits and Allowances[2]	Total
Donald D. Weiss, CEO	2008	$376,568	$117,985	$16,470	$511,023
	2007	358,672	128,250	16,188	503,110
	2006	333,742	125,625	15,915	475,282
Mark J. Fuller, President	2008	398,321	141,300	11,403	551,024
	2007	332,648	140,242	11,304	484,194
	2006	299,032	112,551	13,561	425,144
Linda J. Bowden, Senior Vice-President, Operations	2008	314,224	95,854	10,078	420,156
	2007	258,617	85,180	10,009	353,806
	2006	232,976	87,715	9,965	330,656
R. Paul Edmonds, Senior Vice-President, Corporate Affairs & General Counsel[3]	2008	208,775	66,055	11,617	286,447
Peter Shena, Senior Vice-President, Stakeholder Relations & Pension Policy	2008	258,995	75,098	13,513	347,606
	2007	201,257	55,548	5,175	261,980
	2006	189,256	57,000	2,615	248,871
Anne-Marie Thomas, Senior Vice-President, Investments[4]	2008	321,586	95,854	15,194	432,634
	2007	297,490	97,960	11,357	406,807
	2006	82,213	36,231	2,833	121,277

[1]Incentives earned in 2007 and 2008 are paid in March of the following year.
[2] Includes life insurance, car allowance and parking.
[3] Start date of March 17, 2008.
[4] Start date of September 18, 2006.

Compensation for the CEO and the President is approved by the Board. Compensation for the Senior Vice-Presidents is approved by the Human Resources Committee of the Board. Incentives are performance-based.

The above-noted individuals are entitled to benefits from both the PSPP and the PSSBA.

The CEO, the President, the Senior Vice-President, Operations, 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 incentives 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 reclassified to conform with the financial statement presentation adopted in 2008.

Fixed Income Maturities

As at December 31

(in thousands of dollars)	2008 **Fair Value**	2008 **Effective Yield %**	2007 Fair Value	2007 Effective Yield %
Special Province of Ontario Debentures				
0 – 1 year	**$ 229,608**	**13.02**	$ 219,329	12.89
1 – 5 years	**1,807,031**	**10.38-13.33**	1,581,112	10.38-13.33
5 – 10 years	**526,290**	**11.19**	1,069,575	11.10-11.19
Accrued interest	**123,088**		140,145	
	2,686,017		3,010,161	
Bonds				
Canada				
0 – 1 year	**177,257**	**3.12-7.12**	92,770	3.55-5.71
1 – 5 years	**977,997**	**1.72-8.52**	830,292	3.60-8.27
5 – 10 years	**825,639**	**2.85-9.03**	730,911	3.89-7.53
> 10 years	**877,362**	**2.03-10.50**	842,535	4.31-6.89
PH&N Bond Fund: 1-29 years	**-**		352,572	5.53
Accrued interest	**26,231**		21,442	
	2,884,486		2,870,522	
United States and other international				
0 – 1 year	**894**	**1.67**	-	
1 – 5 years	**404,346**	**2.88-5.16**	351,220	2.87-5.94
5 – 10 years	**292,344**	**3.40-11.32**	261,527	3.68-6.82
> 10 years	**232,694**	**3.97-13.38**	158,577	4.33-6.70
Accrued interest	**19,070**		13,966	
	949,348		785,290	
	$ 6,519,851		$ 6,665,973	

Investments over $20 Million

As at December 31, 2008

(in thousands of dollars)	Maturities	Coupon %	Fair Value [1]
Cash and short-term investments			
Canada			
Government of Canada			$ 261,808
Province of Ontario			176,048
Canadian Imperial Bank of Commerce			71,053
Toronto-Dominion Bank			70,125
Bon TRQC			67,177
Alberta Treasury			54,504
Bank of Nova Scotia			41,186
Province of New Brunswick			34,940
Royal Bank of Canada			27,798
Province of Manitoba			27,714
Province of Newfoundland and Labrador			24,891
Other international			
Barclays Bank PLC			48,906
Fixed income			
Special Province of Ontario Debentures	2009-2014	10.38 - 13.33	$ 2,562,929
Bonds			
Canada			
Government of Canada	2009-2041	1.71 - 10.35	710,255
Province of Ontario	2009-2039	1.74 - 9.50	468,784
Province of Quebec	2009-2036	4.50 - 6.25	141,254
Bank of Nova Scotia	2009-2056	3.10 - 7.31	126,283
Royal Bank of Canada	2010-2053	4.45 - 7.10	123,708
Toronto-Dominion Bank	2011-2106	4.25 - 7.24	97,591
Bank of Montreal	2011-2023	4.55 - 6.17	90,524
Canadian Imperial Bank of Commerce	2009-2018	3.75 - 5.15	80,813
Province of Manitoba	2009-2038	4.25 - 6.50	62,771
Merrill Lynch	2011-2037	4.17 - 7.77	59,662
Wells Fargo Financial	2011-2015	4.33 - 6.05	55,735
Manulife Financial Corporation	2012-2041	5.06 - 6.70	43,266
Province of British Columbia	2009-2037	4.70 - 8.75	41,727
Sun Life Financial Inc.	2011-2036	4.80 - 6.87	40,230
Power Corporation	2011-2067	5.69 - 6.75	31,460
Greater Toronto Airports Authority	2011-2034	4.40 - 7.10	30,909
Province of Saskatchewan	2014-2040	4.25 - 6.40	30,007
HSBC	2010-2021	2.90 - 7.78	29,185
Enbridge Inc.	2010-2036	3.95 - 7.20	28,686
EnCana Corporation	2012-2018	4.30 - 5.80	25,502
Thomson Reuters	2011-2015	5.20 - 6.85	25,430
GE Capital	2011-2037	4.38 - 6.25	25,345
Ontario Hydro	2014-2026	8.25 - 10.00	24,939
Loblaw Companies Limited	2010-2036	5.40 - 7.10	23,397
Union Gas	2010-2038	4.64 - 7.20	22,215
Province of New Brunswick	2010-2039	4.45 - 6.75	20,386

Investments over $20 Million *(continued)*

As at December 31, 2008

(in thousands of dollars)	Maturities	Coupon %	Fair Value [1]
United States and other international			
Government of France	2012-2025	3.00 - 6.00	372,729
U.K. Treasury	2012-2020	4.75 - 5.00	87,575
Federal Republic of Germany	2013-2034	4.50 - 5.63	84,711
Kingdom of Netherlands	2012	5.00	83,785
Kingdom of Belgium	2015	8.00	66,353
Kfw Bankengruppe	2010	4.88	39,910
J.P.Morgan	2015-2021	3.88 - 5.06	26,832
Morgan Stanley	2012-2017	2.58 - 4.90	26,074
Santander International Debt	2011	3.18	22,953
Bear Stearns	2009-2014	3.85 - 5.45	21,079
Real estate			
OPB Realty Inc. (holding company, 100% owned)			$ 2,177,865
Participating mortgages	2019	5.00	36,253

(in thousands of dollars)	Shares/Units[2]	Fair Value[1]
Equities		
Canada		
EnCana Corporation	1,645	93,689
BGICL S&P/TSX Composite Index CL A	2,546	93,551
Royal Bank of Canada	2,425	87,531
Toronto-Dominion Bank	1,742	75,706
Bank of Nova Scotia	2,082	69,364
Rogers Communications Inc.	1,665	60,919
Manulife Financial Corporation	2,901	60,333
Potash Corporation of Saskatchewan, Inc.	645	57,796
Nexen Inc.	2,379	51,024
Barrick Gold Corporation	1,061	47,454
Canadian Natural Resources Limited	962	46,881
Transanada Corp.	1,346	44,632
Canadian National Railway Company	982	43,969
Shoppers Drugs Mart Corporation	853	40,967
Shaw Communications Inc.	1,838	39,723
Canadian Imperial Bank of Commerce	698	35,676
Power Corporation of Canada	1,510	35,025
Goldcorp Inc.	812	31,177
Suncor Energy Inc.	1,264	29,975
Talisman Energy Inc.	2,315	28,196
BCE Inc.	1,117	28,083
SNC-Lavalin Group Inc.	618	24,538
Research In Motion Limited	445	22,014
Thomson Reuters Corporation	587	20,892

Investments over $20 Million *(continued)*

As at December 31, 2008

(in thousands of dollars)	Shares/Units [2]	Fair Value [1]
United States		
Exxon Mobil Corp.	805	79,376
Chevron Corporation	666	60,823
Johnson & Johnson	713	52,677
Procter & Gamble Co.	645	49,244
Pfizer Inc.	1,977	43,222
General Electric Co.	1,902	38,029
AT&T Inc.	1,072	37,702
ConocoPhillips	532	34,025
Colgate-Palmolive Company	402	34,015
Cisco Systems, Inc.	1,541	31,003
Microsoft Corp.	1,264	30,334
CVS Corp	808	28,664
Wal-Mart Stores Inc.	410	28,346
Tim Hortons Inc.	773	26,969
PepsiCo, Inc.	398	26,894
Abbott	393	25,902
McDonald’s Corporation	333	25,538
Philip Morris International	465	24,993
JPMorgan Chase & Co.	608	23,677
3M Company	319	22,640
Wells Fargo & Co.	616	22,408
Kimberly-Clark Corporation	343	22,327
Emerson Electric Co.	467	21,092
Hewlett Packard	453	20,288
Other International		
Leith Wheeler International Pool Fund	12,494	137,455
BGICL MSCI EAFE Index CL A	13,516	115,240
Roche Holdings	241	45,409
Nestlé	760	36,656
Vodafone Group Plc	14,383	35,485
Total S.A.	526	35,104
E. ON AG	542	26,452
Bayer	330	23,520
Vivendi	560	22,360
Siemens	246	22,307
BNP Paribas	387	20,099

[1] Excludes accrued income; includes guaranteed instruments issued by subsidiaries/agencies.

[2] Includes all share classes and American Depository Receipts.

Real Estate Properties

As At December 31, 2008

(in thousands of square feet)	**Location**	**Area**
Retail		
Hillside Centre	Victoria	429
Brentwood Town Centre	Burnaby	547
Lougheed Town Centre	Burnaby	657
Aberdeen Village Centre	Kamloops	104
Christy's Corner	Edmonton	111
Marlborough Mall	Calgary	533
Portland Place	Calgary	149
Gaetz Avenue Crossing	Red Deer	177
St. Vital Centre	Winnipeg	929
Pen Centre	St. Catharines	1,036
Pickering Town Centre	Pickering	896
Carlingwood Shopping Centre	Ottawa	526
Halifax Shopping Centre	Halifax	527
Halifax Shopping Centre Annex	Halifax	419
2003 Gottingen Street	Halifax	25
215 Chain Lake Drive	Halifax	72
West End Mall	Halifax	172
		7,309
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
Wright Place	Halifax	67
		3,450
Land held for development		880
Total properties		**12,306**

Financial Services Commission of Ontario

Deputy Superintendent
Pension Division

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Commission des services financiers de l'Ontario

Surintendant adjoint
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Ontario

June 29, 2009

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.

K. David Gordon
Deputy Superintendent, Pensions

Javier Aramayo
Acting 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, 2009 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, 2009 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 2, 2009

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FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Balance Sheet
As at March 31, 2009

	2009 ($ '000)	2008 ($ '000)
ASSETS		
Current		
Cash	35	100
Accounts receivable	49,162	46,600
Investments (Note 4)	146,004	128,457
	195,201	175,157
LIABILITIES AND FUND DEFICIT		
Current		
Accounts payable and accrued liabilities	4,573	3,394
Current portion of loan payable	11,000	11,000
Claims payable	83,516	116,452
	99,089	130,846
Loan payable (Note 5)	143,463	146,529
	242,552	277,375
Fund deficit	(47,351)	(102,218)
	195,201	175,157

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, 2009

	2009 ($ '000)	2008 ($ '000)
Revenue		
Premium revenue	40,452	31,939
Investment income (Note 4)	2,792	5,411
Recoveries (Note 6)	80,730	37,819
	123,974	75,169
Expenses		
Claims	58,716	55,616
Pension management fees (Note 6)	1,783	430
Investment management fees (Note 7)	41	41
Administration fee (Note 7)	391	375
Unrealized loss in the market value of investments	242	3
Amortization of loan discount	7,934	8,081
	69,107	64,546
Excess of revenue over expenses	54,867	10,623
Fund deficit, beginning of year	(102,218)	(112,841)
Fund deficit, end of year	(47,351)	(102,218)

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, 2009

	2009 ($ '000)	2008 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess of revenue over expenses	54,867	10,623
Items not affecting cash:		
Unrealized loss on investments	242	3
Amortization of loan discount	7,934	8,081
Non-cash recovery	(586)	-
Loss on disposal of investments	135	-
	62,592	18,707
Changes in non cash working capital		
Accounts receivable	(2,561)	7,551
Accounts payable	1,179	(2,105)
Claims payable	(32,936)	17,314
	28,274	41,467
Cash flows from investing activities		
Purchases of investments	(2,713,913)	(2,387,106)
Proceeds from sale of investments	2,696,574	2,356,673
	(17,339)	(30,433)
Cash flows from financing activities		
Loan repayment	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	(65)	34
Cash position, beginning of year	100	66
Cash position, end of year	35	100

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2009

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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 of the Fund, and the Fund reimburses FSCO for the costs of the services provided. The investments of the Funds are managed by the Ontario Financing Authority, on a fee basis which are paid by the Fund.

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) Financial Instruments
The Fund follows the accounting standards issued by the Canadian Institute of Chartered Accountants pertaining to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair market value, or in limited circumstances, at cost or amortized costs. The Fund has classified its financial instruments into the following categories:

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- Cash and investments are classified as held for trading and recorded at fair value, with changes in fair value during the period recognized in the statement of operations.
- Accounts receivable is classified as receivables and valued at face value which approximates fair value given their short term maturities.
- Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at face value which approximates fair value given their short term maturities.
- Loan Payable is classified as other financial liabilities, and due to the concessionary nature of the loan is reflected at amortized cost using the effective interest rate method. The initial valuation was determined by discounting future cash flows using the provincial cost of borrowing. The resulting benefit (the difference between the face value of the loan and the net present value) was accounted for as a grant in the year received and is amortized to loan discount expense over the term of the loan.

(b) Claims payable
Claims payable are liabilities in respect of 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 based on information provided by appointed pension plan administrators. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans. The estimates of claims to be paid is reviewed and verified by FSCO's Chief Actuary and Deputy Superintendent of Pensions.

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.

The actual claims are reviewed and verified by FSCO's Chief Actuary and approved by FSCO's management before any funds are paid out of the PBGF.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2009

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) 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.

(d) 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.

4. INVESTMENTS

As administrator of the investment assets of the Fund, FSCO has formed a PBGF Management Committee, developed Investment Policies and Guidelines and appointed the Ontario Financing Authority, a related party, as investment manager. The statement provides operational objectives, investment principles, policies and guidelines for the management of the investments and is reviewed annually.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2009

4. INVESTMENTS (cont'd)

Investments consist of:

	2009 ($'000)		2008 ($'000)	
	Market Value	Cost	Market Value	Cost
Short term deposits	139,812	139,812	128,457	128,458
Government and corporate bonds	5,850	5,850	-	-
Asset Backed Commercial Paper	342	586	-	-
	146,004	146,248	128,457	128,458

The Fund's investment portfolio is exposed to various risks, which are mitigated by the type of investment and therefore risk is low. The associated risks with the investments are as follows:

Interest rate and Liquidity risk:
Short term deposits have yields in the range of 0.4% to 0.6% (2008 – 1.9% to 3.7%), and government and corporate bonds have average yields of 1.6% for the current year (2008 – there were no government and corporate bonds). At March 31, 2009, a 1% move in interest rates could impact the market value by approximately $300 thousand. Short term deposits represent instruments in highly liquid investments that are readily converted into known amounts of cash.

Investments include Asset Backed Commercial Paper (ABCP) received as part of a plan settlement in respect of a claim previously paid out. The ABCP had a face value of $586 thousand, and Management's best estimate of the net recoverable amount as at March 31, 2009 is $342 thousand. The valuation adjustment of $244 thousand has been recognized as an unrealized loss in the statement of operations and fund deficit.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2009

4. INVESTMENTS (cont'd)

Investment income includes interest earned from interest bearing securities and realized gains/losses from the sale of securities. The realized loss on the sale of securities amounted to $135 thousand (2008 – realized gain of $180). Unrealized changes in the market value of investments are reflected separately on the statement of operations and fund deficit.

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.

The face value of this non-interest bearing loan has been discounted to reflect its fair value outstanding as of March 31, 2009 as follows:

	2009 ($'000)	2008 ($'000)
Face Value	275,000	286,000
Less: Discount	(120,537)	(128,471)
Fair Value	154,463	157,529
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	143,463	146,529
Balance	154,463	157,529

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2009

5. LOAN PAYABLE (cont'd)

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 for the subsequent four fiscal years is as follows:

	($'000)
2009	7,934
2010	7,780
2011	7,618
2012	7,447
2013	7,269

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. For fiscal 2009, $1,783 thousand was paid to such experts related to negotiations involving three companies (2008 - $430 thousand involving one company).

Following distribution of claims and submission of a final wind up report any remaining funds are recovered by the Fund. During fiscal 2009, $80,730 thousand (2008 - $37,819 thousand) in recoveries were made by the Fund.

7. RELATED PARTY TRANSACTIONS

For fiscal 2009, an administration fee of $391 thousand (2008 - $375 thousand) was incurred and has been paid to FSCO for management salaries and benefits, accounting, information technology, legal, pension and other services. The Fund and FSCO are related parties.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2009

Investment Management fees of $41 thousand include fees of $35 thousand (2008 - $36 thousand) paid to the Ontario Financing Authority, a related party.

The costs of processing of premium revenue transactions are absorbed by FSCO without charge to the Fund.

8. CONTINGENCIES AND SUBSEQUENT EVENT

There are currently two companies operating under CCAA protection whose pension plans could make claims on the Fund which could significantly exceed the existing assets of the Fund. As these potential claims remain at an early stage, an estimate of the claims which might be incurred, if any, cannot be determined.

Recoveries in the range of $5 - $7 million dollars are expected in 2009.

9. ACCOUNTING PRONOUNCEMENTS

An exposure draft has been issued by the Accounting Standards Board to replace Canadian generally accepted accounting principles with International Financial Reporting Standards (IFRS) for publicly accountable enterprises. The exposure draft proposes that IFRS be effective for fiscal years commencing on or after January 1, 2011. In February 2009, the Public Sector Accounting Board (PSAB) issued an invitation to Comment on the financial reporting to be issued by government organization such as the Fund. The paper presented four alternatives for consideration, all of which were consistent in providing the Fund with the option of selecting either PSAB standards or IFRS.

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, 2009. 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, 2009 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 *Courts 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.

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Peall

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

Toronto, Ontario
April 24, 2009

Provincial Judges Pension Fund

Statement of Changes in Fund Balance
For the Year Ended March 31, 2009

	2009 ($ 000)	2008 ($ 000)
Deposits		
Contributions		
Participants	4,782	4,122
Province of Ontario (Note 4)	29,314	23,558
Interest earned	37,332	35,362
	71,428	63,042
Payments		
Pension payments and survivor allowances (Note 4)	27,687	22,581
Refund of contributions	183	—
	27,870	22,581
Net increase in the Fund	43,558	40,461
Fund Balance with the Minister of Finance		
Beginning of year	507,926	467,465
End of year	551,484	507,926

See accompanying notes to financial statements.

Approved on behalf of the Board:

Chair

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2009

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 can be 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, 2009

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 (7.35% on the April 1, 2008 balance);
- on the monthly excess of contributions over payments during the year at 5.20%, 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) ANNUAL INFLATIONARY ESCALATION OF ENTITLEMENTS

The annual inflationary increase for judges who retired before June 1, 2007 is based on changes in the Average Weekly Earnings published by Statistics Canada and subject to a maximum of 7% in any one year, and is effective on April 1 in every year. The increase for judges who retired on or after June 1, 2007 and elected to be paid under the new plan provisions effective on that date is based on changes in the Consumer Price Index, and is effective on January 1 in every year.

(K) FUNDING OF SUPPLEMENTARY BENEFITS

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 supplementary account in the Consolidated Revenue Fund.

Changes to the plan provisions have been drafted to comply with the *ITA*. Once those changes are reviewed and approved by the Province, the Fund balance will be split between the existing account for the Fund and the new supplementary account. Both accounts will 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, 2009

4. Liability for Future Benefits

The Provincial Judges Remuneration Commission (Commission) was established under Ontario Regulation 407/93 under the Court of Justice Act to conduct an independent process to determine the salary, benefits and pensions for all provincial judges. The recommendations contained in the Commission's combined Sixth and Seventh Triennial Provincial Judges Report covered the period from April 1, 2004 to March 31, 2010, and came into force on April 25, 2008. The key changes included retroactive salary increases; increases to the base pension; reducing the penalty for early retirement and changing the basis for pension indexation. New pension plan provisions were introduced that are mandatory for all judges appointed on or after June 1, 2007; and judges not retired as at June 1, 2007 could opt to have their pensions determined under the new plan.

The Province is responsible for the unfunded liability of the Provincial Judges Pension Fund and funds this liability in amounts recommended by periodic actuarial funding valuations of the Plan. The Province's fiscal 2009 contribution of $29,314,000 is based on the Plan's most recent actuarial funding valuation as of March 31, 2008 which updated the March 31, 2006 valuation. Based on the 2008 valuation, the required present value of future government contributions is $268,554,000 (2006-$236,207,000), and recommends that the Province contribute 44.3% (2006-36.6%) of the payroll of sitting judges until the next valuation.

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 29, 2009

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, 2009 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, 2009, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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Toronto, Ontario
May 29, 2009

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

The Public Guardian and Trustee for the Province of Ontario

Balance Sheet

(in thousands of dollars)

March 31, 2009

	Estates and Trusts		Administration Fund	
	2009	2008	**2009**	2008
Assets				
Cash and cash equivalents	**$ 8,751**	$ 11,690	**$ 154**	$ 122
Accounts receivable	**3,872**	6,104	**2,294**	1,934
Bonds and other debt issues	**24,474**	33,021	**-**	-
Fixed income funds (Schedule A)	**1,017,644**	966,377	**10,253**	15,638
Diversified fund (Schedule B)	**48,804**	55,423	**47,769**	55,317
Canadian income and dividend fund (Schedule C)	**42,132**	37,447	**14,128**	15,775
Stocks and other securities	**37,372**	48,386	**-**	-
Real estate	**90,448**	76,577	**-**	-
Other assets	**15,623**	14,495	**-**	-
	1,289,120	1,249,520	**74,598**	88,786
Management Information System	**-**	-	**11,633**	8,545
	$ 1,289,120	$ 1,249,520	**$ 86,231**	$ 97,331
Liabilities and Fund Balances				
Accounts payable and accrued liabilities	**31,802**	24,604	**4,653**	7,000
Fund balances	**1,257,318**	1,224,916	**81,578**	90,331
	$ 1,289,120	$ 1,249,520	**$ 86,231**	$ 97,331

Contingencies (Note 9)

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 period ended March 31	2009	2008
Revenue		
Pension	$ 69,641	$ 66,932
Social benefits	64,389	61,120
Investment (Schedule E)	44,835	48,182
Other	28,196	22,713
Realized investment appreciation	-	1,729
Net unrealized investment depreciation	(20,666)	(5,155)
	186,395	195,521
Expenses		
Accommodation	90,290	83,716
Allowances	28,980	26,053
Public Guardian and Trustee fees (Schedule D)	22,394	20,815
Living	11,317	9,871
Taxes	8,979	9,666
Other	7,563	8,136
Real estate	5,832	4,733
Funeral	5,337	4,653
Medical	4,863	4,243
Utilities	3,054	2,683
Insurance	1,102	760
	189,711	175,329
(Deficiency) excess of revenue over expenses	$ (3,316)	$ 20,192

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 period ended March 31	2009	2008
Revenue		
Investments - fixed income funds (Schedule A)	$ 1,499	$ (128)
Investments - diversified fund (Schedule B)	(7,980)	(924)
Investments - Canadian income and dividend fund (Schedule C)	(1,857)	(260)
	(8,338)	(1,312)
Fees collected (net) (Schedule D)	21,224	19,628
	12,886	18,316
Expenses		
Salaries and wages	26,568	23,857
Employee benefits (Note 3)	3,348	2,993
Services (Note 3)	3,052	3,784
Transportation and communication	1,271	1,237
Supplies and equipment	673	1,408
	34,912	33,279
Amount recovered from the Ministry of the Attorney General (Note 3)	(13,546)	(17,540)
	21,366	15,739
Claims	273	1,347
	21,639	17,086
(Deficiency) excess of revenue over expenses	$ (8,753)	$ 1,230

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 period ended March 31, 2009

	Client Trusts	Minors	Litigants	Deceased Estates (note 1)	Cemetery Trusts	Forfeited Corporate Assets	Corporate Trusts	Land Titles	Total 2009	Total 2008
Balance, beginning of the year	$ 467,040	377,805	218,843	127,172	20,317	8,306	3,073	2,360	$ 1,224,916	$ 1,178,650
Excess (deficiency) of revenue over expenses	(9,263)	(957)	8,224	(1,225)	(1,067)	903	11	58	(3,316)	20,192
Net client capital contribution (distribution)	24,151	(8,340)	11,952	12,033	395	(2,469)	(1)	(2,003)	35,718	26,074
Balance, end of the year	$ 481,928	368,508	239,019	137,980	19,645	6,740	3,083	415	$ 1,257,318	$ 1,224,916

Statement of Changes in Fund Balances - Administration Fund (in thousands of dollars)

For the period ended March 31, 2009

	Special Projects Fund	Assurance Fund	Litigation Reserve Fund	Allowance for Doubtful Accounts Fund	Capacity Assessment Fund	Unappro-priated Fund	Total 2009	Total 2008
Balance, beginning of the year	$ 24,135	$ 14,300	$ 3,000	$ 100	$ 100	$ 48,696	$ 90,331	$ 89,101
Excess (deficiency) of revenue over expenses	(9,488)	(136)	(117)	-	(20)	1,008	(8,753)	1,230
Interfund transfers	-	136	117	-	20	(273)	-	-
Balance, end of the year	$ 14,647	$ 14,300	$ 3,000	$ 100	$ 100	$ 49,431	$ 81,578	$ 90,331

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 period ended March 31	Estates and Trusts 2009	Estates and Trusts 2008	Administration Fund 2009	Administration Fund 2008
Cash was provided by (used in)				
Operating activities				
(Deficiency) excess of revenue over expenses	$ (3,316)	$ 20,192	$ (8,753)	$ 1,230
Adjustments for non-cash items and changes in working capital items				
Unrealized depreciation of investments	20,666	5,155	11,842	3,126
Accounts receivable	2,232	(2,397)	(360)	(52)
Other assets	(1,128)	(1,042)	-	-
Accounts payable	7,198	2,314	(2,347)	4,584
	25,652	24,222	382	8,889
Investing activities				
Net (acquisition)/redemption of				
Bond and other debt issues	8,547	(3,133)	-	-
Fixed income fund investments	(51,267)	(12,792)	5,385	(4,411)
Stocks and other securities	6,858	530	-	-
Diversified fund investments	(3,194)	2,278	(1,940)	(1,891)
Canadian income and dividend fund	(11,382)	(19,626)	(707)	(670)
Real estate	(13,871)	(8,306)	-	-
Management Information System	-	-	(3,088)	(1,842)
Net client capital contribution	35,718	26,074	-	-
	(28,591)	(14,975)	(350)	(8,814)
(Decrease)/increase in cash and cash equivalents	(2,939)	9,247	32	75
Cash and cash equivalents, beginning of the year	11,690	2,443	122	47
Cash and cash equivalents, end of the year	$ 8,751	$ 11,690	$ 154	$ 122

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, 2009

Nature of Operations

The Public Guardian and Trustee for the Province of Ontario ("The Public Guardian and Trustee") performs duties under a number of statutes with the following main responsibilities:

- the management of estates of incapable adults
- the administration of estates of persons who have died in Ontario intestate and without next-of-kin
- the gathering of assets reverting to the Crown under the Escheats Act
- the management of funds, mortgages and securities paid into or lodged with the Accountant of the Superior Court of Justice on behalf of minors and litigants
- a general supervisory role over charitable property

The Public Guardian and Trustee is exempted from federal and provincial income taxes under the Income Tax Act (Canada).

Basis of Accounting

The Public Guardian and Trustee prepares its financial statements on an accrual basis and follows Canadian generally accepted accounting principles.

Estates and Trusts

Estates and Trusts represent accounts over which The Public Guardian and Trustee acts as guardian or trustee under the *Substitute Decisions Act*, the *Public Guardian and Trustee Act*, the *Crown Administration of Estates Act*, the *Estates Act* and various other statutes.

Administration Fund

The Administration Fund is the operating account of The Public Guardian and Trustee. It is used to accumulate fees charged to each estate and trust for services, as prescribed by the Fee Schedule created pursuant to *The Public Guardian and Trustee Act* and to pay operating expenses.

Cash balances in the Administration Fund which are not required for operating purposes are invested along with the cash funds of Estates and Trusts. The Fund receives the net interest income of these investment activities, after interest is distributed on the funds of Estates and Trusts in accordance with the interest rates prescribed by *The Public Guardian and Trustee Act*.

Funds appropriated for specific purposes are identified below.

Special Projects Fund

The Special Projects Fund was established to provide funding for significant special projects of The Public Guardian and Trustee. 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, $11,633,000 of the funding has been allocated for the development and implementation of a new trust management information 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 $135,888 (2008 - $1,230,000). There was no additional transfer in 2009 (2008 - $3,300,000) 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, 2009

During the year, legal costs incurred on behalf of clients of $116,644 (2008 –$103,241) 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 $19,989 (2008 - $14,058) 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 trading. Cash and cash equivalents are classified as held-for-trading and stated at fair value. Other receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. 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 for the Province of Ontario
Summary of Significant Accounting Policies

March 31, 2009

The Public Guardian and Trustee has adopted The Canadian Institute of Chartered Accountants' Handbook Section 3861, Financial Instruments - Disclosure and Presentation. In accordance with the Accounting Standards Board's decision to exempt not-for-profit organizations from the disclosure requirements with respect to financial instruments contained within Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, Public Guardian has elected not to adopt these standards in its financial statements.

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.

Management Information System

Costs of a special project for the development and implementation of a new trust management information system incurred from 2002 to 2009 have been capitalized. These costs will be amortized over management's best estimate of the useful life of the system. Amortization will commence in the 2009-10 fiscal year, which is the first year the system will be 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 the Statement of Revenue and Expenses in the current period. As of March 31, 2009 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/(Depreciation) are recognized when received or receivable. Net Unrealized Investment Appreciation/(Depreciation) represents net unrealized gains/(losses) from changes in the market value of Bonds and Other Debt Issues, Diversified Fund, Canadian Income and Dividend Fund, and Stocks and Other Securities.

Revenues of the Administration Fund from Investments and Realized Investment Appreciation/(Depreciation) are recognized when received or receivable. Fee revenues are collected monthly. Net Unrealized Investment Appreciation/(Depreciation) represents net unrealized gains/(losses) from changes in the market value of Diversified Fund and Canadian Income and Dividend Fund.

The Public Guardian and Trustee for the Province of Ontario
Summary of Significant Accounting Policies

March 31, 2009

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, 2009

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 $1,244,126 (2008 - $882,590) 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. During the year $13,545,528 was recovered from the Ministry of the Attorney General (2008 - $17,539,643).

4. Change in Accounting Disclosure

Capital Disclosures, CICA Handbook Section 1535, establishes standards for disclosing information about the entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. These new disclosures are included in note 7.

The Public Guardian and Trustee for the Province of Ontario
Notes to Financial Statements

March 31, 2009

5. Future Accounting Change

Financial Statement presentation by not-for-profit organizations:

Recent amendments to Section 4400, Financial Statement Presentation by Non-for-Profit Organizations, will modify the requirements with respect to various elements of financial statement presentation. These amendments include:

a) Reporting certain revenue at its gross amounts in the statements of operations.

b) When a not-for-profit organization classifies its expenses by function and allocates some of its general support costs to another function, disclosing the policy adopted for expenses and amounts allocated from general support costs to other functions.

The new standard applies to financial statements relating to the fiscal years beginning on or after January 1, 2009. The Public Guardian and Trustee is evaluating the impact of the amendments on its financial statements.

6. 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 $833,104 (2008 - $728,104) and miscellaneous securities and documents having a face value of $3,763,143 (2008 - $3,844,506). 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.

7. Capital Management

The Public Guardian and Trustee's operating capital is the Administration fund which consists of various specific purpose funds and an unappropriated fund (page 6).

The Public Guardian and Trustee's objectives when managing its Administration Fund are to safeguard its ability to continue operations and provide adequate resources to safeguard clients' interests. The Public Guardian and Trustee expects its current capital (fund) resources, together with future cash flows from operations, are sufficient to support the Public Guardian and Trustee's ability to operate on an ongoing basis.

The Public Guardian and Trustee has invested part of its Administration Fund in the Diversified and the Canadian Income and Dividend Funds. Investment income earned is, in part, used to replenish the various specific purpose funds for expenses incurred.

The Public Guardian and Trustee for the Province of Ontario
Notes to Financial Statements

March 31, 2009

8. Financial Instruments and Risk Management

The Public Guardian and Trustee and its clients are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

The Public Guardian and Trustee manages these risks as follows:

a) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect investment income earnings or the value of financial instrument holdings.

i) Price Risk

Price risk is the risk that the value of financial instruments will be adversely impacted by changes in market prices.

The Public Guardian and Trustee has mitigated this risk by engaging experienced investment managers and structuring their investment policies and goals, including limits on the holding of individual securities, limits on the investments in non-government debt and, defining asset component ranges, to minimize the risk to clients' capital. As well, investments in financial instruments that are subject to changes in market prices are undertaken only when the client can invest for a medium to longer term.

ii) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rate interest.

By adopting a hold to maturity policy on its Laddered Buy and Hold fund, the Public Guardian and Trustee has significantly mitigated this risk, particularly for short term, temporary movements in market interest rates.

iii) Foreign exchange risk

Foreign currency risk is the risk that the fair value of investment assets and earnings on those assets will fluctuate as the result of changes in foreign exchange rates. The Public Guardian and Trustee and its clients invested in the Diversified Fund are exposed to this risk.

Hedging foreign currency exposure is considered by management as part of an annual review of investment policies. The Public Guardian and Trustee has not entered into any transactions such as forward foreign exchange contracts to mitigate this risk.

b) Credit Risk

Credit risk is the risk that an issuer of a financial instrument will fail to discharge an obligation.

The Public Guardian and Trustee has mitigated this risk by engaging experienced investment managers and structuring their investment policies and goals to minimize the risk to clients' capital. In particular, investments in lower investment grade fixed income instruments (typically a rating of BBB) are minimized. As well, investment managers are required to report immediately adverse changes in the credit ratings of financial instruments.

Client accounts receivable are reviewed on an individual basis; any necessary adjustments to amounts recorded are made at that time.

c) Liquidity Risk

Liquidity risk is the risk that funds are not available to enable ongoing operations and discharge obligations.

The Public Guardian and Trustee has mitigated this risk by maintaining significant holdings in short term, liquid, money market instruments.

The Public Guardian and Trustee for the Province of Ontario
Notes to Financial Statements

March 31, 2009

9. 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.

In June 2007, the Public Guardian and Trustee became aware of some account irregularities of some clients of a former employee. An estimate of losses incurred by clients was accrued in the prior year with a significant portion of the reimbursement being made in the current year.

The Public Guardian and Trustee for the Province of Ontario

Schedule A - Fixed Income Funds

(in thousands of dollars)

March 31			2009		2008
INVESTMENTS					
Cash		$	**109**	$	3,522
Accrued interest			**12,335**		13,117
Short term investments			**379,835**		389,367
			392,279		406,006
Mid term investments					
Corporate Bonds	(i)		**89,391**		84,673
Federal Government	(ii)		**31,053**		8,110
Provincial Governments	(iii)		**111,151**		101,046
Financial Institutions	(iv)		**404,023**		382,180
			635,618		576,009
		$	**1,027,897**	$	982,015
Allocated as follows					
Estates and Trusts		**$**	**1,017,644**	$	966,377
Administration			**10,253**		15,638
		$	**1,027,897**	$	982,015

INCOME				
Allocated as follows				
Estates and Trusts	**$**	**40,002**	$	40,322
Administration		**1,499**		(128)
	$	**41,501**	$	40,194

Short term investments at March 31, 2009 bear interest at annual rates ranging from 1.53% to 6.50% (2008 - from 3.50% to 10.85%), witl maturity dates ranging from 1 day to 303 days (2008 - from 1 day to 264 days)

Mid term investments at March 31, 2009	Interest Rates		Carrying Value		Fair Value
(i) Corporate Bonds					
1 - 3 years	**6.25 - 7.15%**	**$**	**60,251**	**$**	62,271
3 years +	**5.10 - 6.25%**		**29,140**		28,444
			89,391		90,715
(ii) Federal Government					
3 years +	**2.70 - 3.60%**		**31,053**		32,426
			31,053		32,426
(iii) Provincial Governments					
1 - 3 years	**4.00 - 6.10%**		**25,760**		26,436
3 years +	**4.25 - 5.85%**		**85,391**		88,645
			111,151		115,081
(iv) Financial Institutions					
1 - 3 years	**3.65 - 6.87%**		**155,213**		156,289
3 years +	**3.70 - 6.70%**		**248,810**		246,570
			404,023		402,859
		$	**635,618**	**$**	641,081

Fixed Income Funds

Funds are invested in high quality fixed income instruments subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee with emphasis on preservation of capital and maximizing return. This includes US dollar trust funds where the Accountant of the Superior Court of Justice is ordered by the courts to hold these funds in US dollars.

Interest income is distributed to participants by a prescribed interest rate approved by The Public Guardian and Trustee's Investment Advisory Committee. During the period from April 1, 2008 to March 31, 2009, the prescribed rate for the Canadian Funds ranged from 4.00% to 4.25% (2008 ranged from 4.00 to 4.25%), and for the U.S. Funds ranged from 2.00% to 3.00% (2008 - 4.75%).

The Public Guardian and Trustee for the Province of Ontario

Schedule B - Diversified Fund

(in thousands of dollars)

March 31	2009	2008
INVESTMENTS		
Cash	**$ 198**	$ 199
Net other liabilities	**564**	(148)
Short term notes	**1,318**	2,296
	2,080	2,347
Bonds	**41,119**	46,226
Canadian equity	**32,574**	39,944
Foreign equity	**20,800**	22,223
	$ 96,573	$ 110,740
Allocated as follows		
Estates and Trusts	**$ 48,804**	$ 55,423
Administration Fund	**47,769**	55,317
	$ 96,573	$ 110,740
INCOME		
Estates and Trusts		
Investment earnings	**$ 1,987**	$ 1,980
Unrealized depreciation	**(11,586)**	(1,724)
Net unrealized foreign exchange appreciation/(depreciation)	**1,773**	(761)
Net unrealized depreciation	**(9,813)**	(2,485)
Realized investment appreciation	**-**	2,076
Net realized foreign exchange depreciation	**-**	(347)
Net realized investment appreciation	**-**	1,729
	$ (7,826)	$ 1,224
Administration		
Investment earnings	**$ 1,508**	$ 1,443
Unrealized depreciation	**(11,224)**	(1,608)
Net unrealized foreign exchange appreciation/(depreciation)	**1,736**	(759)
Net unrealized depreciation	**(9,488)**	(2,367)
	$ (7,980)	$ (924)

The Short term Notes and Bonds at March 31, 2009 bear interest at annual rates ranging from 0.745% to 12.20% (2008 - from 3.60% to 12.20%), with maturity dates ranging from 34 days to 99 years (2008 - from 3 days to 41 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	2009	2008
INVESTMENTS		
Cash	$ 105	$ 23
Net other assets	664	1,561
Short term notes	994	679
	1,763	2,263
Bonds	30,695	27,033
Canadian equity	23,802	23,926
	$ 56,260	$ 53,222
Allocated as follows		
Estates and Trusts	$ 42,132	$ 37,447
Administration Fund	14,128	15,775
	$ 56,260	$ 53,222
INCOME		
Estates and Trusts		
Investment earnings	$ 1,934	$ 1,243
Unrealized depreciation	(6,697)	(1,765)
	$ (4,763)	$ (522)
Administration		
Investment earnings	$ 497	$ 499
Unrealized depreciation	(2,354)	(759)
	$ (1,857)	$ (260)

The Short term Notes and Bonds at March 31, 2009 bear interest at annual rates ranging from 0.56% to 11.00% (2008 - from 3.60% to 11.00%), with maturity dates ranging from 76 days to 27 years (2008 - from 14 days to 29 years)

Canadian Income and Dividend Fund

The Public Guardian and Trustee has a Canadian Income and Dividend Fund that consists of a balanced portfolio of high quality income-producing Canadian securities. This fund includes 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 period ended March 31		2009		2008
Client trusts	$	**14,610**	$	13,383
Minors		**2,775**		2,817
Deceased estates		**2,927**		2,877
Litigants		**1,411**		1,266
Court-appointed litigation guardian legal services		**146**		77
Cemetery trusts		**170**		176
Charity trusts		**120**		166
Forfeited corporate assets/corporate trusts		**235**		53
Public Guardian and Trustee Fees - Estates and Trusts		**22,394**		20,815
less: Costs of fee services		(1,170)		(1,187)
Fees collected (net) - Administration Fund	$	**21,224**	$	19,628

Schedule E - Estates and Trusts Investment Income

(in thousands of dollars)

For the period ended March 31		2009		2008
Fixed income funds (Schedule A)	$	**40,002**	$	40,322
Diversified fund (Schedule B)		**1,987**		1,980
Canadian income and dividend fund (Schedule C)		**1,934**		1,243
Income from other investments held for clients		**912**		4,637
	$	**44,835**	$	48,182

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 judgments. 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 Division 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 at the balance sheet date to determine the valuation of the benefit liabilities and provide 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 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 Auditor General of Ontario, 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 and CEO

Anthea English
Chief Financial Officer

March 20, 2009

AUDITORS' REPORT

To the Workplace Safety and Insurance Board,
the Minister of Labour and the Auditor General of Ontario

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 Auditor General of Ontario 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, 2008 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 20, 2009

ACTUARIAL OPINION

I have valued the benefit liabilities of the Workplace Safety and Insurance Board of Ontario for its consolidated balance sheet as of December 31, 2008, and its change in the consolidated statement of operations for the year then ended in accordance with actuarial practice generally accepted in Canada, including the selection of appropriate assumptions and methods.

In my opinion, the amount of benefit liabilities makes appropriate provision for all Schedule 1 Insurance Fund obligations and the consolidated financial statements fairly present the results of the valuation.

W. Robert Hinrichs
Fellow, Canadian Institute of Actuaries
March 20, 2009

CONSOLIDATED BALANCE SHEET

As of December 31

($ millions)	2008	2007
Assets		
Cash and cash equivalents	$128	$177
Receivables	877	888
Investments (note 3)	11,107	13,754
Loss of Retirement Income Fund (note 5)	890	974
Property, equipment, and other assets (note 6)	205	179
	$13,207	**$15,972**
Liabilities		
Payables and accruals	$853	$744
Long-term debt (note 7)	91	96
Loss of Retirement Income Fund (note 5)	890	974
Employee benefit plans (note 8)	502	492
Benefit liabilities (note 9)	22,340	21,760
	24,676	**24,066**
Unfunded liability (note 10)		
Accumulated excess of expenses over revenues	(11,917)	(9,501)
Accumulated other comprehensive income	448	1,407
	(11,469)	**(8,094)**
	$13,207	**$15,972**

Commitments and Contingencies (note 13)

On behalf of the Board of Directors:

Jill Hutcheon
President and CEO
Director

Marlene McGrath
Director

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended December 31

($ millions)	2008	2007
Gross revenue	**$2,357**	**$4,337**
Current operations		
Revenues		
Premiums for the year	$2,604	$2,499
Investments (note 3)	(1,211)	812
Other income	2	2
	1,395	**3,313**
Expenses		
Benefit costs (note 9)	4,258	4,936
Loss of Retirement Income Fund (note 5)	75	70
Administrative and other expenses (note 11)	214	243
Legislated obligations and commitments (note 12)	226	218
	4,773	**5,467**
Excess of expenses over revenues from current operations	**(3,378)**	**(2,154)**
Premiums for unfunded liability	**962**	**1,024**
Excess of expenses over revenues	**$(2,416)**	**$(1,130)**

CONSOLIDATED STATEMENT OF CHANGES IN UNFUNDED LIABILITY

For the years ended December 31

($ millions)	2008	2007
Accumulated excess of expenses over revenues		
Balance at beginning of year	$(9,501)	$(8,371)
Excess of expenses over revenues	(2,416)	(1,130)
Balance at end of year	**(11,917)**	**(9,501)**
Accumulated other comprehensive income		
Balance at beginning of year	1,407	2,374
Unrealized losses on investments net of amounts realized	(959)	(967)
Balance at end of year	**448**	**1,407**
Unfunded liability at end of year	**$(11,469)**	**$(8,094)**

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)	2008	2007
Excess of expenses over revenues	$(2,416)	$(1,130)
Other comprehensive income (loss):		
Unrealized net losses on available-for-sale financial assets arising during the year	(2,558)	(540)
Realized (gains) losses included in income	1,599	(427)
Unrealized losses on investments, net of amounts realized	(959)	(967)
Comprehensive loss	**$(3,375)**	**$(2,097)**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31

($ millions)	2008	2007
Operating cash flows		
Cash received from:		
Premiums for the year	$2,655	$2,531
Premiums for unfunded liability	980	1,041
Investment income	510	374
	4,145	3,946
Cash paid to:		
Claimants, survivors, and care providers	(3,362)	(3,186)
Loss of Retirement Income Fund	(75)	(70)
Employees and suppliers for administrative goods and services	(511)	(508)
Legislated obligations and commitments	(245)	(201)
	(4,193)	(3,965)
Net cash required by operating activities	**(48)**	**(19)**
Investing cash flows		
Sale of investments	19,877	19,613
Purchase of investments	(19,878)	(19,578)
Net cash provided (required) by investing activities	**(1)**	**35**
Increase (decrease) in cash and cash equivalents	**(49)**	**16**
Cash and cash equivalents, beginning of year	177	161
Cash and cash equivalents, end of year	**$128**	**$177**

The accompanying notes form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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 who contract occupational diseases. The WSIB also provides insurance benefits in the case of workers who die due to workplace injuries or illnesses to their survivors and assists injured workers in their early and safe return to work.

Employers covered by the *Workplace Safety and Insurance Act*, 1997, are divided into two groups, referred to as "Schedule 1" and "Schedule 2." Schedule 1 employers are insured under a "collective liability" system and are required to contribute to the WSIB Insurance Fund. Schedule 2 employers are "self-insured" and are individually liable for the full costs of their workers' claims. The WSIB pays insurance benefits for Schedule 2 workers and is reimbursed by their employers for the costs of the claims, including administrative costs, and for the cost of the WSIB's prevention activities.

The WSIB also administers the federal *Government Employees Compensation Act.* Under an agreement with Human Resources Development Canada, the federal government is treated like a Schedule 2 employer.

Revenue is raised through premiums, which are collected from all Schedule 1 employers covered under the *Workplace Safety and Insurance Act*, 1997. Revenue is also earned from a diversified investment portfolio held to meet future obligations on existing claims. Schedule 2 reimbursements also contribute to WSIB revenue.

The WSIB receives no government funding or assistance. The financial statements have been prepared on a "going concern" basis as management has plans to eliminate the unfunded liability over the course of several years.

2. Significant Accounting Policies

The consolidated financial statements include the Schedule 1 and Schedule 2 accounts of the WSIB and its subsidiaries. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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 revenues and expenses during the year. Actual results could differ from these estimates.

The significant accounting policies are summarized as follows:

BASIS OF CONSOLIDATION

The WSIB's subsidiaries and joint ventures are consolidated. Investments in entities in which WSIB exercises a significant influence are accounted for using the equity method.

The consolidated financial statements include the assets, liabilities, results of operations, and cash flows of all WSIB subsidiaries after the elimination of intercompany transactions and balances.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and money market instruments with original maturities up to three months.

RECEIVABLES

Receivables consist of premium receivable from stakeholders. The balance is shown net of an allowance for doubtful accounts of $213 million (2007: $115 million).

INVESTMENTS

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 the trade date basis. The WSIB has designated all of its investments as available-for-sale except for derivatives and the assets of the Loss of Retirement Income Fund, 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 an unrealized loss is an 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.

Transaction costs are capitalized for all financial instruments designated as available-for-sale. For derivative financial instruments designated as held-for-trading, transactions costs are expensed as incurred.

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 these forward foreign-exchange contracts are recognized in income in the period in which they arise.

REAL ESTATE INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

Significant influence is presumed when ownership in real estate entities is equal to or greater than 20 per cent. Investments in these entities are initially recorded at cost. Prior to January 1, 2004, the carrying value of these investments included move-to-market adjustments recorded to the end of 2003. These adjustments amortized any market value changes in these investments over a five-year period.

From January 1, 2004, the carrying value of these investments is adjusted to reflect the equity pick-up of earnings after a deduction for amortization of the building, less any dividends paid or payable. Amortization is taken over the estimated useful life of 40 years on a straight-line basis.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of investments are the year-end quoted prices where available. Where quoted prices are not available, estimated fair values are calculated based upon the yields and values of comparable marketable securities.

The real estate investments in which WSIB does not have a significant influence are stated at fair value based on market appraisals provided by independent third parties. Appraisals are based on accepted valuation methodologies of the Canadian Uniform Standards of Professional Appraisal Practice. These methodologies use a combination of techniques such as discounted cash flows, direct capitalization, and direct comparison, which incorporate observable market inputs.

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 carrying value of receivables and payables approximates their fair value because of the short-term nature of these instruments.

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 value.

DERIVATIVE INSTRUMENTS

The WSIB invests in active currencies through forward contracts that are classified as held-for-trading and reported at fair value, with changes in fair value included in income through the statement of operations.

Derivative instruments are financial instruments that derive their value from that of other financial instruments, economic or financial indicators, including but not limited to, derivatives of equities, fixed-income, or currency-related investments, futures and /or forward contracts, swaps, options, warrants, depository receipts, rights, or other similar instruments. WSIB uses derivative instruments as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies, including but not limited to rebalancing.

IMPAIRMENT REVIEW

Available-for-sale securities are reviewed annually to identify and evaluate investments that show indications of possible impairment. An investment is considered impaired if its unrealized losses represent impairment that is considered to be other-than-temporary. In determining whether a loss is temporary, factors considered include the extent of the unrealized loss, length of time that the security has been in an unrealized loss position, and the WSIB's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If a decline is considered other-than-temporary, a write down is recorded.

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 for available-for-sale securities are included in other comprehensive income. Unrealized exchange gains and losses for held-for-trading securities are included in income.

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.

Annuities purchased from third parties to pay Loss of Retirement Income benefits to eligible claimants are accounted for as financial assets, and the corresponding liability to the claimants is accounted for as a financial liability. The WSIB remains liable for the annuities in the event of default by the annuity provider. These assets and liabilities are carried at estimated fair value.

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 the lesser of the lease term or 10 years for leasehold improvements.

PREMIUMS

Each year, the WSIB's Board of Directors approves preliminary and final premium rates. The preliminary rates are re-calibrated 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.

The Schedule 1 premiums are net of bad debts. An Allowance for Doubtful Accounts is recorded in our Consolidated Balance Sheet and is maintained at a level that is adequate to absorb losses on premiums for Schedule 1 employers. The allowance comprises specific allowances and an additional allowance that covers any impairment in the employer premiums that, based on experience, will not be collectible.

BENEFIT LIABILITIES

Benefit liabilities are determined annually through an actuarial valuation, which estimates the present value of future payments for loss of earnings, labour market re-entry, short- and long-term disability, health care, survivor benefits, retirement income benefits, and claim administration costs. They represent a provision for future benefit payments and the future cost of administering claims incurred on or before December 31. The provision has been determined by estimating future benefit payments in accordance with the adjudication practices in effect 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, which provide pension and other post-retirement benefits to eligible staff. These plans include a statutory pension plan, a supplemental pension plan, and other post-retirement benefits plans, including health, dental, and life insurance.

The WSIB funds its statutory pension and post-retirement benefit plans annually based on actuarially determined amounts required to satisfy employee benefit entitlements under current pension regulation and benefit plan policies. These pension plans provide benefits based on years of service and average earnings at retirement.

Actuarial valuations are performed annually to determine the present value of the accrued pension benefits, based on projections of the employees' compensation levels to the time of retirement. Investments held by the pension funds primarily comprise equity securities, bonds, and debentures. Pension fund assets are valued at fair value.

Pension benefit expense, which is included in staff benefit plans within administrative and other expenses (note 11), consists of the cost of employee pension benefits for the current year's service, interest cost on the liability, expected investment return on the market-related value of plan assets, and the amortization of unrecognized past service costs, unrecognized net actuarial gains or losses, and unrecognized transition asset or obligation. Amortization is charged over the expected average remaining service period of active employees covered by the plan.

The cumulative excess of pension fund contributions over the amount recorded as expenses is reported as accrued benefit liability in the consolidated 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 accident benefits is recognized in the year the gain or loss occurs and is included in other benefit plans (note 8).

Other defined-contribution plan costs are recognized in income for services rendered by employees during the year.

SIGNIFICANT ACCOUNTING CHANGES

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On January 1, 2008, WSIB adopted new *CICA Handbook* sections: Sec. 1535: Capital Disclosure, Sec. 3862: Financial Instruments – Disclosures, Sec. 3863: Financial Instruments – Presentation.

Sec. 1535 requires the disclosure of the entity's objectives, policies, and processes for managing capital.

Sec. 3862 and 3863 have replaced Sec. 3861: Financial Instruments – Disclosure and Presentation. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

FUTURE CHANGES IN ACCOUNTING POLICIES – INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that a publicly accountable enterprise will be required to adopt IFRS. IFRS will replace current Canadian GAAP for those enterprises. IFRS will be effective for annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures. The WSIB is currently in the process of determining whether it is a publicly accountable enterprise as defined by the AcSB and is evaluating the impacts and implications of conversion to IFRS.

3. Investments and Investment Revenue

Investments by category are as follows:

($ millions)	2008					2007
	Amortized cost	Carrying value adjustments	Unrealized: gains	losses	Carrying value	Carrying value
Held-for-trading:						
Foreign-exchange contracts						
Domestic	$ -	$ (22)	$ -	$ -	$ (22)	$ (37)
Foreign – U.S.	-	(104)	-	-	(104)	46
– Global	-	112	-	-	112	(19)
Total held-for-trading	-	(14)	-	-	(14)	(10)
Available-for-sale:						
Fixed-income securities						
Bonds	3,814	-	196	(71)	3,939	4,116
Equities						
Domestic	1,472	23	183	(72)	1,606	2,261
Foreign – U.S.	2,604	5	113	(135)	2,587	3,569
– Global	2,188	19	188	(55)	2,340	3,194
Real estate	135	32	105	(4)	268	396
	6,399	79	589	(266)	6,801	9,420
Total available-for-sale	10,213	79	785	(337)	10,740	13,536
Real estate entities subject to significant influence	381	-	-	-	381	228
Total investments	**$10,594**	**$65**	**$785**	**$(337)**	**$11,107**	**$13,754**

Included in the above is accrued income of $53 million (2007: $113 million).

FOREIGN CURRENCY

The gross notional amounts in foreign-exchange contracts are the contractual amounts on which payments are made. The net notional value is the sum of all the long (or the short) positions in the portfolio and it reflects the aggregate positions of the portfolio. These notional amounts have been converted into Canadian dollars at the contractual exchange rates in effect at the inception of the contracts.

At December 31, 2008, the gross notional value of outstanding foreign-currency contracts was $1,336 million (2007: $1,946 million). Outstanding contracts in a favourable position had a fair value of $62 million (2007: $13 million) and those in an unfavourable position had a fair value of negative $76 million (2007: negative $23 million). Unrealized losses on foreign-exchange contracts of $14 million (2007: $10 million loss) were included in investment income.

The net notional value of foreign-exchange contracts as of December 31, 2008, was $222 million (2007: $241 million).

The fair value of the investment portfolio includes $4,927 million (2007: $6,763 million) of securities denominated in foreign currency. The major holdings are as follows: 53 per cent (2007: 53 per cent) in U.S. dollars, 14 per cent (2007: 18 per cent) in euros, 11 per cent (2007: 11 per cent) in British pound sterling, 12 per cent (2007: seven per cent) in Japanese yen, and 10 per cent (2007: 11 per cent) in other currencies.

Bonds, by term to maturity as of December 31:

($ millions)	2008					2007
	Term to contractual maturity (years)					
	Up to 1	1 - 5	5 - 10	Over 10	Total	Total
Government Bonds						
Fair value	$23	$1,301	$478	$920	$2,722	$2,882
Yield %*	1.0	2.0	3.3	4.1	2.9	4.2
Corporate Bonds						
Fair value	$31	$559	$342	$285	$1,217	$1,234
Yield %*	3.9	4.7	5.9	6.9	5.5	5.2
Total						
Fair value	**$54**	**$1,860**	**$820**	**$1,205**	**$3,939**	**$4,116**
Yield%*	**2.7**	**2.8**	**4.4**	**4.8**	**3.7**	**4.5**

*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)	2008	2007
Held-for-trading		
Foreign-exchange contracts	$(18)	$(15)
Available-for-sale		
Bonds	225	205
Amortization	(14)	(16)
Equities	(1,413)	607
Real estate equities	24	47
	(1,178)	843
Real estate entities subject to significant influence	14	12
Short-term securities	5	6
	(1,177)	846
Investment expenses	(34)	(34)
Net investment income	**$(1,211)**	**$812**

Revenue from bonds includes $21 million (2007: $2 million) of net realized gains. Revenue from equities includes $1,633 million of realized losses (2007: $383 million realized gains) and real estate includes $13 million (2007: $42 million) of net realized gains. Revenue from foreign-exchange contracts includes $15 million (2007: $3 million) of net realized losses.

During the year, $1,007 million (2007: $408 million) was assessed as an other-than-temporary impairment and recognized as a reduction in investment income. These assets comprised equity securities that had significant prolonged market losses that the WSIB determined were other-than-temporary. The remaining unrealized losses on available-for-sale securities of $337 million (2007: $236 million) are not considered to be other-than-temporarily impaired as at December 31, 2008, and remain in accumulated other comprehensive income. These losses were not considered other-than-temporary as their amounts were either insignificant and/or short-term in nature and are securities in which the WSIB has the intent and ability to hold to recover the temporary loss.

SECURITIES LENDING

The WSIB earns additional income by participating in a securities-lending program. Securities it owns are loaned to others for a fee and are secured by high-quality collateral. The fair value of the collateral always exceeds the fair value of the securities loaned, and the collateral is marked to market daily. The program is managed by a Canadian financial institution.

At December 31, 2008, the fair value of securities on loan was $980 million (2007: $1,453 million). The collateral held with respect to these securities was $1,052 million (2007: $1,526 million).

4. Financial Instruments Risk Management

The WSIB is responsible for investing the funds of the Insurance Fund and Loss of Retirement Income Fund (LRI Fund). These responsibilities are carried out through strategic and other investment policies that govern how the funds are to be invested and how the investment performance and compliance of the funds is to be monitored and evaluated. A statement of investment policies and procedures (SIPP) is reviewed and presented to the Board of Directors for approval. Review is undertaken of the WSIB's benefit liabilities and capital market assumptions to ascertain that the policy asset mix and other provisions of the SIPP remain relevant to the prevailing and forecasted nature of the benefit liabilities. The policy asset mix mitigates, but does not eliminate short-term risk through diversification across asset strategies and strikes a reasonable compromise between achieving the long-term return objective and enduring short-term variability.

Although neither the Insurance Fund nor LRI Fund are registered pension funds, the *The Workplace Safety and Insurance Act* requires the funds available for investment be invested in those investments that are authorized under the *Ontario Pension Benefits Act*. *The Workplace Safety and Insurance Act* further requires that the funds be invested in the same manner as is authorized for those pension funds – namely, with the care, diligence, and skill that a person of ordinary prudence would exercise in dealing with the property of another person and using all relevant knowledge and skill that the person may possess.

Risk is inherent in the generating of investment returns in excess of the risk-free rate (i.e., three-month Government of Canada treasury bills) and in each element of the investment decision-making process; hence, risk measurement and risk management are integral to the asset management program.

The primary risk is that investment returns, taken together with a reasonable and sustainable level of contributions, are insufficient to meet the long-term obligations for which the funds are established. This risk would be manifest in the failure to achieve a return of at least the actuarial discount rate of seven per cent over a long-term horizon of rolling 15-year periods.

The significant risks related to financial instruments are credit risk, liquidity risk, and market risk (currency, interest rate, and price). The following sections describe how WSIB manages each of these financial-instrument risks:

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk also includes concentration risk. The WSIB mitigates these portfolio credit risks through comprehensive due diligence and diversification.

i) Asset quality

Asset quality is an assessment of the financial liquidity of the investment and the ability of the issuer to meet current and future contractual obligations. WSIB fixed-income investments consist primarily of high-quality, investment-grade debt instruments. An investment-grade bond is one that is rated BBB and above.

The following table highlights the bond ratings for fixed income securities as at December 31, 2008.

WSIB FIXED-INCOME HOLDINGS

($ millions)

Bond rating	Market value	%
AAA	$2,022	51.3
AA	944	24.0
A	768	19.5
BBB	205	5.2
Total	**$3,939**	**100.0**

All asset-backed securities are rated investment-grade.

The WSIB manages counterparty risk through a due diligence process by selecting multiple highly rated counterparties and by setting counterparty exposure limits. In addition, the WSIB requires its active currency managers to use a continuous linked settlement service to mitigate settlement risk and an international foreign-exchange master agreement to mitigate risk of default at any time. The WSIB monitors its exposure on an ongoing basis.

The WSIB manages counterparty risk relating to our securities-lending program by establishing a preapproved qualified borrower list and through exposure limits. In addition, the WSIB mitigates counterparty risk by requiring daily marking-to-market to maintain full collateralization with additional margin for safety. Loans are secured by high-quality collateral, comprised primarily of government bonds (99 per cent) and major bank short-term notes (one per cent).

The WSIB pays insurance benefits for Schedule 2 workers and is then reimbursed by their employers for the related costs. The WSIB holds collateral in the form of letters of credit in the amount of $286 million as of December 31, 2008, to mitigate any risk related to self-insurers, outstanding reimbursements. These letters of credit are issued by highly rated Canadian financial institutions and can be drawn upon on demand.

ii) Concentration risk

Concentration risk arises from the exposure of investments in one particular issuer, a group of issuers, a geographical region, or a sector. These groups share similar characteristics, such as type of industry, regulatory compliance, and economic and political conditions, which may impact the issuers' ability to meet contractual commitments. The WSIB manages these risks through limits on exposure to regions and sectors and limits on underlying securities. As such, not more than five per cent of the market value of the Insurance Fund is invested in the securities of a single issuer. The WSIB's fixed-income investments are derived from indexed portfolios, and none of the index constituents is more than three per cent of the index.

The following table highlights the fair value of fixed-income securities by sector as at December 31, 2008:

($ millions)

Fixed-income sector	**Market value**	**%**
Asset-backed securities	$80	2.0
Financial services	628	15.9
Communications and publishing	20	0.5
Consumer products and merchandising	27	0.7
Federal government and agency	1,678	42.6
Industrial products	3	0.1
Natural resources	23	0.6
Other corporates	197	5.0
Utilities and telecommunications	227	5.8
Provincials and municipal	1,042	26.4
Real estate	14	0.4
Total	**$3,939**	**100.0**

LIQUIDITY RISK

Liquidity risk, or funding risk, is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity risk to the WSIB is the risk that it will not be able to fund all cash outflow commitments as they fall due. The WSIB mitigates this risk by investing 95 per cent of its insurance assets in readily marketable, publicly traded equity and fixed-income securities. The remaining insurance assets are invested in high-quality real estate investments in commercial properties in major markets that provide steady cash flows.

The following outlines the carrying values of financial assets by contractual maturity or expected cash flow:

($ millions)	1 Yr	2-5 Yrs.	6-10 Yrs.	>10 Yrs.	No fixed maturity	Total
Assets:						
Cash and cash equivalents	$128	$-	$-	$-	$-	$128
Receivables	877	-	-	-	-	877
Foreign-exchange contracts	2	-	-	-	-	2
Bonds	53	1,846	813	1,194	-	3,906
Securities	-	-	-	-	6,514	6,514
Accrued investment income	52	-	-	-	-	52
Total	**$1,112**	**$1,846**	**$813**	**$1,194**	**$6,514**	**$11,479**

MARKET RISK

There are three types of market risk: Currency risk, interest rate risk, and price risk. Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign-exchange rates. Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates. Price risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices.

i) Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign-currency rates as compared with the Canadian dollar. The WSIB uses foreign-exchange contracts as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies. Foreign-exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception. The fair value of these financial instruments would change in response to changes in the underlying variables affecting the contracts, such as changes in the foreign-exchange rates of the currencies involved in the contracts.

Below is a sensitivity analysis of the effect of a fluctuation in the Canadian dollar of +/- one per cent against the four major currencies that represent 90 per cent of WSIB's equities portfolio foreign-currency exposure. (Actual market fluctuations could differ significantly from the sensitivity analysis presented):

($ millions)

Currency	Total market value exposure	+/- 1%
U.S. dollar	$2,587	$26
Euro	688	7
Japanese yen	594	6
British pound sterling	548	5
Total	**$4,417**	**$44**

ii) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The WSIB reviews interest rate risk through periodic asset liability analyses, which assess the impact of different interest rate scenarios on assets and liabilities of the Insurance Fund over a period of time. Interest rate risk is mitigated primarily through asset allocation, which aims to cover interest rate risk over the long term.

The WSIB uses Option-Adjusted Modified Duration to measure the sensitivity of the price of a fixed-income instrument to a change in interest rates. A parallel shift in the yield curve of +/- one per cent would result in an impact on the fair value of the bond portfolio of approximately $247 million, with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. This information is based on the assumption that the securities in the WSIB's portfolio are not impaired; interest rates and equities prices move independently; and, credit and liquidity risks have not been considered. Available-for-sale securities in an unrealized loss position, as reflected in other comprehensive income, may at some point in the future be realized either through a sale or an other-than-temporary impairment.

iii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The WSIB mitigates price risk by diversification of its investment portfolios. Also, the SIPP outlines the policy mix requirements to manage the price risk. As well, the funds are actively managed. A balanced allocation of risk across a broad set of return sources is appropriate to meet the return objectives of the funds. The assets of the funds are diversified by combining different sources of return across and within asset classes and investment strategies.

The estimated effect on net assets due to a reasonable change in market indices, holding all other factors constant, would be as follows. (Actual market fluctuations could differ significantly from the sensitivity analysis presented):

($ millions)			
Market indices	**Fair value**	**Change in price**	**Effect on net assets**
S&P/TSX	$1,620	+/- 10%	$162
S&P 500/NYSE	2,347	+/- 10%	235
MSCI world	2,566	+/- 10%	256
Total	**$6,533**		**$653**

5. Loss of Retirement Income Fund

The carrying value of the Loss of Retirement Income (LRI) Fund investments as of December 31 is as follows:

($ millions)	2008	2007
Cash and cash equivalents	$29	$35
Bonds	169	176
Equities	155	248
Investment in pooled fund	478	459
Investment fund	**831**	**918**
Annuities	**59**	**56**
	$890	**$974**

The underlying securities in the pooled fund include fixed-income securities valued at $178 million (2007: $131 million), equities valued at $282 million (2007: $317 million), and money market instruments valued at $18 million (2007: $11 million).

The WSIB has purchased annuities from various annuity providers to administer the settlement of LRI benefits to eligible claimants. The related financial asset and corresponding liability are carried at actuarially determined fair values. The WSIB remains liable for the annuities in the event of default by the annuity providers. This risk is mitigated by acquiring annuities from highly rated Canadian financial institutions. At December 31, 2008, none of the annuity providers was in default and no provision for credit risk was required.

The change in LRI Fund investment is as follows:

($ millions)	2008	2007
Funds set aside under the *Act* [1]	82[2]	76[2]
Investment income (loss)	(129)	4
Benefit costs paid	(40)	(34)
Increase in net assets	(87)	46
Net assets, beginning of year	918	872
Net assets, end of year	**$831**	**$918**

[1]*Workplace Safety and Insurance Act,* 1997.

[2]Includes $7 million (2007: $6 million) of injured worker optional contributions.

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.

6. Property, Equipment, and Other Assets

($ millions)	2008		2007
	Cost	Net Carrying Value	Net Carrying Value
Land, under a capital lease	$29	$29	$29
Buildings and leasehold improvements	199	85	92
Office equipment	113	2	2
Computer equipment	132	10	11
Work-in-progress	77	77	44
	550	203	178
Other assets	2	2	1
	$552	**$205**	**$179**

Amortization expense in 2008 was $13 million (2007: $12 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 land of $29 million represents the WSIB's 75 per cent share of the co-ownership's interest in land on which the WSIB's head office building was constructed.

The building and leasehold improvements of $85 million (2007: $92 million) represent the WSIB's 75 per cent share of the co-ownership.

7. Long-Term Debt

($ millions)	2008	2007
Mortgage payable	$99	$68
Obligation under capital leases	28	30
	127	98
Less: current portion	36	2
	$91	**$96**

MORTGAGES PAYABLE

To fund part of the development and construction of the building at 200 Front Street West, Toronto (note 6), 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 balance of this mortgage on December 31, 2008, was $67 million (2007: $68 million).

During 2008 the WSIB acquired three new real estate subsidiaries through its investment fund, two of which have mortgage loan balances. Mortgages payable increased by $31 million due to the resulting acquisitions. The interest rates on these mortgages are 7.44 per cent on a loan balance of $24 million and 4.13 per cent on a loan balance of $9 million. Both loans mature in 2009.

The fair value of the mortgages payable as of December 31, 2008, was $105 million (2007: $70 million), with a book value of $99 million (2007: $68 million). Mortgage interest expense of $7 million was included in occupancy cost (note 11) and $1 million was included in investment income (2007: $7 million in occupancy cost).

Future mortgage payments are as follows:

2009	$41
2010	8
2011	8
2012	8
2013	8
	73
Thereafter	68
	141
Less interest portion	42
	$99

OBLIGATION UNDER CAPITAL LEASES

The obligation under capital leases consists of the following:

($ millions)	2008	2007
Simcoe Place land lease	$23	$23
Computer equipment leases	5	7
	$28	**$30**

The Simcoe Place land lease represents the balance of the lease obligation for the land at 200 Front Street West, Toronto (note 6), on which the WSIB's office building is located. The WSIB, through its wholly owned subsidiary 799549 Ontario Inc. makes annual lease payments of $4 million under this 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 is expected that the option will be exercised.

There are five capital leases for computer equipment with initial terms between three and four years, all expiring on December 31, 2010.

The fair value of the lease obligations at December 31, 2008, was $43 million (2007: $44 million). Interest on the lease obligation for the year was $4 million (2007: $4 million). Interest on the Simcoe Place land lease obligation for the year of $4 million (2007: $4 million) was included in occupancy cost.

Future minimum lease payments and the balance of the lease obligation on December 31, 2008, are as follows:

2009	$7
2010	7
2011	4
2012	4
2013	4
	26
Thereafter	58
	84
Less interest portion	56
	$28

8. 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.

PENSIONS 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 10 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, 2008. The most recent and next actuarial valuations for funding purposes are as of December 31, 2008, and 2009, 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	
	2008	2007	2008	2007	2008	2007	2008	2007
Accrued benefit obligation:								
Beginning of year	**$1,663.0**	**$1,781.5**	**$14.5**	**$14.8**	**$486.5**	**$525.6**	**$2,164.0**	**$2,321.9**
Current service cost	46.2	59.0	0.3	0.4	14.5	16.0	61.0	75.4
Interest cost	98.4	94.5	0.8	0.8	28.2	27.0	127.4	122.3
Benefits paid	(52.0)	(50.1)	(0.5)	(0.5)	(16.5)	(16.1)	(69.0)	(66.7)
Contributions by employee	22.3	19.7	0.2	0.2	-	-	22.5	19.9
Past service benefit cost	5.6	-	-	-	-	-	5.6	-
Actuarial (gain) loss	(294.8)	(241.6)	(2.3)	(1.2)	(103.0)	(66.0)	(400.1)	(308.8)
End of year	**1,488.7**	**1,663.0**	**13.0**	**14.5**	**409.7**	**486.5**	**1,911.4**	**2,164.0**
Plan assets:								
Fair value at beginning of year	**1,702.1**	**1,707.9**	**2.6**	**2.6**	**-**	**-**	**1,704.7**	**1,710.5**
Actual return on plan assets	(264.8)	(9.4)	-	0.1	-	-	(264.8)	(9.3)
Contributions by employer	36.4	34.0	0.3	0.2	16.5	16.1	53.2	50.3
Contributions by employee	22.3	19.7	0.2	0.2	-	-	22.5	19.9
Benefits paid	(52.0)	(50.1)	(0.5)	(0.5)	(16.5)	(16.1)	(69.0)	(66.7)
Fair value at end of year	**1,444.0**	**1,702.1**	**2.6**	**2.6**	**-**	**-**	**1,446.6**	**1,704.7**
Funded status:								
Funded status, plan surplus (deficit)	(44.7)	39.1	(10.4)	(11.9)	(409.7)	(486.5)	(464.8)	(459.3)
Unamortized net actuarial (gain) loss	54.7	(33.3)	(0.6)	1.7	(54.3)	50.1	(0.2)	18.5
Unamortized past service costs	17.6	13.9	-	(0.1)	4.9	5.5	22.5	19.3
Unamortized transitional obligation	(59.0)	(70.7)	-	-	-	-	(59.0)	(70.7)
Accrued benefit liability	**(31.4)**	**(51.0)**	**(11.0)**	**(10.3)**	**(459.1)**	**(430.9)**	**(501.5)**	**(492.2)**
Accrued benefit obligation, end of year	1,488.7	1,663.0	13.0	14.5	409.7	486.5	1,911.4	2,164.0
Fair value of plan assets, end of year	1,444.0	1,702.1	2.6	2.6	-	-	1,446.6	1,704.7
Funded status, plan surplus (deficit)	**(44.7)**	**39.1**	**(10.4)**	**(11.9)**	**(409.7)**	**(486.5)**	**(464.8)**	**(459.3)**
Net benefit plan expense:								
Current service cost	46.2	59.0	0.3	0.4	14.5	16.0	61.0	75.4
Interest cost	98.4	94.5	0.8	0.8	28.2	27.0	127.4	122.3
Expected return on plan assets	(118.1)	(108.6)	-	(0.1)	-	-	(118.1)	(108.7)
Amortization of past service costs	1.9	1.5	-	-	0.6	0.6	2.5	2.1
Amortization of transitional obligation	(11.8)	(11.8)	-	-	-	-	(11.8)	(11.8)
Amortization of net actuarial (gain) loss	-	5.9	-	0.1	1.5	5.5	1.5	11.5
Net benefit plan expense	**$16.6**	**$40.5**	**$1.1**	**$1.2**	**$44.8**	**$49.1**	**$62.5**	**$90.8**

($ millions)	Employees Pension Plan				Employees' Supplementary Pension Plan	
	2008		2007		2008	2007
	$	%	$	%	$	$
Plan assets by major category						
Equity securities	$828.8	57.4	1,127.2	66.2	-	-
Debt securities	544.6	37.7	495.0	29.1	-	-
Real estate	50.6	3.5	48.8	2.9	-	-
Accrued investment income	6.0	0.4	10.7	0.6	-	-
Other	14.0	1.0	20.4	1.2	2.6	2.6
Total	**$1,444.0**	**100.0**	**1,702.1**	**100.0**	**2.6**	**2.6**

The significant actuarial assumptions adopted for the year 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	
	2008	2007	2008	2007	2008	2007
Discount rate – plan expenses	5.75%	5.15%	5.75%	5.15%	5.75%	5.15%
Discount rate – accrued benefit obligations	7.00%	5.75%	7.00%	5.75%	7.00%	5.75%
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

	2008	2007
Medical costs		
General inflation rate		
Initial rate	10.0%*	9.0%*
Ultimate rate	4.0%	4.0%
Year ultimate rate reached	2015	2013
Dental costs		
General inflation rate	4.0%	4.0%

*Grading down by 1% per year.

SENSITIVITY OF ACTUARIAL ASSUMPTIONS

The key economic assumptions used in measuring the pension benefit liability and related expenses are outlined in the table below. The sensitivity analysis provided in the table is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key assumption have been calculated independently of changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Change in one assumption may result in changes in another, which could amplify or reduce certain sensitivities.

		Impact of			Impact of			Impact of	
($ millions)	Discount rate (%)	1% increase ($)	1% decrease ($)	Rate of compensation increase (%)	0.25% increase ($)	0.25% decrease ($)	Expected rate of return on plan assets (%)	1% increase ($)	1% decrease ($)
Employees' Pension Plan									
Benefit liability*	7.00	(196.3)	247.4	3.50	14.3	(13.9)	7.00	N/A	N/A
Benefit expense**	5.75	(13.0)	15.8	3.50	2.7	(2.6)	7.00	(16.9)	16.9
Employees' Supplementary Pension Plan									
Benefit liability	7.00	(1.5)	1.8	3.50	0.3	(0.3)	3.50	N/A	N/A
Benefit expense	5.75	(0.1)	0.1	3.50	0.1	(0.1)	3.50	-	-
Unfunded Pensions									
Benefit liability	7.00	(0.2)	0.3	3.50	-	-	-	N/A	N/A
Benefit expense	5.75	-	-	3.50	-	-	-	-	-
Total Change									
Benefit liability	7.00	(198.0)	249.5	3.50	14.6	(14.2)	7.00	N/A	N/A
Benefit expense	5.75	(13.1)	15.9	3.50	2.8	(2.7)	7.00	(16.9)	16.9

*Accrued benefit obligation as at December 31, 2008 **2008 pension expense

9. 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 that 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, 2008, and are based on the level and nature of entitlement and adjudication practices in effect at that date.

The benefit liabilities were determined using accepted actuarial practices in accordance with the standards of practice established by the Canadian Institute of Actuaries. Benefit liabilities are calculated as the present value of expected future benefits, considered an indicator of fair value since there is no ready market for the trading of benefit liabilities.

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:

	2008	2007
Inflation rate	2.5%	3.0%
Discount rate	7.0%	7.0%
Rate of indexation of benefits		
Fully indexed	2.5%	3.0%
Partially indexed*	0.3%	0.5%
Discount rate, net of indexation		
Fully indexed	4.5%	4.0%
Partially indexed	6.7%	6.5%
Wage escalation rate	3.5%	4.0%
Health-care costs escalation rate	6.5%	6.5%

*These rates are not applied to the partially indexed business for 2008 and 2009 as the 2.5% indexation rate specified by Bill 187 applies.

A detailed review of the discount and inflation rate assumptions was conducted by an actuarial consulting firm late in 2007. The review suggested that a nominal discount rate in the range of 7.0% – 7.5% and a rate of inflation in the range of 2.0% – 3.0% would be considered appropriate.

As a result of the review, a long-term rate of inflation of 2.5% per annum was assumed for fully indexed disability payments. For partial benefits, the indexation assumption, subject to the modifications by Bill 187 for 2008 and 2009 payments, is 0.3% per annum after 2009. Mortality estimates are based on WSIB injured worker mortality experience from 1996 to 2000, adjusted for mortality improvements to 2008; and for survivors of deceased workers, on the 1995–1997 Ontario Life Tables, adjusted for mortality improvements to 2008.

Loss of Earnings (LOE) termination rates are based on WSIB injured workers termination experience up to and including 2006, simulated to 2008, and adjusted to reflect future expectations of terminations consistent with WSIB's *Road to Zero* strategy.

Provisions have been made for the effect of future increases in the covered earnings ceiling and the minimum and maximum limits affecting income benefits.

Long-term economic and actuarial assumptions and methods are reviewed annually as of December 31, when an actuarial valuation is performed. Management believes that the valuation methods and assumptions are, in aggregate, appropriate for the valuation.

The change in present value of future benefit payments for reported and unreported work-related injuries and illnesses, and the change in future claims administration costs, are recorded as benefit costs. 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 $859 million (2007: $881 million) for future costs of administering existing claims. Administrative and other expenses have been adjusted by $313 million (2007: $294 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 benefit liabilities are calculated based on actuarial assumptions. Changes in these assumptions can cause significant changes in the benefit liabilities. The sensitivities are affected for 2008 by the reduction in the long-term inflation assumption, with the general effect that the sensitivity amount is a reduction from 2007. The sensitivities are illustrated as follows:

- The actuarial assumption most sensitive to change is the assumed discount rate of 7% per annum. The approximate impact of a 0.5% decrease in the discount rate would increase benefit liabilities by approximately $725 million (2007: $735 million).

- A 0.5% increase in the consumer price index (CPI) would increase benefit liabilities by approximately $415 million (2007: $450 million). For partially indexed claims, the indexation rate for 2008 and 2009 is specified (2.5%) by Bill 187, therefore the 0.5% increase is not applicable to partially indexed claims for these two years.
- The calculation of the benefit liabilities was based on WSIB injured worker mortality experience. A flat reduction of 5% in these mortality rates would increase benefit liabilities by approximately $115 million (2007: $115 million).
- A 10% increase in the number of lost-time injuries in the current year would increase the benefit liabilities by approximately $120 million (2007: $115 million).
- Health-care benefit liabilities are calculated assuming a future rate of escalation of health-care costs of 6.5% per annum. A 0.5% increase in the escalation factors used for future health-care costs would increase benefit liabilities by approximately $120 million (2007: $130 million).
- Calculation of the benefit liabilities for the Loss of Earnings benefit uses WSIB injured workers claim termination experience. A flat reduction of 5% in termination rates would increase benefit liabilities by approximately $240 million (2007: $245 million).

Benefit liabilities and benefit costs paid in 2008 were as follows:

($ millions)	2008								2007
		Labour Market Re-entry							
	Loss of earnings	Income support	External providers	Short- & long-term disability	Health care	Survivor benefits	Claim admin. costs	Total	Total
Benefit liabilities, beginning of year	$5,895	$53	$438	$9,546	$3,117	$1,830	$881	**$21,760**	**$20,300**
Benefit costs	2,009	143	203	859	619	134	291	**4,258**	**4,936**
Benefit costs paid during the year									
Schedule 1	(923)	(144)	(155)	(1,196)	(483)	(163)	(313)	**(3,377)**	**(3,197)**
Schedule 2	(108)	(6)	(4)	(102)	(59)	(22)	-	**(301)**	**(279)**
	(1,031)	(150)	(159)	(1,298)	(542)	(185)	(313)	**(3,678)**	**(3,476)**
Change in benefit liabilities	978	(7)	44	(439)	77	(51)	(22)	**580**	**1,460**
Benefit liabilities, end of year	$6,873	$46	$482	$9,107	$3,194	$1,779	$859	**$22,340**	**$21,760**

10. 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)	2008	2007
Unfunded liability, beginning of year	$8,094	$5,997
Add (deduct):		
Investment income not earned due to shortfall in invested assets	661	422
Premiums allocated to reduction of unfunded liability	(962)	(1,024)
Experience (gains)/losses resulting from:		
Indexation of benefits (less) than expected	-	(140)
Lower than expected investment returns	3,087	1,118
Prior and current years' claims experience	883	647
Changes in assumptions:		
Long-term inflation	(438)	-
Long-term loss of earnings	102	86
Other changes	17	-
Changes in benefit cost assumptions:		
Health-care benefits	(25)	101
External agency rehabilitation payments	43	21
Other changes	(33)	16
Other changes:		
Changes in personal income tax rates	40	100
Impact of legislation enacted in 2007:		
Increase in liabilities resulting from Bill 187	-	720
Increase in liabilities resulting from Bill 221	-	30
Unfunded liability, end of year	**$11,469**	**$8,094**

11. Administrative and Other Expenses

Administrative and other expenses consist of the following:

($ millions)	2008	2007
Salaries and fringe benefits	$314	$299
Equipment and maintenance	37	37
Occupancy	40	40
Communication	17	17
Supplies and services	6	6
Travel and vehicle maintenance	5	4
New systems development and integration	6	8
Other	20	18
	445	429
Amortization expense	13	12
Staff benefit plans	69	96
	527	537
Claim administration costs (note 9)	(313)	(294)
	$214	**$243**

12. 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 Advisors. These reimbursements and funding amounts are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for the Institute for Work and Health and Safe Workplace Associations, clinics, and training centres.

The total amount of funding provided under these legislated obligations and commitments in 2008 was $226 million (2007: $218 million).

INVESTMENTS

Included in investments are marketable fixed-income securities issued by the Ontario provincial government and related corporations valued at $376 million (2007: $456 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.

13. Commitments and Contingencies

CONTRACTUAL OBLIGATIONS

At December 31, 2008, the WSIB was committed under non-cancellable contractual obligations, consisting of software licences and equipment and property leases, requiring future minimum payments of approximately $26 million per year over the next five years, and $27 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 2008 and 2007.

14. Capital Management

The WSIB is required by legislation to maintain its investments at a level sufficient to make the required payments under the insurance plan as they become due. In keeping with this requirement, the WSIB's strategic objectives include the overarching goal of ensuring that the workplace safety and insurance system remains financially sustainable for future generations.

To meet this goal, the WSIB established a funding framework to provide a prudent and fiscally responsible process for setting stable and predictable premium rates for employers while ensuring long-term financial sustainability. The WSIB's investment strategy is integrated with the funding framework and is a key fundamental to ensure the long-term financial sustainability of the workplace safety and insurance system.

The table below shows the WSIB's current funded status:

($ millions)	2008	2007
Total assets	$13,207	$15,972
Total liabilities	$24,676	$24,066
Funding ratio	53.5%	66.4%

The decrease in the funding ratio in 2008 was due to adverse economic conditions and investment returns, and underachievement in the reduction of lost-time injury rates and claims durations.

15. Comparative Figures

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

LOSSES DELETED FROM THE ACCOUNTS

(Under the *Financial Administration Act*)

for the year ended March 31, 2009

Ministry	2008-09
REVENUE	$ 331,524,938.78
ATTORNEY GENERAL	15,656,219.00
TRAINING, COLLEGES AND UNIVERSITIES	14,921,973.70
COMMUNITY AND SOCIAL SERVICES	12,038,764.39
ECONOMIC DEVELOPMENT	6,805,927.40
FINANCE - MOTOR VEHICLE ACCCIDENT CLAIMS FUND	4,034,461.27
EDUCATION	1,966,112.06
TRANSPORTATION	1,209,084.60
HEALTH AND LONG-TERM CARE	635,509.16
MUNICIPAL AFFAIRS AND HOUSING	590,782.77
NATURAL RESOURCES	308,089.05
ENERGY AND INFRASTRUCTURE	165,181.13
GOVERNMENT SERVICES	97,531.53
HEALTH PROMOTION	95,000.00
AGRICULTURE, FOOD AND RURAL AFFAIRS	82,384.00
ENVIRONMENT	47,333.39
COMMUNITY SAFETY AND CORRECTIONAL SERVICES	36,228.51
TOURISM	33,900.00
LABOUR	271.72
TOTAL	**$ 390,249,692.46**

Details of Remission granted under the *Ministry of Revenue Act* for Revenue and Other Debt for the year ended March 31, 2009

Description of the Order-in-Council	Amount
OIC 364/2008: Remission of Retail Sales Tax (RST) payable was granted to the Royal Ontario Museum and the Ontario Heritage Trust from July 1, 2008 to June 30, 2012. This is an extension of the remission of RST payable granted to these institutions by Order-in-Council 735/2006 since it is equitable and in the public interest to extend the remissions.	$500,000
OIC 972/2008: Remission of Employer Health Tax (EHT) and the related interest payable was granted to the Alexanian Flooring Limited (AFL) for the years 2000 and 2001 since the workers in question were not employees but self-employed and the amounts paid to them are not subject to tax under the Employer Health Tax Act.	$22,158
OIC 1414/2008: Remission of Retail Sales Tax payable in respect of butterfly pupae and larvae purchased by butterfly conservatories from October 1, 2008 to September 30, 2012, was granted to provide relief for butterfly conservatories which are facing economic challenges in view of the decline in tourism since 2001.	$100,000
OIC 8/2009: Remission was granted to the City of Toronto in respect of the grant paid to the City pursuant to the Investing in Ontario Act, 2008 (IOA) and O.Reg. 277/08 and the obligation to repay any portion of the IOA Grant that was not used in accordance with the regulation.	$238,182,872
OIC 256/2009: Remission of interest due and accruing on Voluntarily Disclosed and remitted Retail Sales Tax (RST) was granted to the Ottawa Hospital. The Hospital completed an internal RST review and identified RST of $722,512 not paid on the taxable purchases and RST not collected on taxable sales between 2003 and 2006.	$162,000
OIC 443/2009: Remission of Retail Sales Tax and the related interest payable was granted to the Children's Hospital of Eastern Ontario and twenty-two other hospitals in respect of the repayment of refunds of taxes and interest to which the hospitals were not entitled.	$705,524
Certificate No. 1/2009: Remission of Retail Sales Tax and the related penalty and interest from a 1997 assessment was granted to Edward Haire and Ramesh Patel who operated an automotive repair business in partnership from May 1995 to October 1996.	$7,555

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ISSN 0381-2375 (Print)
ISSN 1913-5556 (Online)