Ontario

Ministry of Finance

Public Accounts of ONTARIO

2009–2010

Financial Statements of Government Organizations (Cont'd) Government Business Enterprises, Trusts and Miscellaneous Statements

Volume 2b

Ontario

MINISTRY OF FINANCE

Public Accounts of ONTARIO

2009–2010

FINANCIAL STATEMENTS OF GOVERNMENT ORGANIZATIONS - CONT'D GOVERNMENT BUSINESS ENTERPRISES, TRUSTS AND MISCELLANEOUS STATEMENTS

Volume 2b

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- Ornge

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Ministry of Natural Resources
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Ministry of Transportation
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A GUIDE TO PUBLIC ACCOUNTS

1. SCOPE OF THE PUBLIC ACCOUNTS

The 2009-2010 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, 2009 to March 31, 2010. 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 ORGANIZATIONS - CONT'D

Ontario Northland Transportation Commission

Management's Responsibility

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

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

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

T. Hargreaves
Chair

P. Goulet
Acting President and CEO

North Bay, Ontario
May 28, 2010

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

Auditor's Report

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

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at March 31, 2010 and the consolidated statements of equity, operations and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2010 and 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 28, 2010

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

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

		March 31 2010		March 31 2009 (restated Note 3)
Assets				
Current				
Cash and cash equivalents (Note 5)	$	**4,823**	$	7,471
Accounts receivable (Net of allowance - $3,677; 2009 - $3,172)		**18,468**		17,156
Inventory		**18,319**		17,624
Prepaid expenses		**1,348**		1,164
		42,958		43,415
Intangible assets (Note 6)		**-**		4,584
Investment in property, plant and equipment (Schedule 1)		**297,381**		280,271
Accrued pension benefit asset (Note 9a)		**58,650**		70,475
	$	**398,989**	$	398,745
Liabilities and Province of Ontario Equity				
Current				
Operating lines of credit (Note 7)	$	**12,925**	$	11,870
Accounts payable and accrued liabilities		**29,383**		28,565
Current portion of long-term debt (Note 10a)		**4,383**		5,806
Current portion of capital lease obligations (Note 10b)		**11**		72
Current portion of deferred revenue		**616**		806
		47,318		47,119
Deferred revenue (Note 11)		**828**		897
Deferred contributions related to property, plant and equipment (Note 8)		**89,078**		66,800
Long-term debt (Note 10a)		**34,369**		33,172
Capital lease obligations (Note 10b)		**24**		35
Accrued Non-Pension Benefit Obligation (Note 9b)		**64,232**		61,821
		235,849		209,844
Contingencies (Note 16) / **Commitments** (Note 17)				
Equity				
Retained Earnings		**158,645**		184,413
Reserve for Self Insurance		**4,495**		4,488
		163,140		188,901
	$	**398,989**	$	398,745

Approved on behalf of the Commission:

Chair

Acting President and CEO

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

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

	March 31 2010	March 31 2009 (restated Note 3)
Retained Earnings		
Balance, beginning of year	**97,787**	112,729
Prior year's restatement (Note 3c)	**86,626**	86,626
Balance, beginning of year as restated	**184,413**	199,355
Net loss for the year	**(25,761)**	(14,742)
Net transfer to Reserve for Self Insurance	**(7)**	(200)
Balance, end of year	**$ 158,645**	$ 184,413

Reserve for Self Insurance (Note 14)		
Balance, beginning of year	**4,488**	4,288
Transfers (to) from Retained Earnings		
Interest earned	**23**	100
Annual premium	**100**	100
Claims	**(116)**	-
	7	200
Balance, end of year	**$ 4,495**	$ 4,488

Total Retained Earnings and Reserve for Self Insurance	**$ 163,140**	$ 188,901

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

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

For the year ended March 31		2010		2009 (restated Note 3)
Revenues (Schedule 2)	$	**144,924**	$	142,982
Expenses (Schedule 2)		**133,759**		138,548
Income from operations, before other revenues and expenses		**11,165**		4,434
Other revenues and expenses				
Amortization (Schedule 2)		**14,673**		14,283
Amortization of deferred contributions related to property, plant and equipment (Note 8)		**(2,321)**		(2,301)
Write down of intangible assets (Note 6)		**4,039**		-
Pension expense (Schedule 2 and Note 9)		**16,415**		5,946
Sales tax assessment		**1,556**		-
Interest expense (Schedule 2)		**2,063**		2,104
Investment and other income		**(5)**		(3)
Investment income on Reserve for Self Insurance (Note 14)		**(23)**		(100)
Claims on Reserve for Self Insurance (Note 14)		**116**		-
Loss (gain) on sale of property, plant and equipment (Schedule 2)		**413**		(753)
Net expenses		**36,926**		19,176
Net loss for the year		**(25,761)**		(14,742)

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

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

For the year ended March 31	2010	2009 (restated Note 3)
Cash provided by (used in)		
Operating activities		
Loss	$ (25,761)	$ (14,742)
Items not affecting cash		
Amortization (Schedule 2)	14,673	14,283
Amortization of deferred contributions related to property, plant and equipment (Note 8)	(2,321)	(2,301)
Loss (gain) on disposal of property, plant and equipment	413	(753)
Writedown of intangible assets	4,039	-
Amortization of intangible assets	545	594
Deferred revenue	64	122
Pension expense (Note 9)	16,415	5,946
	8,067	3,149
Changes in non-cash working capital balances		
Accounts receivable	(1,312)	1,820
Inventory	(695)	376
Prepaid expenses	(184)	(204)
Accounts payable and accrued liabilities	818	2,786
Deferred revenue	(323)	(2,080)
	6,371	5,847
Investing activities		
Investment in property, plant and equipment	(32,935)	(30,809)
Proceeds from sale of property, plant and equipment	739	753
Funding contribution to accrued pension benefit asset	(148)	(191)
	(32,344)	(30,247)
Financing activities		
Operating lines of credit	1,055	(3,130)
Long-term debt (Note 10a)	(226)	5,287
Capital lease obligations (Note 10b)	(72)	(195)
Deferred contributions related to property, plant and equipment	24,599	23,573
Funding contribution to accrued non-pension benefit obligation	(2,031)	(2,419)
	23,325	23,116
Change in cash and cash equivalents during the year	(2,648)	(1,284)
Cash and cash equivalents, beginning of year	7,471	8,755
Cash and cash equivalents, end of year	$ 4,823	$ 7,471
Supplemental disclosure of cash flow information:		
Interest paid during the year and included in net loss	$ 2,063	$ 2,104

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

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

For the year ended March 31			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Rail Services				
Roadway	$ 275,388	$ 113,745	**$ 161,643**	$ 150,255
Buildings	42,315	18,279	**24,036**	24,247
Equipment	75,857	48,469	**27,388**	29,029
Equipment under capital lease	1,022	198	**824**	874
Under construction	17,035	-	**17,035**	11,482
Telecommunications (Ontera)				
Equipment	154,970	116,250	**38,720**	39,031
Buildings	6,552	4,062	**2,490**	1,765
Under construction	11,481	-	**11,481**	10,298
Motor Coach Services				
Coaches	8,589	5,448	**3,141**	3,800
Buildings	2,796	201	**2,595**	2,548
Refurbishment				
Equipment	585	85	**500**	521
Buildings	3,407	346	**3,061**	3,024
Marine Services (Moosonee)				
Vessels	385	365	**20**	28
Under construction	2,908	-	**2,908**	1,794
Development				
Land and buildings	2,851	1,312	**1,539**	1,575
	$ 606,141	$ 308,760	**$ 297,381**	$ 280,271

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

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

(dollars in thousands)

For the year ended March 31	2010	2009 (restated Note 3)
Rail Services		
Sales revenue (Notes 15 and 21)	**$ 53,415**	$ 60,155
Government reimbursement (Note 12)	**30,459**	23,760
Operating revenue	**83,874**	83,915
Operating expense	**70,029**	77,293
Operating income	**13,845**	6,622
Amortization	**8,899**	8,819
Amortization of deferred contributions related to property, plant and equipment (Note 8)	**(1,439)**	(1,160)
Pension expense (Note 9)	**9,647**	3,498
Loss (gain) on sale of property, plant and equipment	**262**	(615)
Interest expense	**925**	957
Loss from operations	**(4,449)**	(4,877)
Telecommunications (Ontera)		
Sales revenue (Note 13)	**32,662**	31,365
Operating expense	**26,862**	26,641
Operating income	**5,800**	4,724
Amortization	**4,969**	4,520
Amortization of deferred contributions related to property, plant and equipment (Note 8)	**(882)**	(1,141)
Pension expense (Note 9)	**2,660**	1,015
Sales tax assessment	**1,556**	-
Interest expense	**667**	464
Loss from operations	**(3,170)**	(134)
Motor Coach Services		
Sales revenue	**10,583**	11,313
Operating expense	**10,429**	10,641
Operating income	**154**	672
Amortization	**542**	589
Pension expense (Note 9)	**1,047**	378
Loss on sale of property, plant and equipment	**170**	-
Interest expense	**111**	106
Loss from operations	**(1,716)**	(401)
Refurbishment		
Sales revenue	**17,089**	15,708
Operating expense	**18,249**	17,025
Operating loss	**(1,160)**	(1,317)
Amortization	**85**	85
Write down of intangible assets (Note 6)	**4,039**	-
Pension expense (Note 9)	**1,708**	653
Interest expense	**250**	311
Loss from operations	**(7,242)**	(2,366)

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

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

For the year ended March 31	2010	2009 (restated Note 3)
Marine Services (Moosonee)		
Sales revenue	**156**	129
Government reimbursement (Note 12)	**41**	40
Operating revenue	**197**	169
Operating expense	**182**	205
Income (loss) from operations	**15**	(36)
Rental Properties		
Sales revenue	**519**	512
Operating expense	**362**	323
Operating income	**157**	189
Amortization	**37**	37
Gain on sale of property, plant and equipment	**(19)**	(138)
Income from operations	**139**	290
Administration		
Operating revenue	**-**	-
Operating expense	**7,646**	6,420
Operating loss	**(7,646)**	(6,420)
Amortization	**141**	233
Pension expense (Note 9)	**1,353**	402
Interest expense	**110**	266
Loss from operations	**(9,250)**	(7,321)
Total Operations		
Sales revenue	**114,424**	119,182
Government reimbursement (Note 12)	**30,500**	23,800
Total revenues	**144,924**	142,982
Expenses	**133,759**	138,548
Income from operations	**11,165**	4,434
Amortization	**14,673**	14,283
Amortization of deferred contributions related to property, plant and equipment (Note 8)	**(2,321)**	(2,301)
Write down of intangible assets (Note 6)	**4,039**	-
Pension expense (Note 9)	**16,415**	5,946
Sales tax assessment	**1,556**	-
Interest expense	**2,063**	2,104
Loss (gain) on sale of property, plant and equipment	**413**	(753)
Loss from operations	**$ (25,673)**	$ (14,845)

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

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

1. Nature of Business

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

2. Significant Accounting Policies

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

Inventory

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

Investment in Property, Plant and Equipment

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

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

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

Deferred contributions related to Property, Plant and Equipment

The Province of Ontario reimburses the Commission for the cost of certain property, plant and equipment purchased for use in operations. The Commission records these assets at their original cost together with an offsetting credit to Deferred contributions related to property, plant and equipment. Deferred contributions related to property, plant and equipment are recognized as revenue on the same basis as the amortization of the related assets (see Note 8).

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

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

2. Significant Accounting Policies (continued)

Employee Future Benefits

Pension Plans - The Commission maintains a defined benefit pension plan for its employees. It provides for pensions based on years of service and average pensionable earnings and is generally applicable from the first day of the month following employment. A Supplementary Employee Retirement Plan (SERP) also exists for employees who earn a lifetime pension amount in excess of the Canadian Income Tax Act's maximum. The plans are not indexed; however, there have been a variety of ad hoc increases made to pensioners.

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

Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and net actuarial gains or losses. Net actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plans. These expenses are recorded in the year in which employees render services to the Commission (See Note 9).

Intangible Assets

Intangible assets represent the value attributed to the development (internally generated) of new processes for a new line of business (Refurbishment) in 2006. Intangible assets that meet generally accepted criteria, including reasonable assurance regarding future benefits, are deferred and amortized based on the total number of units to be refurbished over the life of the expected benefit.

Revenue Recognition

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Contract revenues are generally recorded on a percentage of completion basis. Revenues from other sources including Government reimbursement are recognized when earned. Telecommunications toll revenue adjustments are recognized when measurement can be reasonably estimated (see Note 13).

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

2. Significant Accounting Policies (continued)

Income Taxes

As an Operational Enterprise of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

Foreign Currency Translation

Revenues and expenses arising from foreign currency transactions are translated to their Canadian equivalent at the rates of exchange in effect at the transaction date. Resulting gains or losses on settlement or translation are included in the determination of net income for the current year. Included in Rail revenue is a foreign currency gain of $ 853,000 (2009 - $1,258,000) arising mainly from Rail traffic settlements between Canada and the U.S.A.

Accounting Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the useful lives of assets for amortization. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in the financial statements are property, plant and equipment, deferred contributions related to property, plant and equipment, accrued pension benefit asset, accrued liabilities and non-pension benefit obligation.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks, and restricted cash.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

2. Significant Accounting Policies (continued)

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial assets and liabilities classified as held-for-trading are required to be measured at fair value, with gains and losses recognized in net earnings.

Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized costs using the effective interest method of amortization.

Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in Other Comprehensive Income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost.

The Commission uses the following classifications:
- Cash and cash equivalents are classified as held-for-trading.
- Accounts receivables are classified as loans and receivables.
- Accounts payable and accrued liabilities, operating lines of credit, long-term debt and capital lease obligations are classified as other liabilities.

Comprehensive Income

Comprehensive income is defined as the change in equity for transactions and other events from non-owner sources. Other Comprehensive Income refers to items recognized in comprehensive income that are excluded from net earnings. The Commission does not have any transactions that would affect comprehensive income thus no impact on financial statements.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

3. Changes in Accounting Policies

a) Deferred Contributions related to property, plant and equipment
In prior years, deferred contributions related to property, plant and equipment were presented as a Net Investments in property, plant and equipment in the Consolidated Statement of Investment by the Province of Ontario. The Commission has adopted a new policy to present the capital contribution as deferred contributions related to property, plant and equipment.

Deferred contributions related to property, plant and equipment represent the unamortized capital subsidies received from Ministry of Northern Development, Mines and Forestry to fund acquisitions of property, plant and equipment. Deferred contributions are recognized as revenue in the consolidated statement of operations on the same basis as the amortization of the related assets.

This adjustment has been recorded retroactively and accordingly, the comparative financial statements have been restated as follows:

		2010		2009
Decrease in opening balance Investment by the Province of Ontario - Net investment in property, plant and equipment	**$**	**66,800**	$	45,576
Decrease in ending balance Investment by the Province of Ontario - Net investment in property, plant and equipment	**$**	**-**	$	66,800
Increase in opening balance deferred contributions related to property, plant and equipment	**$**	**(66,800)**		(45,576)
Increase in ending balance deferred contributions related to property, plant and equipment	**$**	**-**		(66,800)
Increase in amortization of deferred contributions related to property, plant and equipment	**$**	**-**		(2,301)
Increase in amortization	**$**	**-**		2,301

b) Reserve for Self Insurance
In prior years, the Reserve for Self Insurance was presented as an asset and as a Provision for Self Insurance on the Consolidated Balance Sheet. In accordance to generally accepted accounting principles, this reserve is now presented as restricted cash under cash and cash equivalents and provision of Reserve for Self Insurance in retained earnings.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

3. Changes in Accounting Policies (continued)

Reserve for *Self Insurance (continued)*

This adjustment has been recorded retroactively and accordingly, the comparative financial statements have been restated as follows:

		2010		2009
Decrease in opening balance Reserve for Self Insurance (asset)	**$**	**(4,488)**	$	(4,288)
Decrease in ending balance Reserve for Self Insurance (asset)	**$**	**-**	$	(4,488)
Increase in opening balance cash and cash equivalents	**$**	**4,488**		4,288
Increase in ending balance cash and cash equivalents	**$**	**-**		4,488
Increase in opening balance Reserve for Self Insurance	**$**	**(4,488)**		(4,288)
Increase in ending balance Reserve for Self Insurance	**$**	**-**		(4,488)
Decrease in opening balance Provision for Self Insurance	**$**	**4,488**		4,288
Decrease in ending balance Provision for Self Insurance	**$**	**-**		4,488
Decrease in Rail expense	**$**	**-**		(100)
Increase in Investment income on Reserve for Self Insurance	**$**	**-**		(100)
Increase in transfer to Reserve for Self Insurance	**$**	**-**		200

c) Net investment other than share capital

Due to the change in policy for Deferred contributions related to property, plant and equipment and the related change in the presentation in the financial statements, the remaining investment by the Province of Ontario, referred to as Net investment other than share capital, has been reclassified as retained earnings. This change has been applied retroactively through retained earnings.

This adjustment has been recorded retroactively and accordingly, the comparative financial statements have been restated as follows:

		2010		2009
Decrease in opening balance Net Investment other than share capital	**$**	**86,626**	$	86,626
Decrease in closing balance Net Investment other than share capital	**$**	**-**	$	86,626
Increase in opening balance Retained Earnings	**$**	**(86,626)**		(86,626)
Increase in ending balance Retained Earnings	**$**	**-**		(86,626)

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

4. Future Accounting Changes

Financial Statement standards:

The Province has identified the Commission as an Other Government Organization for financial statement purposes. Due to the uncertainty as to the upcoming changes to International Financial Reporting Standards (IFRS) and Public Sector Accounting Board (PSAB) standards, it has yet to be determined by the Province whether the Commission will adopt IFRS or PSAB for its financial statement presentation.

Business Combinations:

This section replaces the former Section 1581 "Business combinations" and provides the Canadian equivalent to IFRS 3 "Business Combinations" (January 2008). The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities and to recognize and measure the goodwill or gain from a bargain purchase acquired in the business combination. Acquisition-related costs are also to be expensed. This standard is effective in fiscal 2011 and is not expected to have a significant impact on the Commission's financial statements.

Consolidated financial statements, Section 1601 and Non-controlling interests, Section 1602:

These two sections replace Section 1600 "Consolidated financial statements". Section 1601 "Consolidated financial statements" carries forward guidance from Section 1600 "Consolidated financial statements" with the exception of non-controlling interests which are addressed in a separate section. Section 1602 "Non-controlling interests", requires the Commission to report non-controlling interests within equity, separately from the equity of the owners of the parent, and transactions between an entity and non-controlling interests as equity transactions. This standard is effective in fiscal 2011 and is not expected to have a significant impact on the Commission's financial statements.

5. Cash and cash equivalents

	2010	2009
Cash	**$ 328,000**	$ 2,983,000
Cash related to Reserve for Self Insurance (Note 14)	**4,495,000**	4,488,000
Cash and cash equivalents	**$ 4,823,000**	$ 7,471,000

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

6. Intangible Assets

	2010	2009
Balance - beginning of year	**$ 4,584,000**	$ 5,178,000
Amortization	**(545,000)**	(594,000)
Write down of intangible assets	**(4,039,000)**	-
Balance - end of year	**$ -**	$ 4,584,000

Intangible assets represent the unamortized portion of the development costs for the transit car refurbishment program. These costs have been written down in the current fiscal year as the benefits they provide are not anticipated to extend beyond the end of the current contract which is expected to be completed in fiscal 2011.

7. Operating Lines of Credit

The Commission currently holds an operating line of credit with the Ontario Financing Authority (OFA) in the amount of $8,000,000, of which $8,000,000 was being utilized as at March 31, 2010 (2009 - $8,000,000) which bears interest at the Province of Ontario's cost of borrowing plus 5 basis points on the date of each advance. In addition, the Commission has a revolving operating line of credit with the OFA in the amount of $7,000,000, of which $4,925,000 was being utilized as at March 31, 2010 (2009 - $3,870,000) which bears interest at the Province of Ontario's cost of borrowing plus 40 basis points based on the date of each advance.

The Commission also holds a demand operating line of credit with the Canadian Imperial Bank of Commerce in the amount of $1,500,000 which is available for letters of guarantee and is secured by the Commission's accounts receivable. As of March 31, 2010, two letters of guarantee totalling $1,428,000 (2009 - $ 1,428,000) have been issued with an annual renewal commission of 0.375%.

8. Deferred contributions related to property, plant and equipment

Deferred contributions related to property, plant and equipment represent the unamortized capital subsidies received from Ministry of Northern Development, Mines and Forestry to fund acquisitions of property, plant and equipment. The amortization of deferred contributions related to property, plant and equipment is recorded as revenue in the consolidated statement of operations at a rate equal to the amortization of the related assets.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

8. Deferred contributions related to property, plant and equipment (continued)

The changes in the unamortized deferred capital contributions balance are as follows:

	2010	2009 (restated Note 3)
Balance - beginning of year	**$ 66,800,000**	$ 45,576,000
Contributions from the Province	**24,599,000**	23,573,000
Retirements	**-**	(48,000)
Amortization to revenue	**(2,321,000)**	(2,301,000)
Balance - end of year	**$ 89,078,000**	$ 66,800,000

9. Employee Future Benefits

The Commission is the administrator of its contributory pension plan which covers all permanent staff. The pension fund assets primarily include marketable securities, real estate and corporate and government bonds, which are invested by professional investment managers. The ONTC pension plan has an annual measurement date of December 31st.

The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. Pension fund assets are valued using current market values. The Accrued Pension Benefit Asset or Obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practices and Canadian Generally Accepted Accounting Standards using management's best estimates. The date of the last actuarial valuation for funding purposes was January 1, 2007. The subsequent actuarial valuation for funding purposes as at January 1, 2010 is expected to be received later in fiscal 2010-2011 and therefore is not reflected in the financial statements.

The pension fund's target percentage allocation and average asset allocations as at March 31, 2010 and March 31, 2009, by asset category are as follows:

	Target	**2010**	2009
Equity securities – Domestic	20% - 30%	**23.4%**	19.7%
– Foreign	10% - 30%	**17.5%**	17.4%
Debt securities	35% - 55%	**55.9%**	60.5%
Real estate	0% - 15%	**1.9%**	1.6%
Short term and other	0% - 15%	**1.3%**	0.8%
Total		**100%**	100%

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

9. Employee Future Benefits (continued)

a. Reconciliation of accrued benefit asset to accrued benefit liability

	Pension	**SERP**	**2010**	2009
Accrued benefit obligation – end of year	**$ (505,152,000)**	**$ (2,398,000)**	**$ (507,550,000)**	$ (418,799,000)
Plan assets at fair value – end of year	**422,865,000**	**-**	**422,865,000**	409,139,000
Funded status – plan (deficit) surplus	**(82,287,000)**	**(2,398,000)**	**(84,685,000)**	(9,660,000)
Unamortized initial liability	**-**	**392,000**	**392,000**	590,000
Unamortized past service costs	**12,516,000**	**70,000**	**12,586,000**	14,477,000
Unamortized net actuarial (gain) loss	**131,165,000**	**(808,000)**	**130,357,000**	65,068,000
Accrued benefit asset (liability) net of valuation allowance – end of year	**$ 61,394,000**	**$ (2,744,000)**	**$ 58,650,000**	$ 70,475,000

	Pension	**SERP**	**2010**	2009
Accrued benefit asset – beginning of year	**$ 73,011,000**	**$ (2,536,000)**	**$ 70,475,000**	$ 73,167,000
Expense	**(11,617,000)**	**(356,000)**	**(11,973,000)**	(2,883,000)
Funding contributions (by employees)	**-**	**148,000**	**148,000**	191,000
Accrued benefit asset – end of year	**$ 61,394,000**	**$ (2,744,000)**	**$ 58,650,000**	$ 70,475,000

b. Accrued Non-Pension Benefit Obligation

	2010	2009
Accrued benefit obligation - beginning of year	**$ (61,821,000)**	$ (55,839,000)
Unamortized net actuarial (gain)	**(2,411,000)**	(5,982,000)
Accrued benefit liability - end of year	**$ (64,232,000)**	$ (61,821,000)
Accrued benefit liability - beginning of year	**$ (61,821,000)**	$ (61,177,000)
Expense – Non-WSIB	**(3,671,000)**	(3,770,000)
Expense (recovery) – WSIB	**(240,000)**	707,000
Funding contributions – Non-WSIB	**2,031,000**	2,419,000
Adjustment to match booked position – Non-WSIB	**(531,000)**	-
Accrued benefit liability - end of year	**$ (64,232,000)**	$ (61,821,000)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $12,467,000 (2009 - $12,227,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2009.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

9. Employee Future Benefits (continued)

c. Components of Net Periodic Pension Benefit expense

	2010	2009
Current service cost less employee contributions	**$ 7,729,000**	$ 8,778,000
Interest cost on accrued benefit obligation	**27,824,000**	26,252,000
Expected return on plan assets	**(27,643,000)**	(34,219,000)
Amortization of initial obligation	**197,000**	197,000
Amortization of past service costs	**1,892,000**	1,892,000
Amortization of net actuarial loss (gain)	**1,974,000**	(17,000)
	$ 11,973,000	$ 2,883,000

d. Components of Net Periodic Non-Pension Benefit Expense

	2010	2009
Current service cost	**$ 1,136,000**	$ 318,000
Interest on accrued benefit obligation	**2,920,000**	2,745,000
Amortization of net actuarial gain	**(145,000)**	-
Adjustment to match booked position	**531,000**	-
	$ 4,442,000	$ 3,063,000

e. Weighted Average Assumptions

	2010	2009
Discount rate - pension	**5.00**	6.75
Discount rate - non pension	**5.75**	6.75
Expected long-term rate of return on plan assets	**7.00**	7.00
Rate of compensation increase	**4.00**	4.00
Average remaining service period - pension (years)	**12**	12
Medical cost increases	**4.5% to 8.5%**	4.5% to 8.5%

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

10. Long-term Debt and Capital Lease Obligations

	2010	2009
a. Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, repayable in blended monthly payments of $30,000 for 15 years beginning February 1, 2005	$ **2,809,000**	3,022,000
Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, repayable in blended monthly payments of $156,000 for 15 years beginning January 1, 2000.	**7,789,000**	9,184,000
Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, repayable in blended monthly payments of $109,000 for 15 years beginning September 1, 1999.	**5,040,000**	6,000,000
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of $13,000 for 25 years beginning February 1, 2006.	**2,083,000**	2,139,000
Loan from Ontario Financing Authority, bearing interest at 4.717% per annum, repayable in blended annual payments of $1,681,000 for 4 years beginning March 31, 2007.	**-**	1,605,000
Loan from Bank of Montreal, bearing interest at 5.11% per annum, repayable in blended monthly payments of $64,000 for 10 years beginning April 30, 2008. Secured by assets of Ontera.	**5,031,000**	5,528,000
Construction advance from the Bank of Montreal, bearing interest at the bank's prime rate less .75%. Further advances will be made up to $17,000,000 then converted to a fixed term loan, term not to exceed 10 years, bearing interest at bank cost of funds plus 40 basis points. Secured by assets of Ontera.	**16,000,000**	11,500,000
	38,752,000	38,978,000
Less current portion	**4,383,000**	5,806,000
	$ **34,369,000**	$ 33,172,000

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

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

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

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

2010-2011	$ 4,383,000
2011-2012	4,575,000
2012-2013	4,778,000
2013-2014	4,994,000
2014-2015	3,976,000
Thereafter	16,046,000
	$ 38,752,000

	2010	2009
b. Capital lease bearing interest at 7% per annum, repayable in blended monthly payments of $1,000 for 5 years beginning September 22, 2006.	**35,000**	46,000
Capital lease bearing interest at 5.93% per annum, repayable in blended monthly payments of $7,000 for 4 years beginning January 24, 2006	**$ -**	61,000
	35,000	107,000
Less current portion	**11,000**	72,000
	$ 24,000	35,000

Payments under capital leases included above are as follows:

2010-2011	$ 13,000
2011-2012	25,000
Total minimum payments	38,000
Less: amount representing interest	3,000
Obligations under capital lease	$ 35,000

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

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

11. Deferred Revenue

Included in Deferred Revenue are the following two significant items:

In 2003, the Commission entered into a 20-year agreement with Hydro One for its use of the Commission's fibre optic cable, expiring in March 2022. The total contract value is $1,380,000. The remaining balance of $897,000 has been included as deferred revenue, of which $828,000 relates to periods after March 31, 2011. The deferred revenue will be recognized on a straight line basis over the life of the agreement. During 2010, $69,000 (2009 - $69,000) was included as revenue.

In 2004, the Commission entered into a multi-year contract to refurbish commuter cars. Under the terms of the contract, the Commission received an advance from the customer of $4,030,000 in 2005-2006 in addition to the $2,627,000 received in 2004 to defray contract costs. An amount of $NIL (2009 - $254,000) has been included as deferred revenue. The deferred revenue was recognized based on the percentage of completion method. During 2010, $ 254,000 (2009 - $ 2,011,000) of the advance was recognized as revenue.

12. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development, Mines and Forestry, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry have entered into annual contribution agreements which define the amount of compensation which the Province of Ontario would provide in each fiscal year.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. A reimbursement of $2,500,000 was received for the year ended March 31, 2010.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

12. Government Reimbursement (continued)

Details of Government reimbursement are as follows:

	2010	2009
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	**$ 21,160,000**	$ 21,260,000
Marine Services (Moosonee)	**40,000**	40,000
One-time funding	**6,800,000**	-
	28,000,000	21,300,000
From Transport Canada:		
Current year's operations	**2,500,000**	2,500,000
	$ 30,500,000	23,800,000

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

13. Telecommunications Revenue

The Commission's Telecommunications Division has telecommunications interconnection and traffic settlement agreements with Bell Canada that permits the two companies to exchange and settle on toll traffic and data circuits that traverse their respective networks. The Access Tariffs charged by Local Exchange Carriers are regularly reviewed by the CRTC and are not subject to any retroactive adjustments. In keeping with the Commission's accounting policy, any revenue or cost adjustments whether positive or negative are recognized in the year in which they become known and estimable.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

14. Reserve for Self Insurance

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annually the Commission transfers $100,000 from retained earnings to the Reserve for Self Insurance to finance such costs. Interest earned on the reserve balance and claims expensed in the reserve balance are recorded as revenue and expenses in operations then transferred to/from the reserve.

Reserve assets include cash in the amount of $ 4,411,000 (2009 - $ 4,388,000) plus $ 84,000 (2009 - $100,000) receivable from the Commission.

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

15. Passenger Revenue

In compliance with the Travel Industry Act, the 2010 gross retail sales were $227,000 (2009 - $216,000) and the 2010 gross wholesale sales were $83,000 (2009 - $83,000).

16. Contingencies

a. Ontera assets

O.N.Tel Inc. (operating as Ontera) has sustained losses from operations over the current and the past six periods (see Schedule 2). In response to the situation, management developed a business plan in 2007 that required a significant investment in Ontera's property, plant and equipment along with associated financing. The Province approved the plan in 2007 including the underlying capital investment component. Financing of $23,000,000 from the Bank of Montreal to support the plan was obtained in 2008; of which, $22,000,000 has been drawn by March 31, 2010 (see Note 10a).

b. Statement of claim

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

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

17. Commitments

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

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees. To the extent of any actual claims under these agreements, the Commission would maintain provisions for such items. Due to the nature of these agreements, the maximum exposure for future payments may be material. However, such exposure cannot be reasonably determined and no provision has been made as at the year-end date.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

18. Financial Instruments

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

Fair value

The fair value of cash and cash equivalents, accounts receivable, Self Insurance Fund, operating lines of credit, and accounts payable and accrued liabilities, are comparable to their carrying value due to their short-term maturity date. The fair value of long-term debt and capital lease obligations is approximately equal to its carrying value since the applicable interest rates are comparable to the market rates.

Financial Risk Management

In the normal course of operations, the Commission is exposed to various risks such as commodity risk, credit risk, currency risk, interest rate risk and liquidity risk. To manage these risks, the Commission follows a financial risk management framework, which is monitored and approved by senior management with a goal of maintaining a strong balance sheet and optimizing free cash flow.

Commodity Risk

The Commission is exposed to commodity risk related to purchases of diesel fuel and the potential reduction in net income due to increase in the price of diesel. Because fuel expenses constitute a large portion of the Commission’s operating costs, volatility in diesel fuel prices can have significant impact on the Commission’s income. Items affecting volatility in diesel fuel include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events. The impact to net income if diesel fuel prices increase by one cent per litre would be a decrease in net income by $102,000. The impact of variable fuel expenses is mitigated substantially through a fuel surcharge program which apportions incremental changes in fuel prices to shippers within agreed upon guidelines.

Credit risk

The Commission is exposed to credit risk due to the concentration of large customers (see Economic Dependence - Note 21 for further details).

Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with: governments; major financial institutions that have been accorded strong investment grade ratings by a primary rating agency; and/or other creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Credit risk associated with accounts receivable is minimized by the Commission’s program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Commission maintains allowances for potential credit losses, and any losses to date have been within management’s expectations.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

18. Financial Instruments (continued)

Credit risk (continued)

The following table presents an analysis of the age of customers accounts receivable net of allowance as at the date of the financial statements.

As at March 31, 2010		
Customer accounts receivables net of allowance of doubtful accounts (in thousands)		
Current	$	**16,564**
30-60 days past billing date		**990**
60-90 days past billing date		**298**
90-120 days past billing date		**251**
Greater than 120 days past billing date		**365**
Trade accounts receivable	$	**18,468**

Seventy percent of the balance in the greater than 120 days past billing date ($256,000) is due from one large customer.

The following table presents a summary of the activity related to the Commission's allowance for doubtful accounts.

Years ended March 31 (thousands)		2010		2009
Balance, beginning of year	$	**3,172**	$	1,525
Additions (provision for doubtful accounts)		**614**		1,682
Net use		**(109)**		(35)
Balance, end of year	$	**3,677**	$	3,172

The Commission must make significant estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information, why the accounts are past-due and line of business from which the customer accounts receivable arose are all considered when determining whether past-due accounts should be allowed for; the same factors are considered when determining whether to write off amounts charged to allowance account against customer account receivable. The provision for doubtful accounts is calculated on a specific-identification basis for customer accounts receivable over a specific balance threshold and for the telecommunication division it is determined on a percentage of outstanding customer balances.

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

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

18. Financial Instruments (continued)

Currency risk

The Commission undertakes transactions denominated in United States dollars and as such is exposed to fluctuations in foreign exchange rates. The Commission generates revenues and incurs expenses in Canadian and United States dollars. When the Canadian dollar changes relative to the U.S. dollar, income reported in Canadian dollars will change. The impact of a strengthening Canadian dollar on U.S. dollar revenues and expenses will reduce net income because the Commission has more U.S. dollar revenues than U.S. dollar expenses. The impact to net income if the Canadian dollar strengthens by one cent would be a decrease in net income by $ 44,000. The impact of currency fluctuations is mitigated substantially by the settlement of its monthly rail settlement with customer receipts in U.S. dollars. The Commission does not use derivative instruments to reduce its exposure to foreign currency risk.

Interest rate risk

The Commission manages its cash according to its operational needs. The Commission is exposed to interest rate cash flow risk to the extent that the operating lines of credit and construction advances have a floating rate of interest.

The construction loan has a balance at year end of $16,000,000 with a floating interest rate of prime less .75. The impact to net income if interest rates increase by one percentage would be a decrease in net income by $160,000. The Commission plans to convert this construction loan into a fixed loan in the first quarter of fiscal 2011.

The Commission’s long-term debt and capital lease obligations have fixed interest rates. Also, the Commission will repay its long-term debt and capital lease obligations at maturity. As a result, management is of the opinion that the risks associated with long-term debt and capital lease obligations are minimal.

Liquidity Risk

The Commission monitors its liquidity risk to ensure access to sufficient funds to meet operational requirements. The Commission manages liquidity risk by monitoring forecasts and actual cash flows and by managing maturity profiles of financial assets and financial liabilities. Management provides these reports to the Commission and the Province on a regular basis. The Commission does not use derivative instruments to reduce its exposure to liquidity risk.

Ontario Northland Transportation Commission
Notes to Consolidated Financial Statements

March 31, 2010

19. Capital Disclosures

Management's objectives when managing capital are to safeguard the Commission's ability to continue as a going concern, so that it can continue to provide benefits to the Province of Ontario and to maintain an optimal capital structure to reduce the cost of capital.

The Commission's objectives when managing capital are:

- To support and promote northeastern Ontario economic development, job creation and community sustainability;
- To support, promote and enhance transportation and telecommunications linkages and clustering between communities within the region and between northeastern Ontario and other regions.

The Commission defines its capital as follows:

- Long term debt and capital leases, including the current portion thereof,
- Short term borrowing, and
- Retained earnings.

The Commission manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Commission requires approvals from the Province to maintain or adjust its capital structure. The Commission is not subject to any externally imposed capital requirements.

20. Related Party Transactions

During the year, the Commission charged the ONTC Contributory Pension Fund $138,000 (2009 - $142,000) for financial and administrative support.

21. Economic Dependence

During 2010, the Rail Services Division derived 49% (2009 - 44%) of its revenue from three major customers.

22. Comparative Figures

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

Ontario Place Corporation

Management's Responsibility for financial reporting

The management of Ontario Place Corporation is responsible for the integrity and fair presentation of the financial statements accompanying this report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and of necessity include some amounts that are based on estimates and judgments.

Ontario Place maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable, the company assets and liabilities are adequately accounted for and assets are safeguarded. The systems include policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The financial statements have been reviewed by Ontario Place's Audit Committee and have been approved by its Board of Directors. In addition, the financial statements have been audited by the Office of the Auditor General of Ontario, whose responsibility it is to express an opinion on whether they have been prepared in accordance with generally accepted accounting principles. The Auditor's Report that appears as part of the financial statements outlines the scope of the Auditor's examination and opinion.

On behalf of management:

Tim Casey	Marsha O'Connor, CMA
General Manager	Director of Finance & Administration

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

Auditor's Report

To Ontario Place Corporation
and to the Minister of Tourism and Culture

I have audited the balance sheet of Ontario Place Corporation as at December 31, 2009 and the statements of operations, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Toronto, Ontario
June 18, 2010

Ontario Place Corporation

Balance Sheet
As at December 31, 2009

	2009 ($ 000)	2008 ($ 000)
ASSETS		
Current		
Cash – unrestricted	4,079	2,772
Cash – restricted [Note 3]	4,869	1,939
Accounts receivable	2,261	1,660
Inventory	232	179
Prepaid expenses and deferred charges	76	57
	11,517	6,607
Capital Assets [Note 4]	115,603	114,585
Capital Assets Under Lease Obligation [Note 5]	282	—
	115,885	114,585
	127,402	121,192
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payables and accrued liabilities [Note 9B]	1,159	9,575
Short term portion of lease obligation	43	—
Due to the Province of Ontario	198	234
Deferred revenue	124	105
	1,524	9,914
Long Term Liabilities		
Accrued employee severance liability [Note 9B]	676	569
Long term portion of lease obligation [Note 6]	264	—
	940	569
Deferred Capital Contributions [Note 7]	17,223	16,188
Unspent Deferred Capital Contributions [Note 3]	1,869	1,932
	19,092	18,120
Equity		
Invested in capital assets [Note 8]	98,380	98,404
Retained income	7,466	(5,815)
	105,846	92,589
	127,402	121,192

See accompanying schedules and notes to financial statements.

Approved on behalf of the Corporation:

Director

Director

Ontario Place Corporation

Statement of Operations
For the Year Ended December 31, 2009

	2009 ($ 000)	2008 ($ 000)
Operating revenue [Schedule 1]	13,855	17,065
Administrative and operating expenses [Schedule 2]	(18,957)	(25,656)
Operating deficit before the following	(5,102)	(8,591)
Province of Ontario operating grants	5,121	5,394
Amortization of deferred capital contributions	1,873	1,624
Amortization of capital assets	(1,897)	(1,822)
Amortization of capital assets under lease	(31)	—
	5,066	5,196
Province of Ontario property tax grant [Note 10]	3,000	—
Recovery of prior years' property taxes [Note 10]	10,293	—
	13,293	—
Net income(loss) for the year	13,257	(3,395)

See accompanying schedules and notes to financial statements.

Ontario Place Corporation

Statement of Changes in Equity
For the Year Ended December 31, 2009

	2009 ($ 000)			2008
	Invested in Capital Assets	Retained Income	Total	($ 000)
Balance, beginning of year	98,404	(5,815)	92,589	95,984
Net income/(loss)	(24)	13,281	13,257	(3,395)
Balance, end of year	98,380	7,466	105,846	92,589

See accompanying schedules and notes to financial statements.

Ontario Place Corporation

Statement of Cash Flows
For the Year Ended December 31, 2009

	2009 ($ 000)	2008 ($ 000)
Operating Activities		
Net income (loss) for the year	13,257	(3,395)
Adjustments for items not requiring an outlay of cash		
Amortization of capital assets	1,897	1,822
Amortization of capital leased asset	31	—
Amortization of deferred capital contributions	(1,873)	(1,624)
Net loss/(gain) on disposal of capital asset	—	(1)
Net change in non-cash working capital	(9,064)	2,795
Accrued Employee Severance Liability	107	48
Cash generated from (used in) operating activities	4,355	(355)
Investing Activities		
Capital asset acquisitions – net	(2,914)	(2,288)
Capital assets sold	—	8
Capital lease acquisitions	(313)	—
Cash used in investing activities	(3,227)	(2,280)
Financing Activities		
Capital grants received	2,845	2,849
Capital lease obligation	264	—
	3,109	2,849
Increase in cash during the year	4,237	214
Cash, beginning of year	4,711	4,497
Cash, end of year	8,948	4,711

See accompanying schedules and notes to financial statements.

Ontario Place Corporation

Schedules of Operating Revenue and Administrative and Operating Expenses
For the Year Ended December 31, 2009

	2009 ($ 000)	2008 ($ 000)
Schedule 1		
Operating Revenue		
Admissions	5,858	7,341
Parking	1,893	2,388
Sponsorship revenue [Note 11]	1,725	2,112
Amphitheatre	1,289	1,227
Retail sales and catering	1,187	1,532
Concessions and facility rental	689	1,023
Marina	863	813
Other revenue	151	257
Cinesphere revenues	171	207
Interest income	29	165
	13,855	17,065
Schedule 2		
Administrative and Operating Expenses		
Salaries and wages	7,359	8,046
Employee benefits [Note 9]	1,299	1,260
Advertising [Note 11]	2,821	4,907
General and administration	1,959	3,963
Programming and entertainment	1,377	1,660
Site maintenance	914	1,396
Utilities	882	1,103
Supplies	667	1,001
Janitorial	622	641
Cost of retail sales and catering	587	973
Transportation and communications	257	502
Other	213	204
	18,957	25,656

See accompanying notes to financial statements.

Ontario Place Corporation

Notes to Financial Statements
December 31, 2009

1. Nature of Operations

The Ontario Place Corporation, (the "Corporation" or "Ontario Place") is a provincial Crown agency, incorporated under the *Ontario Place Corporation Act* R.S.O. 1990. The Corporation is exempted from federal and provincial income taxes and is classified as an "Other Government Organization".

The Corporation operates a park built on a 96-acre site extending through three islands created using landfill along the Toronto waterfront. The park includes a wide variety of programs, attractions and facilities which capture the spirit of Ontario by featuring distinctive and quality attractions for all ages. The site is intended to provide visitors with an appreciation of the Province's resources and accomplishments.

The fees charged for admission and the various attractions within the park are subject to approval by the Minister of Tourism and Culture. The Corporation receives grants from the Province to partially cover the costs of activities, programs and rejuvenation of the park.

In addition to the various attractions and activities operated directly by Ontario Place, the Corporation enters into a number of licence, ground lease and special event agreements with various private-sector companies.

2. Significant Accounting Policies

(A) BASIS OF ACCOUNTING

The financial statements are the representations of management prepared in accordance with Canadian generally accepted accounting principles.

(B) INVENTORY

Supplies inventory is valued at cost.

(C) CAPITAL ASSETS

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the assets as indicated below:

Buildings	25 years
Attractions	10 years
Equipment, fixtures	10 years
Computer equipment	4 years

Ontario Place Corporation

Notes to Financial Statements
December 31, 2009

2. Significant Accounting Policies (Continued)

(D) USE OF ESTIMATES

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

(E) FAIR VALUE OF FINANCIAL INSTRUMENTS

Ontario Place follows the Canadian Institute of Chartered Accountants (CICA) accounting standards pertaining to financial instruments. These standards establish guidance for the recognition and measurement of financial assets and liabilities and how financial instrument gains and losses should be accounted for. Under these new standards, 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.

Under these standards, all financial instruments are required to be measured at fair value upon initial recognition except for certain related party transactions. After initial recognition, financial instruments should be measured at their fair values, except for financial assets classified as held to maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost.

The Corporation's financial assets and liabilities are accounted for as follows:

- Cash is classified as held for trading and recorded at fair value.
- Accounts receivable are classified as loans and receivables and are valued at face value which approximates fair value given their short term maturities.
- Accounts payable and Due to the Province are classified as other financial liabilities and are recorded at face value which approximates fair value given their short term maturities.

It is management's opinion that Ontario Place is not exposed to significant interest rate, currency or liquidity risk arising from its financial instruments due to their nature. Ontario Place is exposed to credit risk by its customers. As a result, it determines on a continual basis, the probable credit losses and sets up a provision for losses based on the estimated realizable value.

(F) NON-MONETARY TRANSACTIONS

In the course of business the Corporation enters into non-monetary transactions under which goods and services are acquired in exchange for advertising services. Non-monetary transactions are measured based on fair market value when there is evidence to support the fair value. When the transaction lacks commercial substance, the contract or carrying value is used. The Corporation had non-monetary transactions during the year ended December 31, 2009. These transactions were material in nature and are disclosed in Note 11.

Ontario Place Corporation

Notes to Financial Statements
December 31, 2009

3. Cash – Restricted

Cash grants totalling $4,869,000 are held by Ontario Place which are externally restricted as follows:

(A) PROPERTY TAX GRANT $3,000,000

The property tax grant provided by the Ministry of Tourism and Culture requires that the funds be used for Property Taxes for property occupied by the Corporation and are subject to recovery by the Ministry if not used for the intended purposes.

(B) UNSPENT DEFERRED CAPITAL CONTRIBUTION $1,869,000

Unspent deferred capital contributions represent the amount of unspent restricted capital grants received for the purchase of depreciable capital assets. Refer to Note 7 regarding Deferred Capital Contributions. Of this amount, $601,000 is committed and was spent in 2010 for the removal of PCB cooled transformers.

4. Capital Assets

Capital assets consists of the following:

	2009 ($ 000)			2008 ($ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land, waterlots	101,660	—	101,660	101,660
Buildings	12,121	4,630	7,491	7,486
Attractions	10,490	5,435	5,055	4,197
Equipment, fixtures	2,855	1,483	1,372	1,213
Computer equipment	56	31	25	29
	127,182	11,579	115,603	114,585

5. Equipment Under Capital Lease

	Dec. 31, 2009 ($ 000)	Dec. 31, 2008 ($ 000)
Equipment (cost)	313	—
Accumulated amortization	(31)	—
	282	—

Ontario Place Corporation

Notes to Financial Statements
December 31, 2009

5. Equipment Under Capital Lease (Continued)

The equipment under the capital lease is amortized on a straight-line basis over its economic life of 10 years. The amount of amortization charged to expense in 2009 is $31,343 ($0 for 2008).

6. Capital Lease Obligation

The following is a schedule of future minimum lease payments under the capital lease expiring October 31, 2015 together with the balance of the obligation under capital lease.

Year ending December 31	2009 ($ 000)
2010	57
2011	57
2012	57
Up to 2015	187
Total minimum lease payments	358
Amount representing interest at 5%	(51)
Balance of the obligation	307

7. Deferred Capital Contributions

Purchased assets have been capitalized and the corresponding capital grants have been deferred together with unspent capital grants. Spent capital grants are amortized into income on the same basis that the underlying assets are amortized. The changes in the deferred capital contributions balance are as follows:

	2009 ($ 000)	2008 ($ 000)
Balance, beginning of year	18,120	16,895
Amount amortized to revenue	(1,873)	(1,624)
Capital grants received	2,845	2,849
Balance, end of year	19,092	18,120

8. Invested in Capital Assets

The invested in capital asset balance represents the net amount of the Corporation’s investment in capital assets less the deferred capital contribution balance at year end.

Ontario Place Corporation

Notes to Financial Statements
December 31, 2009

9. Employee Benefits

(A) PENSION BENEFITS

The Corporation provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are both multiemployer plans established by the Province of Ontario. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU-PF, determines the Corporation's annual payments to the funds. Accordingly, the pension expense is the Corporation's share of the required contribution to the PSPF and OPSEU pension funds for the year, which was $278,728 (2008 – $269,873), and is included in employee benefits in the Schedule of Administrative and Operating Expenses.

(B) NON-PENSION BENEFITS

The cost of unused vacation and earned legislated severance entitlements are accrued for in the financial statements. Amounts due within one year are included in accounts payable and accrued liabilities.

The cost of other post-employment non-pension employee benefits are paid by the Ministry of Government Services and are not included in the statement of operations.

10. Property Tax Accrual and Recovery

The Corporation believed, and had received a legal opinion in 1997 stating that it had no legal obligation to pay property taxes or grants in lieu of property taxes relating to Ontario Place property not occupied by a tenant. As a result, in fiscal 1996/97, the Board of Directors of the Corporation passed a resolution declaring that, commencing with the 1996 taxation year, the Corporation would not make any payment or record any charges for property taxes or grants in lieu of property taxes with respect to those portions of Ontario Place property not occupied by tenants. The Corporation advised the then Ministry of Economic Development, Trade and Tourism, and the Ministry of Municipal Affairs and Housing of the Board's decision. Changes to the *Municipal Act* in 1998 made the property tax payments mandatory.

The Corporation did not receive a property tax bill from the City of Toronto in 2001 and 2002. In 2001, payments to the City for property tax on land occupied by tenants were returned by the City with the explanation that Ontario Place was exempt from property tax. Since then, the Corporation has received revised property tax bills totalling as follows:

- $5,091,758 for the years from 2001 to 2008 and a further $820,670 in 2009 for the taxable portion of property occupied by concessionaires.
- $14,188,333 for the years from 2001 to 2008 and a further $596,138 in 2009 for taxes for property occupied by the Corporation.

Ontario Place Corporation

Notes to Financial Statements
December 31, 2009

10. Property Tax Accrual and Recovery (Continued)

The amounts billed by the City of Toronto were in dispute, and the Corporation did not reflect the liability for the taxes for property occupied by the Corporation in the 2006 and earlier financial statements.

In August 2007, Ontario Place received $9.4 million from the Province of Ontario to pay the property tax assessed by the City of Toronto for property occupied by the Corporation. As a result, the Corporation decided to recognize in its financial statements the total of all property tax bills received and subsequently paid the City of Toronto property tax totalling $11,265,374. This amount consisted of the above-mentioned $9.4 million plus the amounts received from its concessionaires to the end of 2007. This payment was made without prejudice to Ontario Place's ongoing appeal of its property assessment.

In late 2009, Ontario Place received confirmation of a settlement of the assessment appeals it filed for the tax years from 1998 to 2008. The settlement resulted in, among other matters, a direction that the tax payments are to be determined by applying the residential tax rate for all non-tenanted portions of the OPC lands rather than the commercial rate. This resulted in a reduction of accumulated property taxes billed to the end of 2009 of $10,292,934. This amount exceeded the amounts billed but not paid by $826,409, which was refunded by the City of Toronto in 2010.

Pertinent information with respect to property taxes for the last nine years is as follows:

Year	Property Tax Billed to Concessionaires	Corporation's Recognized Property Tax Liability for Premises Occupied by Concessionaires	Total
Billed for Concessionaires Occupied Property			
2001-2008	2,743,205	2,348,553	5,091,758
2009	464,986	355,684	820,670
Sub-total	3,208,191	2,704,237	5,912,428
Billed for Ontario Place Occupied Property			
2001-2008			14,223,333
2009			596,138
Sub-total			14,819,471
Total			20,731,899
Paid (2007)			11,265,374
Liability recognized prior to settlement, including the property tax bill for 2009			9,466,525

Ontario Place Corporation

Notes to Financial Statements
December 31, 2009

11. Non-monetary Transactions

Ontario Place entered into a number of non-monetary transactions, which saw Ontario Place exchange advertising for a variety of goods and/or services. Most significant are:

	Nature of Goods Exchanged	Basis of Measurement
Rogers Communications Inc.	Wireless services; Wireless products	Contract value
Kidomo Inc.	Live Kids Entertainment	Contract value
Toronto Star	Advertising	Contract value
680 News	Advertising	Fair market value

Approximately $1,125,000 has been recognized as both sponsorship revenue and advertising expense as a result of these exchanges. There were no gains or losses associated with the above transactions.

12. Comparative Figures

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

Ontario Power Authority

Auditors' Report

To the Board of Directors

We have audited the statement of financial position of the Ontario Power Authority as at December 31, 2009, and the statements of operations, cash flows and changes in net assets for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2009 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, January 29, 2010

Statement of Financial Position

(in thousands of dollars)
December 31, 2009, with comparative figures for 2008

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 19,932	$ 50,067
Accounts receivable (note 3)	206,530	73,515
Prepaid expenses	129	301
	226,591	**123,883**
Capital assets (note 4)	7,710	5,484
Regulatory assets (note 5)	29,676	44,614
Total Assets	**$ 263,977**	**$ 173,981**
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	$ 214,895	$ 95,795
Contract deposits (note 7)	35,789	532
	250,684	**96,327**
Deferred rent inducement, net (note 8)	836	980
Long-term liabilities	–	1,488
Regulatory liabilities (note 5)	14,089	63,188
Net assets		
Internally restricted Conservation and Technology Development Funds (note 9)	6,671	6,039
Invested in capital assets	7,710	5,484
Accumulated operating surplus (deficit)	(16,013)	475
	(1,632)	**11,998**
Commitments (note 8)		
Contingencies and guarantees (note 14)		
Total liabilities and net assets	**$ 263,977**	**$ 173,981**

See accompanying notes to financial statements.

On behalf of the Board of Directors:

John Beck
Chair

Colin Andersen
Chief Executive Officer

Statement of Operations

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

	2009	2008
Revenue		
Fees	$ 50,350	$ 52,530
Recovery of regulatory accounts (note 5)	15,665	–
Registration fees	557	733
Interest income	43	493
Other income	12	153
	66,627	**53,909**
Expenses		
Compensation and benefits	26,182	22,609
Professional and consulting fees	23,137	23,343
Amortization of regulatory accounts (note 5)	15,665	–
General operating costs (note 10)	9,419	7,860
Conservation and Technology Development Fund expenses (note 9)	3,868	2,743
Amortization of capital assets	1,466	1,030
	79,737	**57,585**
Excess of expenses over revenue before interest	(13,110)	(3,676)
Interest expense	520	523
Excess of expenses over revenue	**$ (13,630)**	**$ (4,199)**

See accompanying notes to financial statements.

Statement of Cash Flows

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

	2009	2008
Cash flows from operating activities		
Excess of expenses over revenue	$ (13,630)	$ (4,199)
Items not involving cash:		
Amortization of capital assets	1,466	1,030
Amortization of deferred rent inducement	(144)	(142)
Amortization of regulatory accounts	15,665	–
Change in non-cash operating items (note 12)	21,514	(14,302)
	24,871	**(17,613)**
Cash flows from financing activities		
Repayment of long-term liabilities	(19,587)	(8,327)
Received for long-term liabilities	18,099	–
Increase in regulatory assets	(727)	(1,285)
Decrease in regulatory liabilities	(49,099)	(82,358)
	(51,314)	**(91,970)**
Cash flows from investing activities		
Purchase of capital assets	(3,692)	(1,478)
Decrease in cash and cash equivalents	(30,135)	(111,061)
Cash and cash equivalents, beginning of year	50,067	161,128
Cash and cash equivalents, end of year	**$ 19,932**	**$ 50,067**

	2009	2008
Supplemental cash-flow information		
Interest paid	$ 335	$ 122
Interest received	$ 706	$ 2,556

See accompanying notes to financial statements.

Statement of Net Assets

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

	Net Assets Invested in Capital Assets	Internally Restricted (see note 9)	Accumulated Operating Surplus	Total Net Assets 2009	Total Net Assets 2008
Balance, beginning of the year	$ 5,484	$ 6,039	$ 475	$ 11,998	$ 16,197
Excess of expenses over revenue	(1,466)	–	(12,164)	(13,630)	(4,199)
Establishment of funds					
Conservation Fund	–	3,000	(3,000)	–	–
Technology Development Fund	–	1,500	(1,500)	–	–
Conservation Fund expenses	–	(2,410)	2,410	–	–
Technology Development Fund expenses	–	(1,458)	1,458	–	–
Purchase of capital assets (net)	3,692	–	(3,692)	–	–
Balance, end of the year	**$ 7,710**	**$ 6,671**	**$ (16,013)**	**$ (1,632)**	**$ 11,998**

See accompanying notes to financial statements.

Notes to Financial Statements

(in thousands of dollars)
Year ended December 31, 2009

1. Nature of operations

The Electricity Restructuring Act, 2004 (the Act), established the Ontario Power Authority (OPA) as a non-share corporation on December 20, 2004. The OPA is an independent, non-profit, non-taxable corporation. The OPA is not a Crown agent and recovers its costs through fees approved by the Ontario Energy Board (OEB) and through charges to the electricity market through the global adjustment mechanism. In accordance with the Act, the OPA's main objectives are:

- to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term
- to conduct independent planning for electricity generation, demand management, conservation and transmission, and develop integrated power system plans for Ontario
- to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario
- to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources
- to establish system-wide goals for electricity to be produced from alternative energy sources and renewable energy sources
- to engage in activities that facilitate load management
- to engage in activities that promote electricity conservation and the efficient use of electricity
- to assist the OEB by facilitating stability in rates for certain types of customers
- to collect and provide to the public and the OEB information relating to medium- and long-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs.

The OPA's ability to continue as a going concern is dependent upon its ability to obtain financing to support operations. The OPA's creditworthiness is attested to by the following:

- the ability of the OPA to meet its obligations is provided for in legislation
- the OPA's minimal counterparty risk, given that its principal counterparty is the Independent Electricity System Operator (IESO), a creation of the province and a strong counterparty.

2. Significant accounting policies

(a) Basis of presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Revenue recognition

Amounts received in the current year that relate to services and programs to be determined in subsequent years are not recognized as revenue and are deferred.

Fees earned by the OPA are based upon OEB-approved rates for electrical energy withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the year in which it is received and earned.

(c) Cash and cash equivalents

Cash and cash equivalents comprise bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 120 days.

(d) Capital assets

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated service lives, as follows:

Assets	Estimated Average Service Life
Furniture and equipment	10 years
Computer hardware and software	2.5 years
Audio-visual equipment	10 years
Telephone system	5 years
Leasehold improvements	Term of lease

Long-lived assets, including capital assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized as 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 statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statement of financial position. In 2009, no impairment is considered necessary.

(e) Employee pension benefits

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

The OPA is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Ontario Pension Board.

(f) Measurement uncertainty

Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(g) Adoption of new accounting standards

Effective January 1, 2009, the organization adopted the Canadian Institute of Chartered Accountants (CICA) amendments to section 4400 of the CICA Handbook. These amendments eliminate the requirement to show net assets invested in capital assets as a separate component of net assets, clarify the requirement for revenue and expenses to be presented on a gross basis when the not-for-profit organization is acting as principal and require a statement of cash flow. Adoption of these recommendations had no significant impact on the financial statements for the year ended December 31, 2009.

Effective January 1, 2009, the organization adopted the CICA amendments to section 1000 of the CICA Handbook. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching of revenue and expense items. Adoption of these recommendations had no effect on the financial statements for the year ended December 31, 2009.

Notes to Financial Statements (continued)

(h) Future accounting changes

During fiscal 2009, the Public Sector Accounting Board (PSAB) of the CICA determined that the category of government business type organizations, of which the OPA was previously classified, will cease to exist. The OPA will become categorized as an other government organization and will be required to adopt a financial reporting framework based upon PSAB standards or International Financial Reporting Standards commencing with its fiscal 2011 financial statements. Management is currently reviewing its options and assessing the impact on the financial statements.

3. Accounts receivable

	2009	2008
Receivable from IESO	$ 173,253	$ 65,146
Conservation charges	32,957	7,961
Other	320	408
	$ 206,530	**$ 73,515**

4. Capital assets

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Furniture and equipment	$ 2,822	$ (848)	$ 1,974	$ 1,981
Computer hardware and software	4,723	(2,072)	2,651	503
Audio-visual equipment	229	(81)	148	171
Telephone system	321	(112)	209	142
Leasehold improvements	3,944	(1,216)	2,728	2,687
	$ 12,039	**$ (4,329)**	**$ 7,710**	**$ 5,484**

5. Regulatory assets and liabilities

Regulatory assets, liabilities and deferrals arise as a result of the Electricity Act, 1998 and the regulations thereunder and are reflected by the balances in the Regulated Price Plan (RPP), retailer contract settlement deferral accounts, the government procurement deferral account and the global adjustment account. In the absence of rate-regulated accounting, these amounts would have flowed through the statement of operations when incurred.

	2009	2008
Total regulatory assets	$ 29,676	$ 44,614
Total regulatory liabilities	(14,089)	(63,188)

RPP variance accounts

While prices for RPP consumers are set every six months by the OEB based upon a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecast cost of supplying electricity to all RPP consumers. When the hourly Ontario energy price (HOEP) is greater than the RPP, the OPA pays the excess amount and records a regulatory asset as the electricity market funds paid are receivable from the market. When the HOEP is less than the RPP, the OPA receives the difference and records a regulatory liability as the funds received will be returned to the market. The OPA tracks this variance in the RPP variance account. The Ontario Power Generation (OPG) rebate is equivalent to the difference between the revenue limit for specific OPG generating facilities and the revenue OPG actually received in the IESO wholesale spot market for that generation.

	2009	2008
OPG rebate contribution	$ (591,671)	$ (543,305)
Total RPP variance before interest	562,208	463,661
Interest earned	15,374	16,456
	$ (14,089)	**$ (63,188)**

Retailer contract settlement deferral accounts

Legislative provisions ensure that electricity retailers will be made whole by the OPA for contracts with low-volume and designated consumers that were entered into before prices were frozen by legislation effective November 11, 2002. The OPA and retailers settling any differences between the HOEP and the contract price for each contract meet these provisions. When the HOEP is greater than the contract price, the OPA receives payments from the retailers and records a regulatory liability. When the HOEP is less than the contract price, the OPA pays the retailer and records a regulatory asset. The OPA tracks these variances in the retailer contract settlement deferral accounts.

The retailer contract discount settlement account captures the funds related to the retailer incentives existing at the creation of the RPP. The retailer incentives captured are held in a separate deferral account for settlement concurrent with the retailer settlement deferral accounts.

As the contracts to which the retailer settlement accounts relate have now largely expired, it is appropriate to begin disposing of the balances in these accounts. To mitigate ratepayer impact, the OPA will recover the accumulated balance of total retailer contract settlements over a three-year period from 2009 to 2011. The OPA has begun amortizing the accumulated balance in 2009 on a straight-line basis over the three-year recovery period. The amortization expense for 2009 is $14,324 (2008 - $0).

	2009	2008
2005 retailer contract settlement account	$ (26,201)	$ (39,233)
2006 retailer contract settlement account	34,616	51,833
2007 retailer contract settlement account	23,843	35,700
2008 retailer contract settlement account	87	(282)
2009 retailer contract settlement account	367	–
Retailer contract discount settlement account	(3,237)	(4,847)
	$ 29,475	**$ 43,171**

Government procurement deferral account

The OPA reimburses the government for costs incurred for electricity procurement and records the costs as a regulatory asset. To recover 2008 balances, government procurement costs of $1,341 were requested in the 2009 revenue requirement submission and recovered during the year, while the remaining balance of $102 was submitted in the 2010 revenue requirement submission. Any subsequent balances will be included in future revenue requirement submissions. The OPA has begun amortizing the government procurement costs in 2009 on a straight-line basis, with amortization as at December 31, 2009, totalling $1,341 (2008 - $0).

	2009	2008
Government procurement costs	$ 201	$ 1,443

Global adjustment account

The OPA has a legislated responsibility to record the transactions flowing through the global adjustment mechanism. The global adjustment and settlement accounts have been created for this purpose. The nature of the global adjustment transactions results in a zero balance in the account on a monthly basis. The information and explanation below provide transparency for the transactions flowing through the global adjustment mechanism.

The global adjustment and settlement accounts record charges that flow between the OPA and the IESO. The account flows include the amounts paid and received for: Demand Response 3 (DR3), non-utility generation (NUG), regulated nuclear generation balancing amount (nuclear) and regulated hydroelectric generation balancing amount (hydro). These accounts are settled simultaneously by the IESO. The account also records the

Notes to Financial Statements (continued)

amounts paid and received for OPA contracts (standard offer, generation and conservation/demand management) that the OPA settles on a monthly basis with the IESO.

The DR3, NUG, nuclear and hydro balances are offset in the global adjustment account, eliminating the need for a flow of funds between the IESO and the OPA. The OPA records the effect of the transactions to meet its legislated responsibility.

The OPA generation contracts are estimated each month and settled on the actual amount owing in the following month. This gives rise to timing differences. The settlement dates can cross calendar months, creating a monthly balance in the account. Differences created from timing or settlement dates are reclassified into accounts receivable at month end. The net impact of global adjustment transactions creates a zero balance in the account at every month end.

	2009	2008
DR3	$ 8,121	$ 1,264
NUG	961,613	479,315
Nuclear	1,367,679	74,293
Hydro	183,575	(264,752)
Global adjustment balancing amount	(4,218,889)	(900,660)
OPA Contracts	1,697,901	610,540
	$ –	$ –

6. Accounts payable and accrued liabilities

	2009	2008
Accrued contractor settlements	$ (171,136)	$ (63,738)
Accounts payable	–	(670)
GST payable	(11,457)	(2,290)
Other accrued liabilities	(32,302)	(29,097)
	$ (214,895)	**$ (95,795)**

7. Contract deposits

The OPA receives performance security in the form of deposit amounts received from renewable energy supply and demand response contractors. The deposits are larger during the construction phase and are reduced once a project commences commercial operations.

The deposits are classified as current liabilities as they can be replaced by a letter of credit by the contractor on request.

8. Deferred rent inducement and operating lease commitments

The OPA has entered into various long-term lease commitments for office space, which include lease inducements. Deferred rent inducement represents the benefit of operating lease inducements amortized on a straight-line basis over the term of the lease. The OPA obtained an allowance for leasehold improvements of $1,430. As at December 31, 2009, the deferred rent inducement, net of amortization, was $836 (2008 - $980).

The OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2009, the accrued liability was $313 (2008 - $295).

All lease commitments are set to terminate coincidentally in October 2015. The minimum annual payments under the operating lease are approximated as follows:

Lease commitments	
2010	$ 1,303
2011	1,384
2012	1,385
2013	1,388
2014	1,393
2015	1,101
	$ 7,954

9. Internally restricted Conservation and Technology Development Funds

The OPA established the Conservation Fund to support electricity conservation projects. The Technology Development Fund was established to aid the development of new technology to improve electricity supply or conservation. To date, nine funds have been set up as depicted in the table below.

	Restricted fund	Expensed 2009	Expensed prior years	2009
2005 Conservation Fund	$ 1,100	$ –	$ 837	$ 263
2006 Conservation Fund	1,500	(6)	1,581	(75)
2007 Conservation Fund	3,000	706	1,943	351
2008 Conservation Fund	3,000	1,277	357	1,366
2009 Conservation Fund	3,000	433	–	2,567
2006 Technology Development Fund	1,000	14	473	513
2007 Technology Development Fund	1,000	176	456	368
2008 Technology Development Fund	1,500	663	414	423
2009 Technology Development Fund	1,500	605	–	895
	$ 16,600	**$ 3,868**	**$ 6,061**	**$ 6,671**

10. General operating costs

	2009	2008
General program costs	$ 4,970	$ 4,128
Premise	2,737	2,536
Office and administration	967	939
Information technology	745	257
	$ 9,419	**$ 7,860**

11. Pension plan

The OPA makes contributions to the Public Service Pension Plan, a multi-employer plan, on behalf of staff. The plan is a contributory defined benefit pension plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately eight percent of earnings. As at December 31, 2009, the OPA paid or accrued contributions totalling $1,572 (2008 - $1,233) during the year.

12. Change in non-cash operating items

	2009	2008
Increase in accounts receivable	$ (133,015)	$ (20,839)
Decrease (increase) in prepaid expenses	172	(241)
Increase in accounts payable and accrued liabilities	119,100	7,542
Increase (decrease) in contract deposits	35,257	(764)
	$ 21,514	**$ (14,302)**

13. Related party transactions

The OPA considers the OEB, Hydro One, the IESO, OPG, Ontario Financing Authority (OFA) and the Ministry of Energy and Infrastructure as related parties due to the relationship they maintain with the Government of Ontario. Transactions between these parties and the OPA were as follows.

Under the Ontario Energy Board Act, 1998, the OPA incurs registration and licence fees. Consistent with other registrants, in 2009 the OPA received a portion of the operating costs of the OEB. The total of the OPA's transactions with the OEB were $1,083 in 2009 (2008 - $1,062).

The OPA procures conservation and demand management from Hydro One. The procurement costs include payments for electricity conservation, program operating costs and management fees. In 2009, the OPA procured $18,682 in conservation demand management (2008 - $12,766) from Hydro One and its wholly owned subsidiaries.

The OPA receives its fee revenue from the IESO. The fee revenue is approved by the OEB and collected each month by the IESO from ratepayers through a usage rate applied to Ontario domestic electricity consumption. Fee revenue for 2009 was $66,015 (2008 - $52,530). In addition, the OPA and the IESO have agreements for the settlement of amounts paid and received for the global adjustment account, RPP and retailer contract settlement deferral accounts (see note 5). At December 31, 2009, the OPA had a net receivable of $173,253 (2008 - $65,146). The OPA also incurred $350 (2008 - $257) for IESO consulting services.

The OPA has an agreement with OPG for consulting services and planning support. In 2009, the OPA incurred $13 (2008 - $17) for such services.

The OPA has available a revolving operating facility in the amount of $975,000, provided by the OFA to fund its general operating expenses and support the RPP variance account. The line of credit was renewed in 2006 for a three-year term from January 1, 2007, to December 31, 2010. The facility has been unused since 2007.

In the 2008 revenue requirement submission to the OEB, the OPA requested and received an OEB decision to carry the costs related to the government procurements in a deferral account to settle coincidentally with the retail contract settlement deferral accounts. The amount of $99 was incurred in 2009 (2008 - $167).

14. Contingencies and guarantees

Contingencies

In the normal course of its operations, the OPA becomes involved in various legally binding agreements. Some of these agreements contain potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that a future event becomes likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability will be accrued and the expense recorded on the OPA's financial statements. As at December 31, 2009, in the opinion of management, no such liabilities exist.

Contract conditions related to the construction of a new clean energy facility stipulate that the OPA is contingently liable to repay upgrade costs, up to a maximum of $1,000, as incurred by the energy supplier. While none of these costs have been incurred to date, the OPA is liable to cover such costs over a 20-year period ending in 2025. As at December 31, 2009, management is not aware of any information to suggest that these upgrade costs will be incurred by the supplier.

Guarantees

The OPA is contingently liable under a loan guarantee provision in a contract with a maximum potential exposure of $8,600. The outstanding loan balance under this contract that the OPA has guaranteed is $184 as at December 31, 2009, and is not in default. The contract related to this guarantee expires in September 2012.

15. Fair value of financial assets and financial liabilities

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The fair values of the regulatory assets and regulatory liabilities are not provided because it would not provide additional useful information, as they would be offset and/or would not be practical to determine.

16. Comparative figures

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

Ontario Racing Commission

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Ontario

Ontario Racing Commission

Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Racing Commission have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of the financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 11, 2010.

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

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

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

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

On behalf of management:

John L. Blakney
Executive Director and CEO

Steven Lehman
Chief Administrative Officer

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

Auditor's Report

To the Ontario Racing Commission
and to the Minister of Finance

I have audited the balance sheet of the Ontario Racing Commission as at March 31, 2010 and the statement of operations and retained income and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2010 and 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
June 11, 2010

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

Ontario Racing Commission

Balance Sheet
As at March 31, 2010

	2010 ($ 000)	2009 ($ 000)
ASSETS		
Current		
Cash	2,093	1,949
Restricted cash (Note 4)	6,917	6,449
Accounts receivable	202	416
Prepaid expenses	28	29
	9,240	8,843
Capital assets (Note 9)	381	434
	9,621	9,277
LIABILITIES AND RETAINED INCOME		
Current		
Accounts payable and accrued liabilities	1,463	1,208
Amounts held in trust (Note 4)	6,917	6,449
	8,380	7,657
Long-term		
Accrued benefit obligation [Note 7(C)]	721	656
Deferred lease inducement (Note 13)	276	322
	997	978
Retained income	244	642
	9,621	9,277

Commitments and contingencies (Note 10)

See accompanying notes to financial statements.

Approved on behalf of the Commission:

Rod Seiling, Chair

David Gorman, Member

Ontario Racing Commission

Statement of Operations and Retained Income
For the Year Ended March 31, 2010

	2010 ($ 000)	2009 ($ 000)
Revenue		
Wagering levy (Note 5)	5,567	5,606
Licence and registration fees	3,596	3,605
Cost recovery from industry (Note 6)	1,469	1,627
Fines and penalties	350	374
Interest income	4	62
Miscellaneous	11	34
Total revenue	10,997	11,308
Expenses		
Salaries and wages	5,544	5,426
Employee benefits (Note 7)	1,066	1,184
Services (Note 11)	3,359	3,493
Transportation and communication	1,131	1,126
Supplies	188	196
Amortization	107	112
Total expenses	11,395	11,537
(Deficiency) of revenue over expenses	(398)	(229)
Retained income, beginning of year	642	871
Retained income, end of year (Note 12)	244	642

See accompanying notes to financial statements.

Ontario Racing Commission

Statement of Cash Flows
For the Year Ended March 31, 2010

	2010 ($ 000)	2009 ($ 000)
Cash flows from operating activities		
(Deficiency)/Excess of revenue over expenses	(398)	(229)
Amortization	107	112
	(291)	(117)
Changes in non-cash items		
Non-cash operating working capital	470	(612)
Accrued benefit obligation	65	119
Deferred lease inducement	(46)	(46)
	489	(539)
	198	(656)
Cash used for investing activity		
Purchase of capital assets	(54)	(17)
Net change in cash position	144	(673)
Cash position, beginning of year	1,949	2,622
Cash position, end of year	2,093	1,949
Cash is composed of:		
General	1,093	949
Reserve (Note 12)	1,000	1,000
	2,093	1,949

See accompanying notes to financial statements.

Ontario Racing Commission

Notes to Financial Statements
March 31, 2010

1. Objective of the Commission

Effective December 15, 2000, the *Racing Commission Act, 2000* continued the Ontario Racing Commission (the "Commission") as an independent self-financing regulatory agency of the Crown. The Commission is responsible to govern, direct, control and regulate horse racing in the Province.

As an Ontario Crown agency, the Commission is exempted from federal and provincial income taxes under the *Income Tax Act* (Canada).

2. Significant Accounting Policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies used to prepare these statements are summarized below.

(A) CAPITAL ASSETS

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

Office furniture and equipment	5 years
Computer equipment and software	3 years
Leasehold improvements	remaining term of lease

(B) REVENUE RECOGNITION

The wagering levy is recognized as income in the year it is due.

Licence and registration fees are recognized as income when issued.

Revenue from fines and penalties, less a provision for uncollectible amounts, is recorded when such fines and penalties are imposed.

(C) EXPENSE RECOGNITION

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

(D) FINANCIAL INSTRUMENTS

The Commission's financial instruments consist of only cash, accounts receivable, accounts payable and accrued liabilities.

- Cash is classified as a "held-for-trading instrument" and is measured at fair value.
- Accounts receivable are classified as "loans and receivables" and are measured at cost, which due to their short-term maturities, approximates their fair value.

Ontario Racing Commission

Notes to Financial Statements
March 31, 2010

2. Significant Accounting Policies (Continued)

(D) FINANCIAL INSTRUMENTS (CONTINUED)

- Accounts payable and accrued liabilities are classified as "other financial liabilities" and are measured at cost, which due to their short-term maturities, approximate their fair values.

The Commission does not use derivative financial instruments.

(E) USE OF ESTIMATES

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

3. Capital Disclosures

Section 1535, Capital Disclosures, of the Canadian Institute of Chartered Accountants Handbook, requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Commission's objectives, policies and processes for managing capital.

The Commission's objective in managing capital, which it defines as cash and short-term investments in excess of its current liabilities, is to have sufficient capital to cover normal operating and capital requirements for at least the current fiscal year. As discussed under Note 12, the Commission has established a Reserve account, which currently represents approximately 9% of its annual operating expenses. The Commission believes that its ongoing monitoring of capital, combined with this level of liquidity, provide it with the flexibility to address any unanticipated financial adversities. As at March 31, 2010 the Commission met these objectives.

It is the Commission's policy not to take any significant risks in its investing activities. Consequently, in the year ended March 31, 2010, it invested only in interest-bearing bank accounts. The Commission is not subject to any externally imposed capital requirements.

4. Amounts Held in Trust

As at March 31, 2010, the Commission held funds in trust in interest-bearing bank accounts for others in the horse racing industry, as follows:

Amounts held in trust:	2010 ($ 000)	2009 ($ 000)
Fort Erie racetrack horsepeople purse account funds	5,966	6,237
Fort Erie Live Racing Consortium	500	-
Total Carbon Dioxide Program	440	200
Quinte racetrack horsepeople purse account funds	11	12
	6,917	6,449

Ontario Racing Commission

Notes to Financial Statements
March 31, 2010

4. Amounts Held in Trust (Continued)

(A) FORT ERIE RACETRACK HORSEPEOPLE PURSE ACCOUNT FUNDS

Due to the uncertainty of the operations at the Fort Erie racetrack, commencing December 2008 the Commission ordered the funds held by the racetrack for the horsepeople purse account to be transferred to and held in trust by the Commission until the uncertainty is resolved.

(B) FORT ERIE LIVE RACING CONSORTIUM

On December 31, 2009, the Fort Erie Live Racing Consortium assumed operations of the Fort Erie Racetrack. At that time, the Consortium was not licensed by the regulatory authorities. The Commission therefore received and held in trust amounts generated through the Ontario Lottery and Gaming Slots-At-Racetracks program commencing January 2010.

(C) TOTAL CARBON DIOXIDE PROGRAM

In September 2008, an agreement was signed between the Commission and the Canadian Pari-Mutuel Agency ("CPMA") that CPMA will provide funding to the Commission for the administration of the Total Carbon Dioxide Program. The Program provides a subsidy to racetrack owners for their tests to detect the presence of alkalinizing agents in horses at racetracks that provide pari-mutuel betting. As of March 31, 2010, the Commission and racetrack operators had determined how the funds will be disbursed however no subsidies had yet been paid.

(D) QUINTE RACETRACK HORSEPEOPLE PURSE ACCOUNT FUNDS

Due to the lack of a licensed operator at the Quinte racetrack, commencing December 2008 the Commission has held the horsepeople purse account in trust.

5. Wagering Levy

The levy was established such that the total sum of the levy and other revenues received by the Commission would be sufficient to cover all costs associated with the operation of the Commission. The levy was calculated as a percentage of total wagering made at each racing association during the 2008 calendar year.

6. Cost Recovery from Industry

The Commission recovers certain costs from the industry for its activities as follows:

	2010 ($ 000)	2009 ($ 000)
Cost recovery from:		
Equine Medication Control and Drug Task Force	1,000	1,143
Horse Improvement Program	317	330
Quarter Horse Racing Industry Development Program	114	98
Purse Examinations	21	23
Miscellaneous	17	33
	1,469	1,627

Ontario Racing Commission

Notes to Financial Statements
March 31, 2010

6. Cost Recovery from Industry (Continued)

(A) EQUINE MEDICATION CONTROL AND DRUG TASK FORCE

A letter of intent dated December 20, 2006, between an Ontario horse racing industry advisory group and the Commission established the Equine Medication Control and Drug Task Force. The mandate of the Task Force, which is administered by the Commission and partially funded by the racetracks and the horsepeople purse accounts, is to combat the supply and use of illegal equine medications and drugs in the Ontario horse racing industry. The agreement, which covers the two year period from January 1, 2007 through December 31, 2008, requires the industry to provide regular payments to fund the Task Force and the Commission records these payments as a deferred cost recovery from industry until the related costs are incurred. The Commission arranged to continue administering the Task Force under the same terms and financial arrangements. As of March 31, 2010, all Task Force funding from the industry had been spent.

(B) HORSE IMPROVEMENT PROGRAM

As of May 1, 2005, the Commission assumed responsibility for the administration of the Horse Improvement Program (HIP). The HIP is a racing and breeding incentive program that was established in 1974. The objectives of the program are: to supplement purses paid; to improve the quality and quantity of racing stock in Ontario; to fund equine research; to promote the Ontario-bred horse; and to promote horse breeding and ownership in the province. A Memorandum of Understanding (MOU) effective September 30, 1996 between the then Ministry of Consumer and Commercial Relations, the Ontario Horse Racing Industry Association and the Commission provided for a reduction of pari-mutuel taxes, with these forgone revenues being allocated to various industry participants. The MOU has been supplemented by subsequent agreements to include an allocated portion of revenues from slot machines at racetracks. As of December 31, 2009, the program had net assets of approximately $6.0 million and revenue and expenditures for the year of approximately $46.9 million and $48.0 million, respectively. None of these assets are owned by the Commission or reflected in these financial statements. Separate financial statements have been prepared for the HIP, which were audited by an independent public accounting firm.

(C) QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM

As a result of an agreement between the Ontario Lottery and Gaming Corporation and owners of the Ajax Downs racetrack, the Commission assumed responsibility to administer the Quarter Horse Racing Industry Development Program (QHRIDP) with an objective to establish a program for the betterment of the Ontario quarter horse racing industry and horse racing in general. Since March 2006, the program has been funded by an allocated portion of revenues from slot machines at the racetrack. As of December 31, 2009, the program had net assets of approximately $19.6 million, and revenue and expenditures for the year of approximately $8.4 million and $5.8 million, respectively. None of these assets are owned by the Commission or reflected in these financial statements. Separate financial statements have been prepared for the QHRIDP, which were audited by an independent public accounting firm.

(D) PURSE EXAMINATIONS

Pursuant to changes to the Rules of Racing that were approved in fiscal 2008, the Commission recovered its costs for conducting examinations on the financial statements of the purse accounts that the racetrack operators hold in trust for the horsepeople.

Ontario Racing Commission

Notes to Financial Statements
March 31, 2010

7. Employee Benefits

(A) PENSION BENEFITS

The Commission's full-time employees participate in the Public Service Pension Fund (PSPF), which is a defined benefit pension plan for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Commission's annual payments to the fund. As the sponsors are responsible for ensuring that the pension fund is financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Commission. The Commission's annual payments of $321,250 (2009-$309,328), are included in salaries and benefits expense in the Statement of Operations and Retained Income.

(B) NON-PENSION BENEFITS

The cost of post-retirement non-pension employee benefits is paid by the Ministry of Government Services and is not included in the Statement of Operations and Retained Income.

(C) ACCRUED BENEFIT OBLIGATION

The accrued benefit obligation records earned employee severance payments due upon termination or retirement. In fiscal 2010, the cost of these employee benefits was $87,497 (2009 – $158,717) and is included in employee benefits.

8. Members' Remuneration

Total remuneration of the Chair and members of the Commission for the year was $241,707 (2009 – $241,924). Members' remuneration is charged to services expense.

9. Capital Assets

	2010 ($ 000)			2009 ($ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment and software	386	336	50	29
Office furniture and equipment	277	216	61	90
Leasehold improvements	450	180	270	315
	1,113	732	381	434

Ontario Racing Commission

Notes to Financial Statements
March 31, 2010

10. Commitments and Contingencies

(A) The Commission is committed under operating leases on head office premises and vehicles with future minimum rental payments due for each fiscal year as follows:

	Premises ($ 000)	Vehicles ($ 000)	Total ($ 000)
2011	370	209	579
2012	370	146	516
2013	370	84	454
2014	374	—	374
2015	358	—	358
2016-2017	358	—	358
	2,200	439	2,639

(B) The Commission is involved in various legal actions arising out of the ordinary course of business. Settlements paid by the Commission, if any, will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

11. Related Party Transactions

The Commission paid the Province of Ontario for: Ontario Provincial Police investigative and related services totalling $1,096,975 (2009 – $1,058,321); and for administrative services, information technology services, and use of computer equipment totalling $270,747 (2009 – $255,481).

The Commission has governance and administrative responsibilities over certain industry-funded programs and recovers its costs as disclosed under Note 6.

12. Reserve

Subsection 13(l) of the *Racing Commission Act, 2000* allows the Commission to retain its surplus funds unless, under subsection 13(2), it is ordered by the Minister responsible for the Commission to pay into the Consolidated Revenue Fund of the Province of Ontario the portion of its surplus funds as determined by the Minister. In fiscal 2002, the Commission obtained approval from the then Ministry of Government and Consumer Services to establish a Reserve account not to exceed 25% of the Commission's annual operating budget. These funds will be used as an operating contingency against unanticipated revenue shortfalls.

13. Deferred Lease Inducement

As part of its lease arrangements for its head office premise, the Commission negotiated a lease inducement of $459,920 to cover the costs of leasehold improvements. This deferred lease inducement is being amortized as a reduction of rent expense on a straight-line basis over the 10-year lease period that commenced April 1, 2006, being the start date of the lease.

Ontario Racing Commission

Notes to Financial Statements
March 31, 2010

14. Accounting Policy Transition

In 2009, the Public Sector Accounting Board issued the Exposure Draft for "Financial Reporting by Certain Government Organizations". The Exposure Draft proposes that organizations classified as an Other Government Organization adopt either the Public Sector Accounting Handbook or International Financial Reporting Standards ("IFRS") for publicly accountable entities as the primary source of Canadian generally accepted accounting principles beginning on or after January 1, 2011. Taking into consideration the nature of the organization and its users, the Commission has determined that Public Sector Accounting Standards are a more suitable accounting standard to follow. The Commission will closely monitor the adoption of related changes to ensure it is in compliance with the necessary disclosure requirements but the impact on its financial statements are not expected to be significant.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
Year ended March 31, 2010

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Ontario Realty Corporation have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to May 21, 2010.

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

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board of Directors reviews and approves the financial statements.

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

On behalf of Management:

H.R. Goss
Chief Financial Officer and Treasurer

Dated: May 21, 2010

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

Auditor's Report

To the Ontario Realty Corporation,
The Minister of Energy and Infrastructure,
and to the Minister of Finance

I have audited the balance sheet of the Ontario Realty Corporation as at March 31, 2010 and the statements of operations and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and 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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Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
May 21, 2010

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

Balance Sheet

As at March 31	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents (notes 8b and 8c)	$ 42,780	$ 40,010
Accounts receivable (note 8d)	4,113	4,927
Prepaid expenses	1,305	906
Due from Province (note 4)	920	1,018
	49,118	46,861
Capital assets (note 5)	6,516	7,530
Funds held in trust (note 8g)	173,136	124,381
	$ 228,770	$ 178,772
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Accounts payable and accrued liabilities	$ 9,162	$ 9,598
Deferred revenue (note 8a)	774	-
Provision for severance costs (note 4)	920	1,018
	10,856	10,616
Funds held in trust (note 8g)	173,136	124,381
RETAINED EARNINGS	44,778	43,775
	$ 228,770	$ 178,772

Commitments (note 6)

Contingencies (note 7)

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

On behalf of the Board:

Director:

Director:

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

Year Ended March 31	2010	2009
REVENUE		
Management fees (note 8a)	$ 33,671	$ 33,835
Direct recoverable costs (note 8a)	15,300	18,306
Expense reimbursements - in lieu of fees (note 8a)	14,085	14,085
Bank interest and other income (note 8c)	126	684
	63,182	66,910
EXPENSES		
Salaries and benefits (notes 4, 8e and 9)	42,206	39,885
Direct operating expenses (note 8f)	17,884	23,473
Amortization	2,089	2,602
	62,179	65,960
EXCESS OF REVENUE OVER EXPENSES BEFORE SEVERANCE COSTS	1,003	950
Provision for severance costs (note 4)	(98)	1,018
Future recoveries from Province (note 4)	98	(1,018)
EXCESS OF REVENUE OVER EXPENSES	1,003	950
RETAINED EARNINGS, BEGINNING OF YEAR	43,775	42,825
RETAINED EARNINGS, END OF YEAR	$ 44,778	$ 43,775

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

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

STATEMENT OF CASH FLOWS

Year Ended March 31	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	$ 1,003	$ 950
Adjustments for:		
Amortization	2,089	2,602
Provision for severance costs (note 4)	(98)	1,018
Future recoveries from Province (note 4)	98	(1,018)
	3,092	3,552
Changes in non cash working capital		
Decrease in accounts receivable	814	2,244
Increase in prepaid expenses	(399)	(559)
Increase in deferred revenue	774	-
Decrease in accounts payable and accrued liabilities	(436)	(3,798)
	3,845	1,439
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of capital assets (note 5)	(1,075)	(2,669)
Net change in cash and cash equivalents	2,770	(1,230)
Cash and cash equivalents, beginning of year	40,010	41,240
Cash and cash equivalents, end of year	$ 42,780	$ 40,010

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

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
For the year ended March 31, 2010

NOTES TO FINANCIAL STATEMENTS

NATURE OF THE CORPORATION

The Ontario Realty Corporation (the Corporation) was established under the *Capital Investment Plan Act 1993* (the Act) as a Crown Corporation of the Province of Ontario (the Province). The Province has delegated authority to the Corporation under subsections 6(1), 8(1) and 8(2) of the *Ministry of Government Services Act* to acquire, hold and, with approval, dispose of property for government and government related agencies. As a Crown Corporation and operational enterprise of the Province, the Corporation is exempt from income taxes. The Corporation reports to the Minister of Energy and Infrastructure (MEI).

The Corporation is accountable to the Province and provides property management, real estate and project management services to ministries and agencies of the Ontario government that directly own assets or require the Corporation's real estate services. The Corporation manages 49.9 million rentable square feet: 38.8 million owned by the Province and 11.1 million leased from the private sector, as well as 99,301 acres of land owned by the Province.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles applicable to a 'going concern', which assume that the Corporation will continue operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Management regularly reviews and considers the current and forecast activities of the Corporation in order to satisfy itself as to the viability of operations. These ongoing reviews include current and future business opportunities, customer and supplier exposure and forecast of cash requirements and balances. Based on these evaluations management considers that the Corporation is able to continue as a going concern.

Significant accounting policies followed in the preparation of these financial statements are:

a) Revenue

Fees, expense reimbursement and direct recoverable costs are recognized as revenue when services are provided or the related expenses are incurred and collection is reasonably assured.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current bank accounts, and short-term investments, if any, with terms to maturity of less than 90 days.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
For the year ended March 31, 2010

NOTES TO FINANCIAL STATEMENTS

c) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

d) Capital Assets

Capital assets in excess of one thousand dollars with a future useful life beyond the current year are capitalized at cost. They are amortized on a straight-line basis over their estimated useful lives as follows:

Computer hardware and software	3 years
Custom software	5 years
Furniture, fixtures and office equipment	3 years
Leasehold improvements	5 -10 years

e) Employee Pension Plans

Until November 29, 2001, the Corporation provided pension benefits to its classified full time employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Pension Fund, which are multiemployer defined benefit pension plans.

Effective November 30, 2001, amendments to the Capital Investment Plan Act 1993 stipulated that the Corporation's employees were no longer part of the Ontario Public Service. Employees who had participated in the Public Service Pension Fund or the Ontario Public Service Employees' Pension Fund continued, from November 30, 2001, as participants in the Public Service Pension Fund. This plan is a multiemployer defined benefit pension plan, established by the Province. This plan is accounted for as a defined contribution plan.

Regular full-time employees hired after November 29, 2001 participate in a mandatory defined contribution pension and savings plan administered by a third-party administrator. The Corporation matches employees' mandatory contributions.

The pension expense represents the Corporation's contributions to the plans during the year.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
For the year ended March 31, 2010

NOTES TO FINANCIAL STATEMENTS

f) Financial Instruments, Recognition and Measurement

The following is a summary of the accounting model the Corporation has elected to apply to each of its significant categories of financial instruments outstanding at March 31, 2010:

Cash and cash equivalents	Held-for-trading
Accounts receivable and Due from Province	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities

All cash and cash equivalents are determined by reference to quoted prices in active markets for identical assets and liabilities.

The carrying amounts of cash and cash equivalents, accounts receivable, due from Province and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

Transaction costs related to financial instruments classified as held-for-trading, loans and receivables and other financial liabilities are expensed as incurred.

The Corporation does not enter into any hedges and it does not have any financial instruments classified as available-for-sale, hence, no comprehensive income is recorded.

2. NEW ACCOUNTING DISCLOSURES

Financial Statement Concepts - Section 1000

Canadian Institute of Chartered Accountants (CICA) Handbook Section 1000, Financial Statement Concepts, has been amended to clarify the criteria for recognition of an asset and the timing of expense recognition. The new requirements are effective for annual financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard does not have a material impact on the Corporation's financial statements.

3. RECENT ACCOUNTING PRONOUNCEMENTS

The Introduction to Public Sector Accounting Standards

The Introduction to Public Sector Accounting Standards sets out the applicable source of generally accepted accounting principles applied by government organizations. In October 2009, the CICA amended this section which directs other government organizations such as the Corporation to consider the needs of the users of their general purpose financial statements in determining whether standards in the CICA Public Sector Accounting Handbook or International Financial Reporting Standards are more appropriate. The Corporation is currently assessing the impact of the new recommendations on its financial statements.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
For the year ended March 31, 2010

NOTES TO FINANCIAL STATEMENTS

4. SEVERANCE COSTS

Recoverable Severance

The severance provision provides for staff severance costs associated with the Corporation's re-organization and contracting out its entire Province-wide property and land management services. These costs are funded by MEI. The re-organization is expected to be completed by 2010-2011 fiscal year. The change in the severance provision is as follows:

March 31	2010	2009
Severance provision, beginning of year	$ 1,018	-
Increase (decrease) in provision	(98)	1,018
Severance provision, end of year	$ 920	$ 1,018

Other Severance

The Corporation also incurred other employee severance costs in the regular course of operations totalling $1,519 (2009 - $69) that are included in salaries and benefits expenses in the Statement of Operations and Retained Earnings.

5. CAPITAL ASSETS

Capital assets consist of the following:

March 31			**2010**	**2009**
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	$ 9,008	$ 7,702	$ 1,306	$ 1,461
Custom software	8,353	7,768	585	730
Furniture, fixtures and office equipment	1,010	921	89	172
Leasehold improvements	6,531	1,995	4,536	5,167
	$ 24,902	$ 18,386	$ 6,516	$ 7,530

During the year ended March 31, 2010, capital assets were acquired at an aggregate cost of $ 1,075 (2009 - $2,669). Included in computer hardware and software is $426 (2009 – $226) not amortized as assets were not in use at March 31, 2010.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
For the year ended March 31, 2010

NOTES TO FINANCIAL STATEMENTS

6. COMMITMENTS

Operating leases are expensed in accordance with terms of the lease agreements. Under the terms of operating leases for the Corporation's office space and vehicles the Corporation is committed to future rental payments as follows:

For the year ending March 31

2011	$	2,786
2012		2,825
2013		2,838
2014		2,838
2015		2,964
Thereafter		6,861
	$	21,112

7. CONTINGENCIES

During the ordinary course of its business, as an agent of the Ontario Government, the Corporation is occasionally involved in litigation proceedings. As such, the Corporation is entitled to be indemnified against all liabilities properly incurred in the course of exercising its actual authority on behalf of the Ontario Government. It is management's opinion that damages for which the Corporation may become responsible, if any, will be indemnified by the Ontario Government and will therefore not have a material effect on the financial position or results of operations of the Corporation.

8. RELATED PARTY TRANSACTIONS

a) The Corporation is economically dependant on the Province as all of the revenue received from the Province for the provision of services are under the control of the MEI.

The Corporation's prime sources of revenue are:

i. Management Fees

Market-based fees are charged for services provided for Property and Asset Management, and Project Management that are based on a percentage of project costs, related to MEI owned assets.

ii. Direct Recoverable Costs

Up to March 31, 2010 Corporation staff co-ordinate and provide direct building operating and maintenance services in support of the portfolio in the North and East regions. These costs are directly recoverable from MEI and funded from the operating and maintenance rental payments under accommodation agreements. In addition, out of pocket expenses associated with special projects undertaken on behalf of MEI and ministries were also recovered.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
For the year ended March 31, 2010

NOTES TO FINANCIAL STATEMENTS

iii. Expense Reimbursement – In Lieu of Fees

Pending the implementation of a full fee structure, corporate costs incurred by the Corporation (third party leases, negotiation services, financial services, legal, corporate communications and human resource services) are funded by the Province as an annual allocation along with the administration costs associated with the sale and acquisition of properties on behalf of the ministries.

iv. Deferred Revenue

Funds received from Ministries for special projects are recorded upon receipt as deferred revenues. These revenues are recognized in the period in which the related costs are incurred.

b) The *Capital Investment Plan Act* requires that any surplus funds shall, upon the instructions of the Minister of Finance, be paid to the Consolidated Revenue Fund of the Province of Ontario. In determining the amount payable, if any, the Minister of Finance shall ensure that the payment will not impair the Corporation's ability to pay its liabilities, to meet its obligations as they become due or to fulfill its contractual commitments. No such instructions have been received from the Minister of Finance.

c) The *Capital Investment Plan Act* requires that all short-term investments be invested with the Ontario Financing Authority (OFA), a Crown Corporation of the Province, unless the Minister of Finance agrees otherwise. Short-term investments of $18,411 (2009 - $33,354), invested by the OFA, are included in cash and cash equivalents in the Balance Sheet and interest earned on these investments of $53 (2009 - $513) is included in Bank interest and other income in the Statement of Operations and Retained Earnings.

d) The Corporation's accounts receivable include $4,054 (2009 - $4,879) from MEI and other ministries.

e) Only classified full-time employees hired prior to November 30, 2001, who have more than ten years pension-able service upon retirement, are entitled to post-retirement non-pension benefits. The cost of these post-retirement non-pension employee benefits is paid by the Province and is not included in the Statement of Operations and Retained Earnings.

f) The Corporation's direct operating expenses include accommodation costs of $2,645 (2009 - $2,536) charged by the MEI General Real Estate Portfolio.

g) Funds Held in Trust

The Corporation maintains several operating bank accounts and one short-term investment account, which it holds "in trust" and administers on behalf of the Province. They relate directly to the operation of several provincially-owned and leased properties, or services provided to other ministries or agencies of the Province. The funds held in trust for the Province are $173,136 (2009 - $124,381).

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
For the year ended March 31, 2010

NOTES TO FINANCIAL STATEMENTS

h) As a result of the Corporation's relationship with the Province of Ontario, other related party transactions also exist and have been disclosed in the following note to the financial statements.

- Severance Costs, (Note 4)

The above related party transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for services rendered.

9. PENSION PLANS

The Corporation's required contributions to the pension plans (see note 1e) for the year ended March 31, 2010 were $1,679 (2009 – $1,642) and are included in salaries and benefits in the Statement of Operations and Retained Earnings.

10. FINANCIAL RISK MANAGEMENT

The Corporation has exposure to counterparty (such as financial institutions, suppliers and customers) credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board of Directors has established the Audit Committee which is responsible for developing and monitoring the Corporation's compliance with risk management policies and procedures. The Audit Committee regularly reports to the Board of Directors on its activities. The Corporation's risk management program seeks to minimize potential adverse effects on the Corporation's financial performance. The Corporation manages its risks and risk exposures through a combination of insurance and sound business practices.

Credit Risk

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Corporation assesses the credit quality of customers, taking into account their financial position, past experience and other factors.

Cash and cash equivalents

Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are only invested in debt instruments of highly rated financial institutions.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)
For the year ended March 31, 2010

NOTES TO FINANCIAL STATEMENTS

Accounts receivable

Accounts receivable consist primarily of trade accounts receivable from billings where service was provided. The Corporation's credit risk arises from the possibility that a customer which owes the Corporation money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Corporation, which would result in a financial loss for the Corporation. This risk is mitigated through established credit management techniques, including monitoring customers' creditworthiness, setting exposure limits and monitoring exposure against these customer credit limits. In the year ended March 31, 2010, the maximum credit risk to which the Corporation is exposed represents the fair value of its non-related party accounts receivable.

Liquidity Risk

Liquidity risk is the risk the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's objective in managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its commitments when due, without incurring unacceptable losses or risking damage to the Corporation's reputation. The Corporation manages exposure to liquidity risk by closely monitoring supplier and other liabilities; by focusing on debtor collection; and by generating positive cash flow from operations. Liquidity risk may be impacted by a request from the Province of Ontario to return surplus funds, as described in note 8b.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the fair value of recognized assets and liabilities or future cash flows of the Corporation's operations.

Foreign exchange

The Corporation's business transactions are in Canadian dollars and therefore the Corporation has no exposure to foreign exchange rates.

Interest rate

The Corporation is exposed to changes in interest rates, which may impact interest revenue on short term investments. As at March 31, 2010, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, excess of revenue over expenses would have increased or decreased, respectively, by approximately $414 (2009 - $406).

11. CAPITAL MANAGEMENT

The Corporation generates positive cash flows from its operations and defines capital as retained earnings. The Corporation's primary objective of managing capital is to safeguard its ability to continue as a going concern and meet its obligations. As outlined in note 8 (c), the Corporation is required under the Capital Investment Plan Act to invest all short-term investments with the OFA. The Corporation is not subjected to any external capital requirements.

ONTARIO SCIENCE CENTRE

Ontario Science Centre Financial Statements for the year ended March 31, 2010 were not available at the time of printing. When available, they will be posted to the website: www.fin.gov.on.ca/english/ .

ONTARIO SECURITIES COMMISSION

MANAGEMENT'S RESPONSIBILITY AND CERTIFICATION

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

We certify that we have reviewed the financial statements and other information contained in the annual report, and, based on our knowledge, they do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the statements and the annual report.

Based on our knowledge, the financial statements together with other financial information included in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Ontario Securities Commission (the "OSC") as of the dates and for the periods presented. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions, and are believed to be reasonable.

We are responsible for establishing and maintaining internal control over financial reporting for the OSC. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

We evaluated, or caused to be evaluated under our supervision, the effectiveness of the OSC's internal control over financial reporting at the financial year end and the OSC has disclosed in its annual MD&A our conclusion about the effectiveness of internal control over financial reporting at the financial year end based on that evaluation.

We have also disclosed in the MD&A any change in our internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

W. David Wilson
Chair and Chief Executive Officer

A. Kenneth Gibson, CA
Director, Corporate Services

May 7, 2010

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

Auditor's Report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission (the "OSC") as at March 31, 2010 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the OSC'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 OSC as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 7, 2010

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

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ONTARIO SECURITIES COMMISSION

Balance Sheet

As at March 31,

	2010	2009
ASSETS		
CURRENT		
Cash	$ 35,592,848	$ 51,992,333
Accounts receivable	1,046,029	1,504,874
Prepaid expenses	505,472	837,500
	37,144,349	54,334,707
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 5)	43,495,838	17,180,263
FUNDS IN TRUST (Note 6)	49,135,268	35,187,761
RESERVE FUND ASSETS (Note 7)	20,000,000	32,000,000
PREMISES AND EQUIPMENT (Note 8)	5,351,254	6,685,065
	$ 155,126,709	$ 145,387,796
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 11,686,270	$ 12,176,926
Current portion of obligation under capital leases (Note 13(b))	107,899	149,860
	11,794,169	12,326,786
NON-CURRENT		
Obligation under capital leases (Note 13(b))	88,522	196,421
Pension liabilities (Note 9(b))	1,747,190	1,646,568
	13,629,881	14,169,775
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 5)	43,495,838	17,180,263
FUNDS IN TRUST (Note 6)	49,135,268	35,187,761
SURPLUS		
OPERATING		
General (Note 10)	28,767,478	46,751,753
Reserve (Note 7)	20,000,000	32,000,000
	48,767,478	78,751,753
CONTRIBUTED	98,244	98,244
	48,865,722	78,849,997
	$ 155,126,709	$ 145,387,796

Investor Education Fund (Note 15)
Commitments and Contingencies (Notes 11,13)
See accompanying Notes to Financial Statements.

ON BEHALF OF THE BOARD OF THE COMMISSION

W. David Wilson
Chair

Margot C. Howard
Chair, Audit and Finance Committee

ONTARIO SECURITIES COMMISSION
Statement of Operations and Operating Surplus
For the year ended March 31,

	2010	2009
REVENUES		
Fees (Note 10)	$ 60,928,330	$ 66,435,229
Investment income	460,044	2,084,876
Miscellaneous	77,243	41,638
	61,465,617	68,561,743
EXPENSES		
Salaries and benefits (Note 14(d))	61,673,500	61,088,037
Administrative	6,567,220	6,443,343
Occupancy (Note 13(a))	6,444,891	6,501,252
Professional services	2,465,416	4,987,008
Amortization	2,705,055	1,242,655
Other	464,207	790,504
	80,320,289	81,052,799
Recoveries of enforcement costs (Note 12)	(870,397)	(2,831,170)
	79,449,892	78,221,629
DEFICIENCY OF REVENUES OVER EXPENSES	(17,984,275)	(9,659,886)
OPERATING SURPLUS, BEGINNING OF YEAR	78,751,753	88,411,639
LESS: Distribution to Province of Ontario (Notes 7(b), 14(b))	12,000,000	-
OPERATING SURPLUS, END OF YEAR	$ 48,767,478	$ 78,751,753
Represented by:		
General	$ 28,767,478	$ 46,751,753
Reserve	20,000,000	32,000,000
	$ 48,767,478	$ 78,751,753

See accompanying Notes to Financial Statements.

ONTARIO SECURITIES COMMISSION
Statement of Cash Flows
For the year ended March 31,

	2010	2009
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Deficiency of revenues over expenses	$ (17,984,275)	$ (9,659,886)
Items not affecting cash		
Increase in pension liabilities	100,622	97,530
Loss on disposal of premises and equipment	1,683	26,871
Amortization	2,705,055	1,242,655
	(15,176,915)	(8,292,830)
Changes in non-cash working capital:		
Accounts receivable	458,845	147,982
Prepaid expenses	332,028	(281,448)
Accounts payable and accrued liabilities	(490,656)	1,047,037
	300,217	913,571
	(14,876,698)	(7,379,259)
Cash flows from financing activities		
Repayment of obligations under capital leases	(149,860)	(212,420)
	(149,860)	(212,420)
Cash flows from investing activities		
Purchase of premises and equipment (Note 8)	(1,372,927)	(4,987,088)
	(1,372,927)	(4,987,088)
NET DECREASE IN CASH POSITION	(16,399,485)	(12,578,767)
CASH POSITION, BEGINNING OF YEAR	51,992,333	64,571,100
CASH POSITION, END OF YEAR	$ 35,592,848	$ 51,992,333

See accompanying Notes to Financial Statements.

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2010

1. NATURE OF THE CORPORATION

The Ontario Securities Commission (the "OSC") is a corporation without share capital and is the regulatory body responsible for regulating the province's capital markets. As a Crown corporation, the OSC is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Financial instruments

Under Canadian generally accepted accounting principles, 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.

Under this standard, all financial instruments are required to be measured at fair value upon initial recognition 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 method, and certain related party transactions. After initial recognition, financial assets initially measured at fair value continue to be recognized at fair value, with gains and losses recognized in net income in the period in which they arise.

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

The OSC has adopted the following classifications for financial assets and financial liabilities:

Held-for-trading
Cash, Funds held pursuant to designated settlements and orders, Funds in trust and Reserve fund assets are classified as held-for-trading and recorded at fair value.

Loans and receivable
Accounts receivable are classified as loans and receivables and are valued at cost, which approximates fair value given their short-term maturities.

Other financial liabilities
Accounts payable and accrued liabilities are classified as other financial liabilities and are valued at cost, which approximates fair value given their short-term maturities.

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2010

b) Premises and Equipment

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

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

c) Revenues

Fees are recognized when earned, which is normally upon receipt.

Participation fees are recognized when received because these fees represent the payment for the right to participate in the Ontario capital markets.

Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Because the activities undertaken are normally completed in a relatively short period of time, activity fees are recognized when received.

Late filing fees for insider trading "reports" are recognized on the 15th and at the end of each month and include all insider trading reports filed late in the preceding 15-day period.

Recoveries of enforcement costs are recorded as offsets to total expenses on the date a settlement is approved or an order issued by the OSC, unless management determines there is significant doubt as to ultimate collection, in which case recovery is recognized when cash is received.

d) Funds Held Pursuant to Designated Settlements and Orders

Funds held pursuant to designated settlements and orders are recorded when settlements are approved or orders made by the Commission, unless management determines there is significant doubt as to ultimate collection, in which case they are recognized when cash is received.

e) Employee Benefit Plans

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

The OSC also maintains unfunded supplemental pension plans for certain full-time Commission members as described in Note 9(b). The OSC accrues its obligations and the related costs under these unfunded supplemental pension plans. The transitional obligation and actuarial gains or losses are being amortized over the average remaining service period of active members, or over the life expectancy of inactive members, expected to receive benefits under these plans. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2010

The costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus as described in Note 14(d).

3. FINANCIAL INSTRUMENTS

Currency Risk:
The OSC's exposure to currency risk is minimal as only a small number of transactions are in currencies other than Canadian dollars.

Interest Rate Risk:
The OSC's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. Cash balances earn interest at a rate of 1.75% below the prime rate (average for the year was 0.51%) and the Reserve fund earned interest at an average rate of 1.11%.

A 25 basis point change in the interest rate would impact the OSC's operating surplus as follows:

	Impact on Operating Surplus	
	25 basis point increase in rates	25 basis point decrease in rates
Cash balance	$ 83,178	$ (83,178)
Reserve Fund balance	51,613	(51,613)
	$ 134,791	$ (134,791)

Credit Risk:
The OSC is exposed to minimal credit risk related to Cash, Funds held pursuant to designated settlements and orders, Funds in trust, Reserve fund assets and accounts receivable.

The OSC's Cash, Funds held pursuant to designated settlements and orders, and Funds in trust are held in a Schedule 1 bank and Reserve fund assets are invested with the Ontario Financing Authority, an agency of the Government of Ontario. Together, these two counterparties hold approximately 95% of the OSC's financial assets; however, given the nature of these counterparties, it is management's opinion that exposure to concentration of credit risk is minimal.

The OSC's accounts receivable balance consists of a large number of debtors with individually immaterial outstanding balances. Therefore, the OSC's exposure to concentration of credit risk is minimal. The OSC maintains an allowance for doubtful accounts. Therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. Collection efforts continue for accounts receivable balances, including those that are captured in the allowance for doubtful accounts.

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2010

The aging of accounts receivable from outstanding invoices issued is as follows:

	2010	2009
Current	$ 578,632	$ 726,709
Past due 31 to 60 days	296,124	298,119
Past due 61 to 90 days	69,940	124,106
Past due greater than 90 days	897,413	1,173,306
	$ 1,842,109	$ 2,322,240

Reconciliation of allowance for credit losses:

	2010	2009
Opening balance	$ 817,366	$ 779,357
Current year provision	19,869	53,624
Write-off during the year	(41,155)	(15,615)
Closing balance	$ 796,080	$ 817,366

The accounts receivable balance of $1,046,029 is the sum of the total receivable of $1,842,109 less the allowance for doubtful accounts of $796,080.

Liquidity Risk:
The OSC's exposure to liquidity risk is minimal as the OSC has a sufficient cash balance and reserve funds to settle all current liabilities. As at March 31, 2010, the OSC had a cash balance of $35,592,848 to settle current liabilities of $11,794,169.

4. CAPITAL DISCLOSURE

The OSC has established a $20,000,000 reserve fund as described in Note 7(a), which it considers as capital. The primary objective of maintaining this capital is to fund OSC's operations in the event of revenue shortfalls or unanticipated expenditures.

The OSC maintains an investment policy whereby reserve funds are restricted to direct and guaranteed obligations of Canada and its provinces to protect the principal.

The OSC is not subject to any externally imposed capital requirements.

5. FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are to be set aside and allocated to such third parties as the OSC may determine. The balance includes a settlement for $1,900,000, the allocation of which is subject to the approval of the responsible Minister as required under the provision of the *Securities Act* in effect at the time the settlement was approved. The accumulated funds are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.75%. A fair and appropriate use for these funds will be determined in accordance with applicable laws, court orders and in the public interest.

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2010

As at March 31, 2010, the accumulated balance is determined as follows:

	2010	2009
Opening balance	$ 17,180,263	$ 4,882,802
Settlements and Orders	29,842,804	13,964,725
Interest	125,771	137,736
Payments		
Investor Education Fund (Note 15(b)(i))	(3,370,000)	(1,750,000)
Others	(283,000)	(55,000)
Closing balance	$43,495,838	$ 17,180,263
Represented by:		
Cash	$ 43,392,254	$ 17,085,046
Receivables	103,584	95,217
	$ 43,495,838	$ 17,180,263

6. FUNDS IN TRUST

The OSC is in receipt of payments from the operator of the System for Electronic Data Analysis and Retrieval “(SEDAR)”, the National Registration Database “(NRD)”, and the System for Electronic Disclosure by Insiders “(SEDI)” representing the accumulated surplus from the operations of SEDAR, NRD, and SEDI. The total accumulated funds as at March 31, 2010 were $49,135,268 (2009- $35,187,761), representing total payments received to date of $46,907,190 (2009 - $33,080,929) and interest earned to date of $2,310,262 (2009 - $2,106,832), less payments issued to date totalling $82,184. These funds are held in trust by the OSC in accordance with agreements amongst the OSC, the Alberta Securities Commission, the British Columbia Securities Commission, and L’Autorité des marchés financiers. In the case of NRD, the Investment Industry Regulatory Organization of Canada is also a party to the agreement. These funds shall be used to offset any shortfall in revenues from the systems, to develop or enhance the systems and to reduce fees charged to users of the systems. These funds are held in segregated bank accounts and earn interest at the monthly average bank prime rate less 1.75%.

The CSA is proceeding with plans to redevelop these systems in a multi-year phased approach. Funding for this redevelopment program will come from accumulated surplus amounts. As at March 31, 2010, payments related to the redevelopment of SEDAR totalled $82,184. The CSA has also entered into a contract, totalling $750,000, for the provision of professional services to design an Enterprise Architecture for the three national electronic filing systems.

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2010

7. RESERVE FUND ASSETS

a) As part of the approval of its self-funded status, the OSC was allowed to establish a $20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures.

b) The May 2, 2000 Budget proposed that the OSC and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors. As part of this initiative, the OSC received approval in 2002 from the Ministry of Finance to retain an additional $12.0 million, which could only be used toward implementation costs of the proposed merger, subject to appropriate terms and conditions agreed with the Ministry of Finance.

As the merger has not proceeded, during the year the OSC remitted the $12.0 million to the Ministry of Finance.

c) The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the OSC. The accumulated funds, at March 31, 2010, have been invested in either one-year or six-month Government of Ontario treasury bills with the Ontario Financing Authority.

8. PREMISES AND EQUIPMENT

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Office furniture	$ 4,084,489	$ 3,429,971	$ 654,518	$ 910,889
Office equipment	581,182	518,361	62,821	114,080
Computer hardware and related applications	14,640,137	12,559,572	2,080,565	2,010,332
Computer hardware and related applications held under capital leases	592,465	437,455	155,010	322,421
Leasehold improvements	9,809,765	7,411,425	2,398,340	3,327,343
	$ 29,708,038	$ 24,356,784	$ 5,351,254	$ 6,685,065

During the year, premises and equipment were acquired at an aggregate cost of $1,372,927 (2009 - $5,296,606), none of which were acquired by means of capital leases (2009 - $309,518).

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2010

9. PENSION PLANS

a) All eligible OSC employees and members must participate in the Ontario Public Service Pension Plan. The OSC's contribution to the Public Service Pension Plan for the year ended March 31, 2010 was $3,713,737 (2009 - $3,455,650), which is included in salaries and benefits. The Province of Ontario is the sole sponsor of the Public Service Pension Plan. As the sponsor is 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 OSC.

b) The OSC also has unfunded supplemental pension plans for the OSC's current and former Chairs and Vice-Chairs. They had an accrued benefit obligation (ABO) of $1,782,872 at March 31, 2010 (2009 - $1,415,148) and an accrued benefit liability (ABL) of $1,747,190 (2009 - $1,646,568). The difference between the ABO and the ABL represents the unamortized net actuarial loss of $35,682 (2009 – gain of $231,420). The OSC's expense related to the supplemental pension plans for the year was $197,519 (2009 - $192,858) and is included in salaries and benefits. Benefits totalling $96,897 were paid during the year (2009- $95,328). The average remaining service lifetime of the active members covered by these plans ranges from 1.0 to 2.89 years at March 31, 2009 (2008 – 2.0 to 3.89 years); the 2009 figures were used for amortization purposes in fiscal 2010. The average life expectancy of the non-active members ranges from 15.90 to 32.35 years at March 31, 2009 (2008 – 16.29 to 33.07 years). The significant actuarial assumptions adopted at March 31, 2010 include a discount rate of 5.25% (2009 – 6.5%) on the ABO, 6.5% (2009 – 5.9%) on the benefit cost and a rate of compensation increase ranging from 2.0% to 2.1%, as applicable (2009 – 2.0% to 2.1%).

10. FEES

The OSC's fee structure is designed to generate fees that recover the OSC's cost of providing services to market participants. The fee structure is based on the concept of "participation fees" and "activity fees". Participation fees are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities and are intended to serve as a proxy for the market participant's use of the Ontario capital markets. Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Any general operating surpluses generated are normally returned to market participants by way of fees that are lower than otherwise required to recover costs, or direct refunds. The forecasted General Operating Surplus at March 31, 2010 was used to establish revised participation fees which are effective April 5, 2010.

Details of fees received for the year ended March 31, 2010 are as follows:

	2010	2009
Participation Fees	$ 49,068,114	$ 54,831,014
Activity Fees	9,828,324	9,048,275
Late Filing Fees	2,031,892	2,555,940
Total	$ 60,928,330	$ 66,435,229

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2010

11. COMMITMENTS AND CONTINGENCIES

a) The OSC has committed to paying 45.1% of annual shortfalls resulting from the operations of SEDAR, should they occur and accumulated surplus is unavailable. SEDAR is an electronic filing and payment system jointly used by the members of the Canadian Securities Administrators (CSA) for the transmission, receipt, acceptance, review and dissemination of documents filed in an electronic format. The system is operated by an external agency on behalf of the CSA under an agreement signed on August 1, 2004. The Alberta Securities Commission, the British Columbia Securities Commission and L'Autorité des marchés financiers have also committed to paying specified percentages of any annual SEDAR deficit.

   In the current year, there were no SEDAR deficits. As described in Note 6, the OSC is holding funds in trust that may be used to offset shortfalls in revenue in SEDAR, SEDI, and NRD. As at March 31, 2010, $22,394,935 (2009 - $19,296,255) of the total funds held in trust are available for SEDAR.

b) The OSC is involved in various legal actions arising from the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time; however, management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on the OSC's financial position. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

12. RECOVERIES OF ENFORCEMENT COSTS

In 2010, the OSC recorded $870,397 (2009 - $2,831,170) in recoveries of enforcement costs of which $741,198 (2009 - $2,429,899) was for internal resources and $129,199 (2009 – $401,271) was for external resources.

13. LEASE COMMITMENTS

a) Operating Leases

The OSC has entered into operating lease agreements for equipment and office space and is committed to operating lease payments as follows:

2011	-	$ 6,071,915
2012	-	$ 6,040,742
2013	-	$ 2,521,331
2014	-	$ 3,800

There are currently no lease commitments beyond 2014.

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2010

b) Capital Leases

The OSC has entered into capital lease agreements for computer hardware and related applications. Leases that substantially transfer all of the benefits and risks of ownership of property to the OSC, or otherwise meet the criteria for capitalizing a lease under Canadian generally accepted accounting principles, are accounted for as capital leases. An asset is recorded at the time the capital lease is entered into, together with its related obligation to reflect its purchase and financing. The total interest expense recorded on the lease obligations for the year ended March 31, 2010 is $17,764 (2009 - $11,854). The following is a schedule of future minimum lease payments for the capital leases, which expire on or before August 30, 2012:

Year Ending March 31,	
2011	115,225
2012	88,796
2013	1,769
Total minimum lease payments	205,790
Less: Amount representing interest at 6%	9,369
Balance of the obligation	$ 196,421

The total obligation under capital leases of $196,421 consists of a current portion of $107,899 and a non-current portion of $88,522.

14. TRANSACTIONS WITH THE PROVINCE OF ONTARIO

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

a) The *Securities Act* states that when ordered to do so by the responsible Minister, the OSC shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in Note 10 and the OSC's practice of setting fees periodically, the OSC is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the OSC are subject to appropriate terms and conditions to be agreed with the Ministry.

b) During the year the OSC remitted the $12.0 million to the Ministry of Finance, representing the amount that was retained for the proposed merger with the Financial Services Commission of Ontario which has not proceeded.

c) The OSC has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 bank.

d) Costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus.

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2010

15. INVESTOR EDUCATION FUND

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

The Fund is not considered to be a subsidiary of the OSC and therefore has not been consolidated in the OSC's financial statements. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2010 and 2009 and for the two years ended March 31, 2010 are as follows:

INVESTOR EDUCATION FUND

	2010	**2009**
Financial Position		
Total assets	$ 2,498,362	$ 1,840,174
Less: Total liabilities	532,082	200,957
Total net assets	1,966,280	1,639,217
Less: Invested in premises and equipment	249,746	263,235
Available for Fund purposes	$ 1,716,534	$ 1,375,982
Results of Operations		
Total contributions and interest income	$ 3,378,477	$ 1,786,053
Total expenses	3,051,414	2,078,354
Excess/(Deficiency) of revenue over expenses	$ 327,063	$ (292,301)
Cash flows		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	$ 3,370,000	$ 1,750,000
Cash receipts from third parties	202,422	-
Interest income received	8,812	38,862
Cash paid for initiatives and expenses	(2,725,925)	(1,382,056)
Cash paid for premises and equipment	(178,596)	(64,373)
Net increase in cash position	676,713	342,433
Cash position, beginning of period	1,551,860	1,209,427
Cash position, end of period	$ 2,228,573	$ 1,551,860

ONTARIO SECURITIES COMMISSION
Notes to the Financial Statements
March 31, 2010

b) During the year, the OSC entered into transactions with the Fund as follows:

i) The OSC paid $3,370,000 to the Fund (2009 - $1,750,000). These payments were from Funds held pursuant to designated settlements and orders, as described in Note 5.

ii) The OSC has a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

For the period ended March 31, 2010, the OSC incurred costs totalling $703,456 (2009 - $476,919) for services related to the Fund. The total cost of these services has been charged to the Fund and, of this amount, $171,050 is owing to the OSC as of March 31, 2010 (2009 - $108,215).

16. ACCOUNTING PRONOUNCEMENTS

In 2008, the Canadian Accounting Standards Board confirmed that generally accepted accounting principles for publicly accountable enterprises will be international financial reporting standards (IFRS). The first year of implementation is to be the fiscal year commencing on or after January 1, 2011, but comparative figures will be required in the financial statements for the prior fiscal year. In October 2009, the Canadian Institute of Chartered Accountant's (CICA) Public Sector Accounting Board approved an amendment that would require government organizations, such as the Commission, to consider the needs of the users of their financial statements in determining whether standards in the CICA Public Sector Accounting Handbook or IFRS are the most appropriate basis of accounting to adopt. The OSC has chosen to adopt IFRS, and is undertaking an assessment of the impact of the transition to IFRS on the financial statements. In an Addendum to the 2010 Ontario Budget, the Government of Ontario expressed concerns with the range of accounting standards in use across the Ontario public sector and is seeking to clarify its authority to direct the organizations such as the OSC that are included in the Province's consolidated accounts on which accounting policies are to be applied in the preparation of their financial statements. The OSC's changeover plan to transition to IFRS may be affected by the government's plans.

Ontario Tourism Marketing Partnership Corporation

Management Report

The accompanying financial statements are the responsibility of the management of the Ontario Tourism Marketing Partnership Corporation. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting policies. The statements include certain amount based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

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

The financial statements have been audited by BDO Canada LLP, a firm of independent external auditors appointed by the Board of Director, whose report follows.

Marlene Stirrett-Matson
Director, Corporate Services
May 7, 2010

Lidia Maleckyj
Treasurer
May 7, 2010

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Auditors' Report

To the Board of Directors of
Ontario Tourism Marketing Partnership Corporation

We have audited the balance sheet of Ontario Tourism Marketing Partnership Corporation as at March 31, 2010 and the statements of operations and accumulated surplus, statement of fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Mississauga, Ontario
May 7, 2010

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Balance Sheet

March 31	2010 ($ 000)	2009 ($ 000)
ASSETS		
Current		
Cash and cash equivalents	**3,136**	**2,893**
Accounts receivable	**930**	**1,461**
Due from the province	**6,857**	**2,824**
Inventory	**116**	-
Prepaid expenses	**35**	**542**
	11,074	**7,720**
Capital assets (Note 3)	**4,138**	**3,797**
	15,212	**11,517**
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities	**8,397**	**6,084**
Deferred revenue (Note 4)	**1,539**	**568**
	9,936	**6,652**
Fund Balances		
Investment in capital assets	**4,138**	**3,797**
Unrestricted	**1,138**	**1,068**
	5,276	**4,865**
	15,212	**11,517**

Approved on behalf of the Board:

Chair Director

The accompanying notes are an integral part of these financial statements

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Statement of Operations and Accumulated Surplus

For the year ended March 31	2010 ($ 000)	2009 ($ 000)
Revenues		
Province of Ontario Grant (Note 5)	50,798	52,629
Advertising sales	2,189	2,147
Travel Information Centres- Sales and rentals	888	699
Interest income	18	202
Trade promotions	135	571
Government of Canada	100	104
Marketing research and other revenue	171	266
	54,299	56,618
Expenses		
Advertising and marketing	29,062	32,806
Partnerships and sales	2,366	3,166
Travel Information Centres (Note 6)	6,484	6,346
Administration (Note 7)	6,961	6,617
Tourism consumer information services	2,860	3,184
Events marketing program	4,161	2,760
Research	1,017	1,365
Amortization of capital assets	915	465
Board and committee expenses (Note 8)	62	100
	53,888	56,809
Excess (deficiency) of revenues over expenses	411	(191)

The accompanying notes are an integral part of these financial statements

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Statement of Fund Balances

For the year ended March 31, 2010

	Unrestricted	Investment in Capital Asset	2010 Total	2009 Total
Net assets , beginning of the year	**1,068**	**3,797**	**4,865**	5,056
Excess (deficiency) of revenue over expenditures for the year	**1,326**	**(915)**	**411**	(191)
Purchase of capital assets	**(1,256)**	**1,256**	**-**	-
Net assets, end of year	**1,138**	**4,138**	**5,276**	4,865

The accompanying notes are an integral part of these financial statements

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Statement of Cash Flows

For the year ended March 31	2010 ($ 000)	2009 ($ 000)
Cash provided by operating activities		
Excess (deficiency) of revenues over expenses	411	(191)
Add (deduct) non-cash items:		
Amortization of capital assets	915	465
	1,326	274
Change in non-cash working capital	173	(2,521)
	1,499	(2,247)
Cash used in investing and financing activities		
Capital asset additions	(1,256)	(2,664)
Increase (decrease) in cash during the year	243	(4,911)
Cash and cash equivalents, beginning of year	2,893	7,804
Cash and cash equivalents, end of year	3,136	2,893

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The accompanying notes are an integral part of these financial statements

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2010

1. NATURE OF CORPORATION

The Ontario Tourism Marketing Partnership Corporation (OTMPC) was established as a corporation without share capital on November 30, 1998 pursuant to Ontario Regulation 618/98 made under the *Development Corporations Act.* The Regulation was amended by Ontario Regulation 271/04 in September, 2004 to extend the mandate of the Corporation indefinitely. The Corporation commenced active operations on April 1, 1999. The objects of the Ontario Tourism Marketing Partnership Corporation are:

(a) to market Ontario as a travel destination;

(b) to undertake joint marketing initiatives with the tourism industry;

(c) to support and assist the marketing efforts of the tourism industry; and

(d) in co-operation with the tourism industry, the Government of Ontario, other governments and other agencies of governments, to promote Ontario as a travel destination.

The Corporation enters into agreements with private and public sector partners in order to add value to tourism marketing programs. The Corporation tracks the dollar value (leverage, in-kind) of such agreements to demonstrate the impact of the Corporation's investment on the partnered marketing programs. Partner revenues and expenses are not included in the Corporation's financial statements.

The Corporation is a not-for-profit organization, and thus not subject to income tax.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements are the representations of management and are prepared in accordance with Canadian generally accepted accounting principles.

(b) Revenue Recognition

Province of Ontario Grant

The Corporation is funded primarily by the Province of Ontario. Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant is related to a future period, it is deferred and recognized in a subsequent period.

Advertising Sales and Travel Information Centers – Sales and rentals

Revenue from Advertising sales and Travel Information Centers – Sales and rentals is recognized in the period in which the service is provided or the program is run, the amount can be reasonably estimated and collection is reasonably assured.

Interest Income

Interest Income is recognized in the period in which it is earned.

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other

Other revenue items are recognized in the period in which they relate, when the amount can be reasonably estimated and collection is reasonably assured.

(c) Partner Support

The Corporation benefits from services provided by the tourism industry, such as transportation costs (airline and bus tickets), and accommodation and meal costs (discounted or free hotel rooms and restaurant charges). Because of the difficulty of determining their fair value, donated services are not recognized in the financial statements.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of bank balances and term deposits that are readily convertible into cash with original maturity dates of less than ninety days.

(e) Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Inventory is comprised of merchandise available for sale at the Travel Information Centres.

(f) Capital Assets

All capital assets are recorded at cost except for contributed capital assets which are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful life of the asset, with half a year amortization taken in the year of acquisition and disposition. All capital assets are amortized over three to five years.

(g) Funds Invested in Capital Assets

Funds invested in capital assets represents funds provided for the acquisition and financing of capital assets. The financing of funds invested in capital assets is transferred from operations on an annual basis.

(h) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates as additional information becomes available in the future.

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial Instruments

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

The Corporation classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Corporation's accounting policy for each category is as follows:

Loans and receivables

These assets are non-derivative financial assets, recognized at fair value, resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of services to customers (accounts receivable), but also incorporate other types of contractual monetary assets.

Other financial liabilities

Other financial liabilities are recognized at fair value and include trade payables and other short-term monetary liabilities.

(j) Capital Management

The Corporation's capital consists of its accumulated surplus. The Corporation's primary objective of capital management is to ensure that it has sufficient resources to continue to promote tourism in Ontario. The Corporation is not subject to any externally imposed capital requirements.

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2010

3. CAPITAL ASSETS

	2010 ($ 000) Cost	Accumulated Amortization	Net Book Value	2009 ($ 000) Net Book Value
Furniture	333	118	215	276
Leasehold improvements	1,514	454	1,060	1,362
Tourism consumer information system	4,131	1,268	2,863	2,159
	5,978	1,840	4,138	3,797

4. DEFERRED REVENUE

	2010 ($ 000)	2009 ($ 000)
International Indian Film Awards	1,500	-
VANOC Funding	-	450
Advertising programs	39	118
	1,539	568

5. REVENUE: PROVINCE OF ONTARIO

The Corporation received funding from the Province as follows:

	2010 ($ 000)	2009 ($ 000)
Core funding	38,552	39,441
Travel Information Centres	4,331	4,331
VANOC Funding deferred from 08/09	450	
Stratford and Shaw Festival Funding	1,000	
Brand Essence Program	-	8,161
Media Buys	5,857	-
Summer Experience Program	333	286
Northern Ontario Heritage Fund	-	135
Events Marketing	275	275
	50,798	52,629

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2010

6. TRAVEL INFORMATION CENTRES

The expenditures for the Travel Information Centres are as follows:

	2010 ($ 000)	2009 ($ 000)
Salaries and benefits	3,382	3,401
Accommodation	1,886	1,839
Services	498	414
Transportation and communications	160	188
Supplies and equipment	68	113
Merchandise for sale	490	391
	6,484	6,346

The Corporation's contributions related to the PSPF and OPSEU pension funds for the year were $144,596 (2009 - $135,868) and are included in salaries and benefits.

7. ADMINISTRATIVE EXPENSES

Certain costs of administration such as legal and human resources support services, were provided by the Ministry of Tourism without charge. All other administrative expenses are borne by the Corporation and are as follows:

	2010 ($ 000)	2009 ($ 000)
Salaries and benefits	5,767	5,466
Services	983	859
Transportation and communications	157	238
Supplies and equipment	54	54
	6,961	6,617

The Corporation provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are both multi-employer defined benefit pension plans established by the Province. These plans are accounted for as defined contribution plans, as the Corporation has insufficient information to apply defined benefit plan accounting to these pension plans. The Corporation's contributions related to the PSPF and OPSEU Pension Fund for the year were $350,380 (2009 – $306,863) and are included in salaries and benefits.

Costs of post-retirement non-pension employee benefits are paid by the Management Board Secretariat and are not included in administrative expenses.

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2010

8. BOARD AND COMMITTEE EXPENSES

Board and committee members are reimbursed for travel expenses incurred to attend board of directors and related committee meetings. Board and committee members do not receive per diems to attend board and committee meetings

9. SALARY DISCLOSURE

Section 3(5) of the Public Sector Salary Disclosure Act, 1996 required disclosure of Ontario public-sector employees who were paid an annual salary in excess of $100,000. For the Corporation, in the calendar year 2009, this disclosure requirement is as follows:

Name	Position	Salary ($)	Taxable Benefits ($)
Garrett, Robin	President/Chief Administrative Officer	$166,345	$285
Lanyon, Mary-Ann	Vice President, Marketing and Sales	$135,759	$224
Kenny, William	Vice, President, Industry Relations	$135,759	$224
Rowland, Nancy	Director, Corporate Services	$117,850	$187
Rubinstein, Suzanne	Director, Ontario Travel Information Centres	$114,595	$187
Mathias, Raymond	Director, Overseas Marketing	$110,138	$184
Maxwell, Carol	Director, North America Marketing	$109,468	$180
Milner, Christopher	Director, Northern Partnerships	$115,781	$186
Holliday, Julia	Director, Interactive Marketing and Call Centre	$116,091	$186
Nahm, Jane	Manager, Operations	$109,450	$159
Sturrock, Barbara	Manager, Human Resources	$100,635	$160
Ramkissoonsingh, Narvin	Director, Partnerships	$100,407	$170
Waldbrook, Loriann	Manager, Strategic Partnership	$102,836	$170

10. COMMITMENTS

The corporation has various operating leases for its premises and advertising. The minimum annual payments for the next five years are as follows:

	($ 000)
2011	1,034
2012	1,032
2013	1,013
2014	845
2015	546
Thereafter	1,594

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2010

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11. CONTINGENT LIABILITY

The Corporation is involved in a dispute with a former supplier over amounts billed to the Corporation of approximately $1.5 million. Management is vigorously defending its position. The outcome is not determinable. However, being conservative, the Corporation has accrued $220,000 for any potential liability.

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12. COMPARATIVE FIGURES

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

Ontario Trillium Foundation

Management's Responsibility For Financial Information

The accompanying financial statements of the Ontario Trillium Foundation are the responsibility of management and have been prepared in accordance with generally accepted accounting principles.

Management maintains a system of internal controls designed to provide reasonable assurance that financial information is accurate and that assets are protected.

The Board of Directors ensures that management fulfils its responsibilities for financial reporting and internal control. The Finance & Audit Committee and the Board of Directors meet regularly to oversee the financial activities of the foundation, and at least annually to review the audited financial statements and the external auditors' report thereon.

The financial statements have been examined by KPMG LLP, independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report outlines the scope of the auditors' examination and opinion.

L. Robin Cardozo, FCA Chief Executive Officer	A Pashley Anne Pashley Vice-President, Finance and Administration

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AUDITORS' REPORT

To the Board of Directors of Ontario Trillium Foundation

We have audited the statement of financial position of Ontario Trillium Foundation as at March 31, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

April 22, 2010

ONTARIO TRILLIUM FOUNDATION

Statement of Financial Position

March 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Cash	$ 847,635	$ 638,446
Prepaid expenses and other	173,031	145,628
Investments (note 3)	116,942,596	108,899,428
Capital assets (note 4)	693,421	815,592
	$ 118,656,683	$ 110,499,094
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 705,106	$ 699,210
Deferred contributions (note 5(a))	4,096,629	3,192,536
Grants payable (note 5(b))	111,282,906	104,035,306
	116,084,641	107,927,052
Net assets:		
Invested in capital assets	693,421	815,592
Unrestricted	1,878,621	1,756,450
	2,572,042	2,572,042
	$ 118,656,683	$ 110,499,094

See accompanying notes to financial statements.

On behalf of the Board:

Helen Burstyn, Chair

Janet Passmore, Treasurer

ONTARIO TRILLIUM FOUNDATION

Statement of Operations

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Ontario government funding (note 5(a))	$ 119,275,907	$ 111,312,316
Grants rescinded or recovered	1,783,448	1,796,356
Investment income	660,802	4,091,673
	121,720,157	117,200,345
Expenses:		
Program activities:		
Grants pledged (note 5)	108,528,300	104,596,300
Grantmaking expenses (note 5)	11,178,398	10,777,792
Services to the community (note 7)	580,049	428,412
	120,286,747	115,802,504
Support services (note 5)	1,041,395	1,056,153
Amortization	392,015	341,688
	121,720,157	117,200,345
Excess of revenue over expenses	$ –	$ –

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2010, with comparative figures for 2009

	Invested in capital assets	Unrestricted	2010 Total	2009 Total
Net assets, beginning of year	$ 815,592	$ 1,756,450	$ 2,572,042	$ 2,572,042
Excess (deficiency) of revenue over expenses	(392,015)	392,015	–	–
Purchase (disposal) of capital assets	269,844	(269,844)	–	–
Net assets, end of year	$ 693,421	$ 1,878,621	$ 2,572,042	$ 2,572,042

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Statement of Cash Flows

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Amortization of capital assets which does not involve cash	$ 392,015	$ 341,688
Change in non-cash operating items	8,130,186	343,975
	8,522,201	685,663
Investing activities:		
Purchase of investments	(3,153,131,685)	(3,539,937,506)
Disposal of investments	3,145,088,517	3,539,595,907
Purchase of capital assets	(269,844)	(627,090)
	(8,313,012)	(968,689)
Increase (decrease) in cash	209,189	(283,026)
Cash, beginning of year	638,446	921,472
Cash, end of year	$ 847,635	$ 638,446

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements

Year ended March 31, 2010

The Ontario Trillium Foundation (the "Foundation" or "OTF"), an agency of the Ministry of Tourism and Culture (the "Ministry"), is financially supported by the Ontario government. OTF began operations as an arm's-length agency of the Ontario government on August 23, 1982 and was incorporated without share capital under the laws of Ontario under letters patent dated November 17, 1982. OTF's purpose is to build healthy and vibrant communities throughout Ontario, by strengthening the capacity of the voluntary sector through investments in community-based initiatives.

Government funding is subject to Memoranda of Understanding that define how the funds must be invested and distributed.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

(a) Revenue recognition:

OTF follows the deferral method of accounting for contributions, which include government funding. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred.

Investment income is recorded on the accrual basis.

(b) Financial instruments:

Short-term investments, being treasury bills, bankers' acceptances and bonds, are classified as held-for-trading investments. Short-term investments are carried at fair value as determined at the fiscal year end based on market values for the debt securities.

Transaction costs that are directly attributable to the acquisition of investments are not considered significant and are expensed when paid.

Investment purchase and sale transactions are accounted for on the settlement date.

Cash consists of cash on hand and in banks.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

1. **Significant accounting policies (continued):**

Accounts payable and accrued liabilities and grants payable are classified as other financial liabilities and measured at amortized cost.

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 The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, the Foundation has elected not to adopt these standards in its financial statements.

(c) Grants:

Grants are recorded as expenses in the year that the Foundation approves the grant.

(d) Allocation of support services expenses:

The Foundation classifies expenses on the statement of operations by function. The entity allocates certain costs by identifying the appropriate basis of allocating and applying that basis consistently each year. The Foundation allocates its support services expenses proportionately on a per capita basis.

(e) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the following periods:

Furniture and fixtures	5 years
Computer hardware	3 years
Computer software	3 years
Leasehold improvements	Over term of lease

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

1. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Changes in accounting policies:

The CICA has issued revisions to the Section 4400 series of standards which related to not-for-profit organizations.

(a) Amendments to Section 4400, Not for Profit Accounting Standards ("Section 4400"):

Effective April 1, 2009, the Foundation adopted the amendments to CICA Handbook Section 4400. Adoption of these recommendations had no significant impact on the financial statements for the year ended March 31, 2010.

(b) Amendments to Section 1000, Financial Statements Concepts ("Section 1000"):

Effective April 1, 2009, the Foundation adopted the amendments to CICA Handbook Section 1000. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching of revenue and expense items. Adoption of these recommendations had no effect on the financial statements for the year ended March 31, 2010.

(c) Disclosure of Allocated Expenses by Not-for-Profit Organizations:

Effective April 1, 2009, the Foundation adopted CICA Handbook Section 4470, Disclosure of Allocated Expenses by Not-for-Profit Organizations which establishes disclosure standards for entities that choose to classify their expenses by function and allocate expenses from one function to another. The applicable disclosure is included in note 6.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

2. Changes in accounting policies (continued):

The Foundation allocates certain of its support services expenses based on the proportion of the total staff directly involved with grantmaking and services to the community. The following percentages were used to calculate the allocation: grantmaking 72% (2009 - 72%) and services to the community 3% (2009 - 3%). The calculation results in an allocation of $3,052,498 (2009 - $3,067,505) to grantmaking expenses and $113,195 (2009 - $116,487) to services to the community. Support services reported in the statement of operations are $1,041,395 (2009 - $1,056,153).

3. Investments:

Investments, at fair value, are as follows:

	2010	2009
Treasury bills	$ 66,415,789	$ 93,801,557
Bankers' acceptances	15,058,896	15,097,871
Bonds	35,467,911	–
	$ 116,942,596	$ 108,899,428

All investments are in fixed income securities and mature within the next six months (2009 - three months). These investments bear interest from 0.2% to 0.5% (2009 - 0.9% to 1.1%). Investment in bonds includes bonds issued by Canada Housing Trust, provincial government of Ontario and Hydro Quebec.

The Ontario Financing Authority acts as OTF's investment manager under an investment management agreement that adheres to OTF's policies and procedures governing risk and also includes additional risk concern measures.

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate, credit and market risks. OTF has formal policies and procedures in place to address these risks.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

3. Investments (continued):

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by OTF. The Foundation manages this risk by holding debt issued by the Government of Canada and large Canadian banks, and by staggering the terms of the securities held.

Credit risk arises from the non-performance by counterparties to the investments. This risk is minimized by dealing only with creditworthy counterparties.

Market risk arises as a result of trading fixed income securities. Fluctuations in the market expose OTF to a risk of loss. The Foundation mitigates this risk through controls to monitor and limit concentration levels.

4. Capital assets:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and fixtures	$ 803,237	$ 721,006	$ 82,231	$ 114,464
Computer hardware	1,016,898	851,586	165,312	243,580
Computer software	856,029	545,337	310,692	279,995
Leasehold improvements	1,514,411	1,379,225	135,186	177,553
	$ 4,190,575	$ 3,497,154	$ 693,421	$ 815,592

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

5. Deferred contributions and grants payable:

(a) Deferred contributions represent funding received from the Ministry that has not yet been pledged as grants or spent on operations. These funds are restricted until grants are approved by the Board and pledged to third parties or until operating expenditures are made. OTF has controls in place to ensure that the restrictions on grant pledges are met prior to utilization of these funds.

	2010	2009
Deferred contributions, beginning of year	$ 3,192,536	$ 4,344,852
Activities during the year:		
Funding received:		
Ministry of Citizenship & Immigration	180,000	160,000
Ministry of Tourism and Culture	120,000,000	110,000,000
	120,180,000	110,160,000
Investment income recorded as revenue	660,802	4,091,673
Grants pledged	(108,528,300)	(104,596,300)
Grantmaking expenses	(11,178,398)	(10,777,792)
Support services and amortization	(1,433,410)	(1,397,841)
Services to the community	(580,049)	(428,412)
Grants rescinded or recovered	1,783,448	1,796,356
Amounts recognized as Ontario government funding	(119,275,907)	(111,312,316)
Deferred contributions, end of year	$ 4,096,629	$ 3,192,536

(b) Once OTF pledges grants for distribution, the grants are recorded as grants payable. Grants pledged and not yet distributed are payable, subject to the receipt of funds by OTF and to certain performance conditions placed on the recipients. The continuity of grants payable is as follows:

	2010	2009
Grants pledged - Community and Province-wide Grants Programs	$ 108,528,300	$ 104,596,300
Grants rescinded	(1,229,100)	(1,184,600)
Grants paid	(100,051,600)	(102,065,094)
	7,247,600	1,346,606
Grants payable, beginning of year	104,035,306	102,688,700
Grants payable, end of year	$ 111,282,906	$ 104,035,306

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

5. Deferred contributions and grants payable (continued):

Grants are payable to various organizations in the fiscal years ending March 31 as follows:

2011	$ 74,896,706
2012	26,791,400
2013	7,960,000
2014	1,392,300
2015	242,500
	$ 111,282,906

6. Allocation of expenses:

Support services reported in the statement of operations of $1,041,395 (2009 - $1,056,153) are reported after allocation of $3,052,498 (2009 - $3,067,505) to grantmaking expenses and $113,195 (2009 - $116,487) to services to the community.

7. Services to the community:

Services to the community are charitable activities other than grants, such as convening, knowledge sharing and technical assistance to community organizations.

8. Commitments:

Future minimum annual rental payments for premises under operating leases are as follows:

2011	$ 410,000
2012	370,000
2013	337,000
2014	99,000
2015	87,000
2016	7,000
	$ 1,310,000

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

8. Commitments (continued):

In relation to these leases, OTF has agreed to indemnify the Landlord against losses occurring on the lease premises which may arise out of a breach of the lease agreement.

9. Indemnification of officers and directors:

OTF has indemnified its past, present and future directors, officers, employees and volunteers against expenses (including legal expenses), judgements, and any amount actually or reasonably incurred by them in connection with any action, suit or proceeding in which the directors are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of OTF. The nature of the indemnity prevents OTF from reasonably estimating the maximum exposure. OTF has purchased directors' and officers' liability insurance with respect to this indemnification.

10. Financial instruments:

The carrying values of cash, accounts payable and accrued liabilities and grants payable approximate their fair values due to the relatively short periods to maturity of these financial instruments or because they are receivable or payable on demand.

The fair value of investments and related risks are disclosed in note 3.

11. Comparative figures:

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

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Ornge
June 29, 2010

The accompanying consolidated financial statements of Ornge have been prepared in accordance with Canadian generally accepted accounting principles, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates and assumptions based on management's judgment that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to May 14, 2010.

Management is responsible for the fair presentation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles and for the design and implementation of internal control to prevent and detect fraud and error. Management has assessed the risk that the consolidated financial statements may be materially misstated as a result of fraud, and has determined such risk to be low.

The Board of Directors of Ornge is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board generally meets periodically with management to satisfy itself that such responsibilities have been fulfilled.

The consolidated financial statements for the year ended March 31, 2010 have been audited by KPMG LLP ("KPMG"). KPMG's responsibility is to express an opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report dated May 14, 2010 outlines the scope of KPMG's examination and opinion on the consolidated financial statements.

On behalf of management,

Dr. Chris Mazza
President & Chief Executive Officer

Maria Renzella
Executive Vice President, Corporate Services

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
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Toronto ON M2P 2H3
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AUDITORS' REPORT

To the Board of Directors of Ornge

We have audited the consolidated statement of financial position of Ornge as at March 31, 2010 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 Organization as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for March 31, 2009 were reported on by another firm of chartered accountants.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

May 14, 2010

ORNGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of Canadian dollars)
March 31, 2010, with comparative figures for 2009

	2010	2009
ASSETS		
Current		
Cash and cash equivalents	**$ 10,420**	$ 21,411
Short-term investments	**10,772**	7,856
Accounts receivable	**1,673**	2,633
Prepaid expenses and deposits	**75,992**	8,941
Income tax receivable	**66**	-
Derivative financial instrument - short term *(Note 8b, 8g)*	**1,544**	-
	100,467	40,841
Restricted cash and cash equivalents *(Note 3)*	**113,040**	6,334
Other assets	**207**	-
Capital assets *(Note 4)*	**94,594**	52,756
	$ 308,308	$ 99,931
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 18,931**	$ 19,652
Deferred revenue *(Note 5)*	**513**	5,126
Current portion of deferred contribution related to IT licenses	**-**	169
Current portion of deferred contribution related to capital assets *(Note 6)*	**1,533**	1,688
Derivative financial instrument - short term *(Note 8b, 8g)*	**12,125**	-
Loan payable	**-**	50,821
	33,102	77,456
Bond Payable, net of transaction costs *(Note 7)*	**272,536**	-
Derivative financial instrument - long term *(Note 8b, 8g)*	**1,011**	-
Long-term portion of deferred contribution related to capital assets *(Note 6)*	**2,499**	4,575
	309,148	82,031
NET ASSETS		
Invested in capital assets *(Note 9a)*	**(16,195)**	4,153
Internally restricted	**9,928**	6,412
Internally restricted - fuel	**1,000**	2,000
Internally restricted - Foundation	**4,591**	5,581
Unrestricted	**(164)**	(246)
	(840)	17,900
Commitments *(Note 11)*		
Contingency *(Note 12)*		
	$ 308,308	$ 99,931

See accompanying notes to financial statements

On behalf of the Board

Director

Director

ORNGE
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands of Canadian dollars)
Year ended March 31, 2010 with comparative figures for 2009

		2010		2009
Revenues				
Ontario Ministry of Health and Long-Term Care				
Transport medicine program	$	131,082	$	126,650
Specifically funded programs *(Note 10)*		18,233		22,309
Billings for uninsured services		820		680
Interest income		144		823
Other income		234		234
Donation income		436		4
Recognition of deferred contribution related to IT licenses		169		32
Recognition of deferred contribution related to capital assets *(Note 6)*		2,231		979
		153,349		151,711
Expenses				
Carrier and fleet related expenses		70,098		77,211
Salaries, employee benefits and other labour related expenses		44,756		37,864
Supplies and other		8,494		9,144
Facilities and facility related		3,103		1,499
Bad debts		98		207
Amortization of capital assets		6,539		2,394
Specifically funded programs *(Note 10)*		18,233		22,309
		151,321		150,628
Excess of revenue over expenses before undernoted		**2,028**		1,083
Loss on disposal of capital asset		119		605
Capital asset impairment		531		-
Foreign exchange and derivative loss *(Note 8b, 8g)*		16,555		-
Interest expense		3,421		
Internally restricted strategic initiative expenditures		163		423
Excess / (deficiency) of revenue over expenses before income taxes		(18,761)		55
Income tax expense / (recovery)		(21)		44
Excess/ (deficiency) of revenue over expenses	**$**	**(18,740)**	**$**	**11**

See accompanying notes to financial statements

ORNGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
Year ended March 31, 2010 with comparative figures for 2009
(in thousands of dollars)

	Invested in capital assets	Unrestricted	Internally Restricted	Internally Restricted Foundation	Internally Restricted Fuel	**2010**	2009
Net Assets - beginning of year	$ 4,153	$ (246)	$ 6,412	$ 5,581	$ 2,000	**$ 17,900**	$ 17,889
Excess (deficiency) of revenues over expenses	(24,780)	6,237	(163)	(34)	-	**(18,740)**	11
Investment in capital assets *(Note 9b)*	1,890	-	(934)	(956)	-	-	-
Interfund transfer	2,542	(6,155)	4,613	-	(1,000)	-	-
Net Assets - end of period *(Note 9a)*	$ (16,195)	$ (164)	$ 9,928	$ 4,591	$ 1,000	**$ (840)**	$ 17,900

See accompanying notes to financial statements

ORNGE
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands of Canadian dollars)
Year ended March 31, 2010 with comparative figures for 2009

	2010	2009
SOURCES (USES) OF CASH		
Operating activities		
Excess (deficiency) of revenues over expenses	$ (18,740)	$ 11
Items not involving cash		
Amortization - capital assets	6,539	2,394
Amortization - transaction costs	85	-
Recognition of deferred contribution related to IT licenses	(169)	(32)
Recognition of deferred contribution related to capital assets	(2,231)	(979)
Unrealized exchange loss - derivatives	11,592	-
Loss on disposal of capital assets	119	-
Capital asset impairment	531	605
	(2,274)	1,999
Changes in non-cash working capital items		
Accounts receivable	894	(1,685)
Prepaid expenses and deposits	(3,502)	(669)
Accounts payable and accrued liabilities	(721)	9,686
Other assets	(207)	-
Deferred revenue	(4,613)	(9,492)
Cash used in operating activities	(10,423)	(161)
Investing activities		
Purchase of capital assets	(49,542)	(48,594)
Prepaid deposits	(63,549)	(6,665)
Proceeds of disposition	515	-
Purchase of investments	(2,916)	(1,521)
Cash used in investing activities	(115,492)	(56,780)
Financing activities		
Loan Payable	(50,821)	50,821
Proceeds from bond issuance	275,000	-
Transaction costs	(2,549)	-
Deferred contribution related to IT licenses	-	200
Deferred contribution related to capital assets	-	3,807
Cash provided by financing activities	221,630	54,828
Net increase (decrease) in cash	95,715	(2,113)
Cash and cash equivalents, beginning of year	27,745	29,858
Cash and cash equivalents, end of year	$ 123,460	$ 27,745

See accompanying notes to financial statements

ORNGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)
MARCH 31, 2010

These consolidated financial statements include the activities of Ornge, Ornge PEEL Ltd., 4384865 Canada Inc. (operating as Ornge Air), Orngeco, Ornge Foundation, J Smarts and Ornge Issuer Trust. Transactions and balances between the entities have been eliminated in arriving at the consolidated financial statements.

Ornge (the "Organization") leads an integrated family of companies that collaborates to achieve the overall mission and vision of patient care with innovative transport medicine.

Ornge operates from a number of bases across the province. It coordinates all aspects of Ontario's aero medical transport system, the critical care land transport program, and the screening of air and land ambulance transfers between hospitals. Ornge is dedicated to the provision of high quality patient care through innovative transport medicine.

1. Significant Accounting Policies

(a) Basis of presentation

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid securities with maturities of 90 days or less from the date of purchase.

(c)Financial instruments other than investments and derivatives

The Organization has classified each of its financial instruments into the following categories:

Asset/liability	Category	Measurement
Cash and cash equivalents	Held for trading	Fair value
Restricted cash and cash equivalents	Held for trading	Fair value
Accounts Receivable	Loans and receivables	Amortized cost
Non-hedging derivatives	Held for trading	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bond payable	Other liabilities	Amortized cost

Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in the statement of operations.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that Ornge elects to designate on initial recognition as instruments that it will measure at fair value. These are accounted for in the same manner as held for trading assets. Ornge has not designated any non-derivative financial liabilities as held for trading.

Loans and Receivables
Loans and receivables are accounted for at amortized cost using the effective interest method.

Other Liabilities
Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than non-hedging derivative instruments.

Transaction costs
Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to other liabilities and loans and receivables are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

ORNGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)
MARCH 31, 2010

Significant Accounting Policies *(continued)*

(d) Short term investments

Short-term investments consist of fixed income instruments and are classified as held-for-trading and recorded at fair value. Fair values are estimated using quoted market prices. The purchase and sale of investments are accounted for using settlement-date accounting. Transaction costs associated with the acquisition and disposal of short-term investments are expensed in the period incurred.

(e) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, as follows:

Equipment and vehicles	3 - 5 years
Computer equipment and software	3 years
Leasehold improvements	term of the lease
Buildings	10 - 40 years
Aircraft airframes	10 - 20 years
Aircraft engines	10 - 20 years
Avionics	5 - 10 years

Assets under construction are composed of progress payments for assets being built on behalf of the Organization. Amortization is not recorded if construction is not substantially complete and the assets are not ready for their intended use.

(f) Interest capitalized

Interest on funds used to finance the acquisition of aircraft assets and buildings is capitalized for periods preceding the dates that the assets are available for service.

(g) Derivative financial instruments

The Organization has entered into foreign exchange forward contracts and fuel hedging contracts to manage its foreign currency and commodity price exposures. It is not the Organization’s policy to utilize derivative financial instruments for trading or speculative purposes. As such, these derivatives are recognized on the balance sheet at their fair value with changes in the fair value recognized as foreign exchange and derivative loss (gain) in the statement of operations. Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument.

The Organization has elected not to account for certain non-financial contracts as derivatives and also not to account for certain derivative features embedded in non-financial contracts, leases and insurance contracts as embedded derivatives.

(h) Revenue recognition

The Organization follows the deferral method of accounting for contributions. The majority of the Organization's revenues are received from the Government of Ontario under the terms of its service contract with the Organization .
Unrestricted contributions are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.
Externally restricted contributions are recognized as revenue in the period in which the related expenses are incurred.
Billings for uninsured services are recognized as revenue when services are provided to non-insured patients and patients covered by WSIB and amounts can be reasonably estimated.
Interest income on cash balances held in bank and investments in highly liquid securities is recognized on an accrual basis.
Donation income includes unrestricted donations which are recognized as revenue when received.

(i) Translation of foreign currencies

The monetary assets and liabilities of the Organization denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the year. Exchange gains and losses are included in the statement of operations.

ORNGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)
MARCH 31, 2010

Significant Accounting Policies *(continued)*

(j) Employee benefit plans

Certain full-time employees of Ornge are eligible to be members of the Hospitals of Ontario Pension Plan HOOPP ("the Plan") which is a multi-employer defined benefit pension plan. Defined contribution accounting is applied to the Plan, following the standards for multi-employer plans. Pension costs are expensed based on the funding requirements under the Plan (Note 13).

(k) Internally restricted net assets

The Board of Directors of Ornge internally restricts funds to provide for:

i) unforeseen events that could negatively impact the financial viability of the organization;
ii) future strategic initiatives to improve patient care through growth and efficiencies,
iii) reserve for future fuel price increases, and
iv) specified gifts as defined in the Income Tax Act from Ornge to Ornge Foundation to be used in the furtherance of the objects of Ornge Foundation (ie. for the exclusive benefit of Ornge)

All internally restricted funds at March 31, 2010 have been approved by the Board of Directors. The Organization considers its internally restricted net assets to be its capital and has complied with any restrictions relating thereto.

(l) Allocation of expenses

Ornge engages in the Critical Care Land Ambulance program ("CCLA") .The costs of the CCLA program include personnel, premises and other expenses that are directly related to providing this program. The Organization also incurs a number of general support expenses that are common to the administration of the organization and of the CCLA program.

The Organization allocates certain of its general support expenses by identifying the appropriate basis of allocation for each component expense and applies that basis consistently each year.

2. Changes in accounting policies

Adoption of accounting policies

Section 1535 - Capital Disclosures

In December 2007, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1535 "Capital Disclosures". On April 1, 2009, Ornge adopted the requirements of this section. The adoption of this new standard has not resulted in any change in how the Organization accounts for its transactions, but does require additional disclosure, which are presented in Note 1(k).

Section 4400 - Financial Statements by Not-For-Profit Organizations

In September 2008, the CICA issued amendments to several of the existing sections in the 4400 series – Financial Statements by Not-For-Profit Organizations. On April 1, 2009, Ornge adopted the requirements of this section. The adoption of these new standards has not resulted in any change in how the Organization accounts for its transactions, but does require additional disclosure, which are presented in Note 10.

Section 1000 - Financial statement concepts

Effective April 1, 2009, Ornge adopted the amendments to CICA Handbook Section 1000. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching of revenue and expense items. Adoption of these recommendations had no effect on the financial statements for the year ended March 31, 2010.

Section 3862 – Financial Instruments – Disclosures, Section 3863 – Financial Instruments – Presentation

The Organization has adopted CICA 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 Handbook Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, Ornge has elected not to adopt these standards in its financial statements.

ORNGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)
MARCH 31, 2010

3. Restricted cash and cash equivalents

Restricted cash is made up of the following:

	March 31, 2010	March 31, 2009	**Restricted for**
Held in Ornge Issuer Trust	$ 107,680	$ -	acquisition of fixed wing and rotary wing aircraft and related infrastructure and for general corporate purposes
Held in Ornge Foundation	5,360	6,334	purchase of capital assets as defined by the specified gift per the donation agreement between Ornge and Ornge Foundation
	$ 113,040	$ 6,334	

4. Capital assets

The net book value of capital assets as at March 31, 2010 is as follows:

	Cost	Accumulated Amortization	**March 31, 2010 Net Carrying Amount**	March 31, 2009 Net Carrying Amount
Equipment and vehicles	$ 8,764	$ 3,023	**$ 5,741**	$ 6,477
Computer equipment and software	4,139	1,635	**2,504**	1,649
Leasehold improvements	1,020	281	**739**	1,552
Land	3,243	-	**3,243**	-
Buildings	18,210	526	**17,684**	3,102
Aircraft airframe	44,788	2,013	**42,775**	21,320
Aircraft engine	12,912	498	**12,414**	4,916
Avionics	1,754	131	**1,623**	678
Assets under construction	7,871	-	**7,871**	13,062
	$ 102,701	$ 8,107	**$ 94,594**	$ 52,756

5. Deferred revenue

Deferred revenue consists of externally restricted funds received for various purposes. Deferred revenue will be recognized in the statement of operations when the applicable expenditures are incurred. Deferred revenue also includes amounts received that are restricted for the purchase of capital, for which the related asset has not been purchased. These amounts are recorded as Deferred contribution related to capital assets when spent.

	March 31, 2010	March 31, 2009
Balance, beginning of the year	**$ 5,126**	$ 14,618
Contributions	**13,836**	17,005
Expenditures	**(18,449)**	(26,497)
Balance, end of year	**$ 513**	$ 5,126

ORNGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)
MARCH 31, 2010

6. Deferred contribution related to capital assets

Deferred contributions related to equipment and leaseholds represent the unamortized amount of contributions received for the purchase of equipment and leaseholds. Contributions are amortized over the life of the related asset. The changes in the deferred contribution of equipment and leaseholds balance as at March 31, 2010 are as follows:

	March 31, 2010	March 31, 2009
Deferred contribution related to capital assets, beginning of the year	**$ 6,263**	$ 3,435
Add contribution received for purchase of capital assets	**-**	3,807
Less: amortization of deferred contribution related to capital assets	**(2,231)**	(979)
	4,032	6,263
Less: current portion of deferred contribution related to capital assets	**(1,533)**	(1,688)
Long term portion of deferred contribution related to capital assets, end of year	**$ 2,499**	$ 4,575

7. Bond payable

On June 11, 2009, the Organization issued Series A unsecured debenture ("Debenture") in the amount of $275 million to finance the acquisition of certain fixed wing and rotary wing aircraft and related infrastructure, and for general corporate purposes. The Debenture bears an interest rate of 5.727% per annum, calculated annually and payable semi-annually. Until June 11, 2012, the Organization shall pay only interest (and no principal) on the outstanding Debenture. From December 11, 2012 until maturity, the Organization shall pay interest and principal. The maturity of the Debenture is June 11, 2034.

In 2009, the transaction costs related to the Debenture totaled $2.5 million, which included professional fees. These costs were recorded against the Debenture amount and are being amortized over the life of the Debenture using the effective interest rate method

Principal payments required in each of the next five years and thereafter are as follows:

2011	$ -
2012	-
2013	3,197
2014	6,671
2015	7,058
Thereafter	258,075

The fair market value of the Debenture as at March 31, 2010 is $101.90 (excluding accrued interest of $1.73). The yield on a similar private placement would be 5.535%. Given that there is no active secondary market for this issue, the price quoted represents the theoretical trade level of the Debenture.

ORNGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)
MARCH 31, 2010

8. Financial instruments

(a) Fair value

The carrying amount of Ornge's financial instruments, consisting of cash and cash equivalents, short term investments, restricted cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, approximate their fair values due to their short-term nature.

The fair value of the derivative financial instruments represents the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The Organization determines the fair value of its derivative financial instruments based on the estimated current market rates available in the active market to which the Organization has immediate access adjusted for its credit risk.

The fair value of the bond payable is as disclosed in Note 7.

(b) Foreign currency risk

In order to limit the effect of foreign currency fluctuations on its expenditures and cash flows, the Organization enters into certain derivative financial instruments. Management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to manage existing or anticipated risks, commitments or obligations based on its past experience.

The Organization is exposed to currency risk as a significant volume of its purchase transactions are denominated in U.S. dollars. Unfavourable changes in the applicable exchange rate may impact earnings and accounts payable and accrued liabilities. In fiscal 2010, the Organization has entered into foreign exchange forward contracts solely to manage the payment structure relating to the acquisition of fixed wing and rotary wing aircraft and related infrastructure, which is financed by the Debenture.

At March 31, 2010, Ornge had the following amount denominated in a foreign currency:

Accounts payable and accrued liabilities	USD $	659

(c) Market risk

In the normal course of business, the Organization has market exposure, consisting primarily of the risk of changes in certain foreign exchange and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

(d) Counterparty risk

Ornge is exposed to the risk that the parties with which it enters into agreements could be unable to fulfill their commitments. Counterparty risks include the risk relating to the settlement risk on derivative financial instruments and the credit risk related to cash and cash equivalents. Ornge minimizes its exposure to the risk related to cash and cash equivalents and derivative financial instruments by investing solely in products that are highly liquid and by entering into agreements solely with large financial institutions with suitable credit ratings.

(e) Liquidity risk

Ornge is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. Management is in charge of ensuring sound management of available cash resources, financing and compliance with deadlines. With management's oversight, Ornge monitors its cash resources based on financial forecasts and anticipated cash flows.

(f) Capital risk management

Ornge maintains a capital level that enables it to meet several objectives, namely:
- Longevity of its capital to support continued operations and growth of its operations; and
- Meeting financial covenants under the Debenture agreement.

Ornge makes adjustments to its capital structure based on changes in economic conditions and the Organization's planned requirements. The Organization has the ability to adjust its capital structure by issuing debt, selling assets or debt, and making adjustments to its capital expenditures program.

ORNGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)
MARCH 31, 2010

(g) Commodity risk

Ornge requires significant quantities of fuel for its aircraft operations. As a result, Ornge is exposed to commodity price risks associated with the variations in the market price for petroleum products. The price of fuel is sensitive to, among other things, the price of crude oil, refining costs, and the costs of delivering the fuel. In order to limit the effect of these risks, the Organization has entered into fuel hedging contracts throughout the year.

9. Investment in capital assets

(a) As at March 31, 2010, the net assets invested in capital assets is made up of:

	March 31, 2010	March 31, 2009
Capital assets	**$ 94,594**	$ 52,756
Add: proceeds from sale of capital asset	**515**	-
Interfund transfer	**2,542**	-
Less: deferred capital contributions	**(4,032)**	(6,263)
Debt payable related to purchased assets	**(82,238)**	(42,340)
Foreign exchange loss	**(16,401)**	-
Capitalized interest	**(7,754)**	-
Interest expenses	**(3,421)**	-
Ending balance	**$ (16,195)**	$ 4,153

(b) Net change in investment in capital assets is calculated as follows:

	March 31, 2010	March 31, 2009
Purchase of capital assets	**$ 49,542**	$ 48,594
Financed by debt	**(47,652)**	(42,340)
Capital contributions spent	**-**	(3,807)
Ending balance	**$ 1,890**	$ 2,447

10. Allocation of expenses

The Critical Care Land Ambulance ("CCLA") program expenses consist of direct program costs and allocation of general support expenses as follows:

	March 31, 2010	March 31, 2009
Specifically funded program expenses - CCLA		
Direct program costs	**$ 15,203**	$ 18,623
Allocation of administrative costs	**3,030**	3,686
	$ 18,233	$ 22,309

11. Commitments

Operating commitments

The Organization has entered into various operating commitments to receive services in support of Ornge's transport medicine operation. Ornge is also committed under long-term leases for premises in various bases across Ontario.

Within one year	$ 42,676
Between one and five years	35,073
Over five years	2,895

Capital commitments

The Organization has entered into various capital commitments on fixed-wing and rotary-wing aircraft, and on related equipment. These commitments have durations within one to five years and are denominated in U.S. dollars.

Within one year	$ 91,945
Between one and five years	8,217

ORNGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)
MARCH 31, 2010

12. Contingency

Ornge is subject to various claims and potential claims. Where the potential liability is determinable, management believes that the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to the claims will be recorded in the year during which the liability is determined or adjustments to the amount recorded are determined to be required.

Ornge participates in the Healthcare Insurance Reciprocal of Canada ["HIROC"]. HIROC is a pooling of the public liability insurance risks of it members. All members of the HIROC pool pay annual premiums which are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the years in which they were members. As at March 31, 2010, no claims are expected to be in excess of Ornge's policy limits and there have been no material changes to claims previously reported.

13. Pension plan

Certain full-time employees of the Organization are eligible to be members of HOOPP ["the Plan"], which is a multi-employer, defined benefit, final average earnings, contributory pension. The Plan is accounted for as a defined contribution plan following the standards for multi-employer plans. The Organization's contribution to the Plan during the year amounted to $2,519 (2009 - $2,175) and is included in salaries and employee benefits expense and specifically funded programs in the statement of operations. Contributions made by the Organization are in accordance with the funding requirements under the Plan. The most recent actuarial valuation as at December 31, 2009 indicates the Plan is fully funded.

14. Comparative figures

Comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Royal Ontario Museum

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Toronto, Ontario
Canada M5S 2C6

416.586.8000
www.rom.on.ca

ROYAL ONTARIO MUSEUM

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Royal Ontario Museum for the year ending March 31, 2010 are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Royal Ontario Museum are described in the Summary of Significant Accounting Policies contained in Note 1 in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been prepared within reasonable limits of materiality and in light of information available up to May 14, 2010.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by KPMG LLP, a firm of independent external auditors appointed by the Board of Trustees. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditor's Report, which follows, outlines the scope of their examination and their opinion.

On behalf of Royal Ontario Museum management,

W.T. Graesser,
Vice-President & C.F.O.

Glenn Dobbin,
Deputy Director & C.O.O

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
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Toronto ON M2P 2H3
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AUDITORS' REPORT

To the Trustees of The Royal Ontario Museum

We have audited the balance sheet of The Royal Ontario Museum as at March 31, 2010 and the statements of operations, changes in net surplus (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Museum as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for March 31, 2009 were reported on by another firm of chartered accountants.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

May 14, 2010

THE ROYAL ONTARIO MUSEUM

(Incorporated by Special Act of the Ontario Legislature as a corporation without share capital)

Balance Sheet
(In thousands of dollars)

March 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Due from The Royal Ontario Museum Foundation (note 10)	$ 1,870	$ 1,840
Other accounts receivable	1,170	1,597
Deferred exhibition costs and other assets	1,099	1,404
Investments (note 2)	341	329
	4,480	5,170
Deferred pension costs (note 11)	14,651	10,927
Capital assets (note 3)	265,540	272,002
	$ 284,671	$ 288,099
Liabilities and Net Surplus (Deficit)		
Current liabilities:		
Bank indebtedness (note 12(a))	$ 3,904	$ 4,412
Accounts payable and accrued liabilities	6,340	7,802
Current portion of long-term debt (note 12(b))	13,000	8,000
Deferred contributions (note 5)	3,325	2,532
Deferred revenue	2,520	2,478
	29,089	25,224
Long-term debt (note 12(b))	35,840	48,840
Deferred capital contributions (note 6)	213,063	217,475
Accrued non-pension liability (note 11)	4,287	3,899
Net surplus (deficit):		
Operating surplus (deficit)	1,194	(8,542)
Board-restricted	1,198	1,203
	2,392	(7,339)
Commitments (note 15)		
	$ 284,671	$ 288,099

See accompanying notes to financial statements.

On behalf of the Board:

Trustee

Trustee

THE ROYAL ONTARIO MUSEUM

Statement of Operations
(In thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Revenue (Schedule):		
Grants (note 7)	$ 40,460	$ 26,016
Admission fees	10,835	8,715
Museum programs	2,582	2,060
Ancillary services	10,419	10,978
Donations - gifts-in-kind (note 4)	1,460	898
Amortization of deferred capital contributions (note 6)	11,180	10,731
Other	1,424	4,220
	78,360	63,618
Expenses (Schedule and note 8):		
Curatorial and collections management	11,559	11,212
Building, security and visitor services	12,041	10,828
Ancillary services	6,538	7,446
General and administration	4,297	2,952
Education and public programs	3,337	3,232
Library and information services	2,624	2,477
Exhibition and gallery development	3,431	3,000
Marketing and public relations	5,281	4,941
Temporary exhibitions	3,015	5,724
Artifacts and specimens (note 4):		
Gifts-in-kind	1,460	898
Purchased	1,192	1,949
Interest	2,158	–
Amortization of capital assets (note 3)	11,686	11,096
Other	10	3,192
	68,629	68,947
Excess (deficiency) of revenue over expenses	$ 9,731	$ (5,329)

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM

Statement of Changes in Net Surplus (Deficit)
(In thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

			2010	2009
	Operating surplus (deficit)	Board-restricted	Total	Total
Balance, beginning of year	$ (8,542)	$ 1,203	$ (7,339)	$ (2,010)
Excess (deficiency) of revenue over expenses	9,731	–	9,731	(5,329)
Interfund transfer	5	(5)	–	–
Balance, end of year	$ 1,194	$ 1,198	$ 2,392	$ (7,339)

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	$ 9,731	$ (5,329)
Items not involving cash:		
Amortization of capital assets	11,686	11,096
Deferred capital contributions	(11,180)	(10,731)
Deferred capital contributions recognized as other revenue	–	(3,180)
Change in non-cash operating working capital:		
Due from the Province of Ontario	–	12,100
Due from The Royal Ontario Museum Foundation	(30)	(21)
Other accounts receivable	427	2,348
Deferred exhibition costs and other assets	305	927
Accounts payable and accrued liabilities	(1,462)	(1,558)
Deferred contributions	793	(39)
Deferred revenue	42	(52)
Change in deferred pension costs	(3,724)	(4,037)
Change in accrued non-pension liability	388	501
	6,976	2,025
Financing activities:		
Repayments of long-term debt	(8,000)	(31,800)
Increase (decrease) in bank indebtedness	(508)	1,924
Contributions received for capital asset purchases	6,768	44,461
	(1,740)	14,585
Investing activities:		
Purchase of capital assets	(5,224)	(16,610)
Change in investments	(12)	–
	(5,236)	(16,610)
Increase in cash, being cash, end of year	$ –	$ –

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2010

The Royal Ontario Museum (the "Museum") is an operating enterprise agency of the Province of Ontario incorporated without share capital by Special Act of the Ontario Legislature. The Museum is Canada's largest museum and one of the few of its kind to explore and exhibit both the art and archaeology of human cultures and the history of the natural world. The Museum's mission is to inspire wonder and build understanding of human cultures and the natural world.

The Museum is registered as a charitable organization under the Income Tax Act (Canada) (the "Act") and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes. In order to maintain its status as a registered charity under the Act, the Museum must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

1. **Significant accounting policies:**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

(a) Change in accounting policies:

In September 2008, the Accounting Standards Board amended Section 1000, Financial Statement Concepts, to clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the balance sheet. The amendments are effective for financial statements for fiscal years beginning on or after October 1, 2008. The implementation of this change had no impact on the financial statements.

(b) Revenue recognition:

The Museum follows the deferral method of accounting for contributions, which include donations and government grants. Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Donations are recorded on a cash basis since pledges are not legally enforceable claims.

Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the period in which the related expenses are recognized. Externally restricted contributions for the purchase of land are credited directly to net assets. Externally restricted contributions for the purchase of other capital assets are deferred and amortized over the life of the related capital asset.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

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1. **Significant accounting policies (continued):**

Membership fees are deferred and recognized as revenue over the term covered by the fees.

Admission fees, museum programs and ancillary services revenue are recorded as revenue when the services have been provided or the goods delivered.

(c) Financial instruments other than investments:

The Museum designates its cash (bank indebtedness) as held-for-trading, which is measured at fair value. Accounts receivable, accrued interest receivable and contributions receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

The Museum has adopted The Canadian Institute of Chartered Accountants' ("CICA") 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, the Museum has elected not to adopt these standards in its financial statements.

(d) Investments:

Investments are classified as held-for-trading and are stated at market value. 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 statement of operations.

Market values of investments are determined as follows:

Fixed income securities, pooled funds and equities are valued at year-end quoted market prices where available. Where quoted prices are not available, estimated market values are calculated using comparable securities.

Transaction costs that are directly attributable to the acquisition of investments are not considered significant and are expensed when paid.

Investment purchase and sale transactions are accounted for on the settlement date.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

1. **Significant accounting policies (continued):**

(e) Derivative financial instruments:

Derivative financial instruments are contracts that provide the opportunity to exchange cash flows that are determined by applying certain rates, indices or changes to notional contract amounts. From time to time, the Museum uses interest rate swaps to manage exposure to fluctuations in interest rates and forward foreign currency contracts to manage exposure to fluctuations in exchange rates. These instruments are used for hedging an on-balance sheet liability or a future contractual obligation.

Derivative financial instruments are carried at fair value. As at March 31, 2010, there are no derivative instruments held by the Museum.

(f) Deferred exhibition costs:

Costs of exhibitions are deferred until the exhibitions are opened to the public and then are expensed over the period of the exhibitions to which they relate.

(g) Employee benefit plans:

The Museum accrues its obligations under employee benefit plans and related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at a market-related value, whereby investment gains and losses are recognized over a three-year period. Employee future benefit liabilities are discounted using current interest rates on long-term bonds.

The transitional asset (obligation), the impact of any change to plan provisions and the excess of the cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligations and the market-related value of the plan assets are amortized over the average remaining service period of active employees.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

1. **Significant accounting policies (continued):**

(h) Capital assets:

Land is carried at cost. Purchased capital assets are stated at acquisition cost. Contributed capital assets are recorded at fair market value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Building	40 years
Galleries	20 years
Building improvements	5 - 10 years
Furniture and equipment	3 - 10 years

Construction in progress comprises direct construction and other costs associated with the Renaissance ROM Project ("ROM Project"), including capitalized interest. Interest costs are capitalized during the construction period. No amortization is recorded until construction is substantially complete and the assets are ready for use.

(i) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at year end. Revenue and expenses are translated at exchange rates in effect on the date of the transaction.

(j) Artifacts and specimens:

The value of artifacts and specimens has been excluded from the balance sheet. Gifted artifacts and specimens are recorded as revenue at values based on appraisals by independent appraisers. The acquisition of both gifted and purchased artifacts and specimens is expensed.

(k) Contributed materials and services:

Because of the difficulty in determining their fair market value, contributed materials and services are not recognized in the financial statements.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

1. **Significant accounting policies (continued):**

(l) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual amounts could differ from those estimates.

2. **Investments:**

	2010		2009	
	Fair value	Cost	Fair value	Cost
Fixed income	$ 341	$ 339	$ 329	$ 332

The fixed income securities bear a yield to maturity at 0.25% (2009 - 0.42%) with a maturity date of June 2010 (2009 - June 2009).

Investment risk management:

Risk management relates to understanding and active management of risk associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate risk and market risk.

(a) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by the Museum. The Museum manages this risk by holding primarily debt issued by the financial institutions.

(b) Market risk:

Market risk arises as a result of trading in equity securities, pooled funds and fixed income securities. Fluctuations in the market expose the Museum to a risk of loss. The Museum mitigates this risk through controls to monitor and limit concentration levels.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

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3. Capital assets:

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Land	$ 931	$ –	$ 931	$ 931
Building	41,476	29,776	11,700	12,740
Galleries	17,630	14,417	3,213	3,966
Building improvements	21,303	14,033	7,270	6,427
ROM Project:				
Building	204,754	15,742	189,012	194,468
Galleries	58,184	7,604	50,580	51,331
Furniture and equipment	6,094	3,260	2,834	2,139
	$ 350,372	$ 84,832	$ 265,540	$ 272,002

On March 27, 2009, the Museum completed the sale of the planetarium land located at 90 Queen's Park for net proceeds of $21,800. The Museum's credit agreement (note 12(b)) requires the proceeds from the sale of this property be used to fund the ROM Project and repay the credit facility. Accordingly, the net proceeds on sale of this property have been recorded as deferred capital contributions (note 6).

4. Artifacts and specimens:

As at March 31, 2010, the collection consisted of approximately 6,000,000 artifacts and specimens. During the year ended March 31, 2010, the Museum accessioned approximately 132 (2009 - 1,000) objects to its collections through the donation and purchase of artifacts.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

5. **Deferred contributions:**

Deferred contributions represent grants from federal and provincial governments, corporations and The Royal Ontario Museum Foundation (the "Foundation") (note 10) related primarily to this year's operations.

6. **Deferred capital contributions:**

Deferred capital contributions represent the unamortized amount of grants and donations received for the purchase of capital assets and gallery development. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The changes in the deferred capital contributions balance are as follows:

	2010	2009
Balance, beginning of year	$ 217,475	$ 186,925
Amortization of deferred capital contributions	(11,180)	(10,731)
Deferred capital contributions recognized as other revenue	–	(3,180)
Contributions received for capital asset purchases (notes 3 and 10)	6,768	44,461
Balance, end of year	$ 213,063	$ 217,475

As at March 31, 2010, deferred capital contributions of $1,854 (2009 - $1,926) were received but not spent.

7. **Grants:**

	2010	2009
Province of Ontario:		
Operating	$ 27,518	$ 18,518
Deficit reduction grant	7,200	–
Other	658	661
Government of Canada	144	91
Foundation (note 10)	4,940	6,746
	$ 40,460	$ 26,016

Included in grants is a one-time grant of $7,200 announced in April 2009 from the Province of Ontario.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

8. **Expenses:**

Expenses are reported in the statements of operations and changes in net surplus (deficit) on a functional basis. Expenses by category are as follows:

	2010	2009
Salaries and benefits (note 9)	$ 31,347	$ 28,805
Purchased goods and services	24,136	28,148
Amortization of capital assets	11,686	11,096
Gifts-in-kind	1,460	898
	$ 68,629	$ 68,947

9. **Museum volunteers:**

During a typical year, the Museum volunteers contribute approximately 68,000 hours in support of the Museum. Their activities include guided gallery tours and a variety of programs that enrich the visitor's experience at the Museum; offering local travel packages that promote the Museum's image in Ontario and throughout the world; and many other support activities. The Museum estimates that the value of these services is in excess of $2,000 annually.

In fiscal 2008 and 2009, the Museum volunteers contributed $30 to the Foundation for acquisition and research projects at the Museum.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

10. The Royal Ontario Museum Foundation:

The Foundation was incorporated on July 1, 1992 to coordinate all private-sector fundraising activities undertaken on behalf of the Museum and its affiliates. The objective of the Foundation is to raise funds available for enhancing exhibitions and public programs, research, acquisitions and capital projects.

The accounts of the Foundation are presented separately and are not consolidated in these financial statements. The fund balances of the Foundation as at its most recent fiscal year end are as follows:

	June 30, 2009	June 30, 2008
Unrestricted funds	$ (2,349)	$ (498)
Restricted funds available currently	6,482	12,185
Endowment funds:		
Externally restricted	15,518	9,391
Internally restricted	10,557	12,013
	$ 30,208	$ 33,091

During the year ended March 31, 2010, the Foundation granted $11,090 (2009 - $24,897) to the Museum. Of this amount, $2,943 (2009 - $4,912) was recorded as deferred contributions (note 5), $5,598 (2009 - $17,492) was recorded as an increase in deferred capital contributions in connection with the ROM Project (note 5), $292 (2009 - $679) was recorded as deferred capital contributions for other assets (note 6) and $2,257 (2009 - $1,814) was recorded as deferred contributions for purposes other than the ROM Project.

Amounts from the Foundation are non-interest bearing and have no fixed terms of repayment.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

11. **Employee benefits:**

The Museum has a defined benefit registered pension plan and other defined benefit plans that provide pension and other post-employment benefits to most of its employees. Pension benefits are based upon members' length of service and final average salaries. Benefits are indexed to the extent that the annual inflation rate exceeds 4% in any individual year. Post-employment benefits include post-retirement health care and dental benefits. Details of these plans are summarized below.

The expense for the Museum's benefit plans is as follows:

	2010	2009
Defined benefit plan	$ 585	$ 963
Other post-employment benefits	498	606
	$ 1,083	$ 1,569

The assets and liabilities of the plans are measured at the balance sheet date. The balance sheet identifies separately the amounts recognized in respect of the pension and non-pension plans. Information about the Museum's pension and non-pension plans as at March 31 is as follows:

	Pension		Non-pension	
	2010	2009	2010	2009
Accrued liabilities	$ 70,563	$ 53,680	$ 5,533	$ 3,891
Market value of plan assets	63,599	52,971	–	–
Funded status - plan deficit	(6,964)	(709)	(5,533)	(3,891)
Unamortized transitional obligation (asset)	(2,205)	(2,783)	1,152	1,337
Unrecognized past service costs	(2,653)	(2,149)	–	–
Unrecognized net actuarial loss (gain)	26,473	16,568	94	(1,345)
Balance sheet asset (liability)	$ 14,651	$ 10,927	$ (4,287)	$ (3,899)

Included in the balance sheet asset related to the defined benefit pension plan is a liability of $1,058 (2009 - $1,031) in connection with supplementary pension arrangements.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

11. **Employee benefits (continued):**

The significant actuarial assumptions adopted to determine the expense for the Museum's benefit plans, as at March 31, are as follows:

	Pension		Non-pension	
	2010	2009	2010	2009
Discount rate	8.00%	6.00%	8.25%	6.00%
Expected long-term rate of return on plan assets	7.00%	7.00%	–	–
Rate of compensation increase	3.00%	3.50%	–	–

The significant actuarial assumptions adopted in measuring the accrued benefit assets and liabilities of the Museum's benefit plans, as at March 31, are as follows:

	Pension		Non-pension	
	2010	2009	2010	2009
Discount rate	6.00%	8.00%	6.00%	8.25%
Rate of compensation increase	3.00%	3.00%	–	–

For measurement purposes as at March 31, 2010, an initial weighted average increase in the cost of health care and dental benefits of 6.55% in 2010 was assumed decreasing to a 4.50% annual rate of increase after 2024.

The Museum's pension plan assets are invested in pooled funds that provide the following asset mix:

	2010	2009
Cash and cash equivalents	1%	1%
Bonds	48%	51%
Canadian equities	29%	25%
U.S. equities	8%	8%
Other foreign equities	14%	15%
	100%	100%

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

11. Employee benefits (continued):

Other information about the Museum's pension and non-pension plans is as follows:

	Pension		Non-pension	
	2010	2009	2010	2009
Employee contributions	$ 924	$ 912	$ –	$ –
Employer contributions	4,310	5,000	110	105
Benefits paid	2,645	2,728	110	105

The Museum's 2009 and 2010 contributions to date were made in accordance with the January 1, 2009 actuarial valuation report for funding purposes. The Museum's final 2010 contributions will be made in accordance with the January 1, 2010 actuarial valuation for funding purposes that must be filed by September 30, 2010. The measurement date for the benefit plans was March 31, 2010.

In addition, the Museum contributes to a multi-employer pension plan. The Museum's contributions to the multi-employer pension plan for the year ended March 31, 2010 were $45 (2009 - $53).

12. Credit facilities:

(a) The Museum has a credit agreement with the Museum's banker, as follows:

(i) $5,000 demand revolving operating credit facility with interest payable at prime less 10 basis points (2010 - 2.15%; 2009 - 2.40%). As at March 31, 2010, the outstanding balance in connection with this facility was $3,904 (2009 - $4,412).

(ii) $2,000 letter of credit facility. As at March 31, 2010 and 2009, the Museum did not have any outstanding letters of credit.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

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12. **Credit facilities (continued):**

(b) On October 5, 2007, the Museum signed a new credit agreement with the Ontario Financing Authority ("OFA"). The credit agreement comprises a non-revolving fixed rate facility of $40,000 and a non-revolving floating rate facility with a maximum limit of $51,000. The fixed rate facility is divided into four tranches, bearing interest rates of between 5.04% and 5.12%. The floating rate facility bears interest at a rate equal to the 30-day Ontario treasury bill rate plus 40 basis points. As at March 31, 2010, there was $40,000 outstanding with respect to the fixed rate facility and $8,840 outstanding with respect to the floating rate facility.

On March 31, 2009, the Museum amended its credit agreement with the OFA, which required that the proceeds from the sale of the planetarium land located at 90 Queen's Park be restricted towards the repayment of the credit facility. $15,000 of the proceeds was applied to the repayment of the facility on March 31, 2009 with the remaining $6,800 to be applied on March 31, 2010.

The minimum payments are due as follows:

2011	$ 13,000
2012	10,700
2013	1,500
2014	12,500
2015	11,140
	$ 48,840

The credit agreement includes covenants which must be met by the Museum and, if not met, the OFA has the right to demand repayment of the outstanding balance.

The fair value of the fixed rate debt was $42,403 (2009 - $43,454). Fair value has been calculated using the future cash flows of the actual outstanding debt instrument, discounted at current market rates available to the Museum.

The fair value of the floating rate facility is comparable to the carrying value as the rate fluctuates with current market rates.

(c) As collateral for the credit facilities, the Foundation has provided an undertaking to transfer all of its unrestricted donations to the Museum under certain circumstances. In addition, the Museum has assigned all payments from the Foundation restricted for the financing of the ROM Project.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2010

13. Financial instruments:

The carrying values of cash, bank indebtedness, due from The Royal Ontario Museum Foundation, accounts receivable and accounts payable and accrued liabilities approximate fair values due to the immediate or short-term nature of these financial instruments.

The fair value of investments is disclosed in note 2.

The fair value of long-term debt is disclosed in note 12.

The Museum is exposed to foreign exchange risk with respect to contractual obligations payable in foreign currency and to interest rate risk with respect to its long-term debt. The Museum is also exposed to interest rate risk relating to its floating rate credit facility. The Museum enters into derivative financial instruments to manage its risk exposure.

The Museum is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect counterparties to fail to meet their obligations given their high credit rating.

14. Capital management:

In managing capital, the Museum focuses on liquid resources available for operations. The Museum's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The Museum has available lines of credit that are used when sufficient cash flow is not available from operations to cover operating and capital expenditures (note 12). The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2010, the Museum has met its objective of having sufficient liquid resources to meet its current obligations.

15. Commitments:

The Museum's future commitments under long-term leases for equipment are as follows:

2011	$ 209
2012	209
2013	209
2014	52

THE ROYAL ONTARIO MUSEUM

Schedule of Operations by Fund
(In thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	Operating Fund	Restricted Fund	Capital Fund	2010 Total	2009 Total
Revenue:					
Grants	$ 37,729	$ 2,731	$ –	$ 40,460	$ 26,016
Admission fees	10,836	–	–	10,836	8,715
Museum programs	2,582	–	–	2,582	2,060
Ancillary services	10,419	–	–	10,419	10,978
Donations - gifts-in-kind	–	1,460	–	1,460	898
Amortization of deferred capital contributions	–	–	11,180	11,180	10,731
Other	823	601	–	1,424	4,220
	62,388	4,792	11,180	78,360	63,618
Expenses:					
Curatorial and collections management	9,868	1,691	–	11,559	11,212
Building, security and visitor services	11,866	175	–	12,041	10,828
Ancillary services	6,538	–	–	6,538	7,446
General and administration	4,297	–	–	4,297	2,952
Education and public programs	3,068	269	–	3,337	3,232
Library and information services	2,624	–	–	2,624	2,477
Exhibition and gallery development	3,431	–	–	3,431	3,000
Marketing and public relations	5,281	–	–	5,281	4,941
Temporary exhibitions	3,015	–	–	3,015	5,724
Artifacts and specimens:					
Gifts-in-kind	–	1,460	–	1,460	898
Purchased	–	1,192	–	1,192	1,949
Interest	2,158	–	–	2,158	–
Amortization of capital assets	506	–	11,180	11,686	11,096
Other	–	10	–	10	3,192
	52,652	4,797	11,180	68,629	68,947
Excess (deficiency) of revenue over expenses	9,736	(5)	–	9,731	(5,329)
Net surplus (deficit), beginning of year	(9,473)	1,203	931	(7,339)	(2,010)
Net surplus (deficit), end of year	$ 263	$ 1,198	$ 931	$ 2,392	$ (7,339)

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

Toronto Area Transit Operating Authority

Auditor's Report

To the Toronto Area Transit Operating Authority
and to the Minister of Transportation

I have audited the balance sheet of the Toronto Area Transit Operating Authority as at March 31, 2010 and the statement of operations and investment in capital assets 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, 2010 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Toronto, Ontario
June 16, 2010

Toronto Area Transit Operating Authority

Balance Sheet
March 31, 2010

	2010 ($ 000)	2009 ($ 000)
ASSETS		
Capital Assets (Note 3)	—	74,479
	—	74,479
EQUITY		
Investment in Capital Assets (Note 4)	—	74,479
	—	74,479

See accompanying notes to financial statements.

Approved by:

Chair

Board Member

Toronto Area Transit Operating Authority

Statement of Operations and Investment in Capital Assets
For the Year Ended March 31, 2010

	2010 ($ 000)	2009 ($ 000)
Revenue	—	—
Expenses		
Amortization of capital assets	15,943	19,213
Loss on Disposal of capital assets	58,536	—
	74,479	19,213
Excess of Expenses over Revenue	(74,479)	(19,213)
Investment in Capital Assets, beginning of year	74,479	93,692
Investment in Capital Assets, end of year	—	74,479

See accompanying notes to financial statements.

Toronto Area Transit Operating Authority

Notes to Financial Statements
March 31, 2010 (dollars in thousands)

1. Nature of the Corporation

The Toronto Area Transit Operating Authority (Authority) was established as a corporation without share capital under the Toronto Area Transit Operating Authority Act (the Act). On August 7, 1999, pursuant to the since repealed Greater Toronto Services Board Act, 1998, the transit business of the Authority was transferred to the Greater Toronto Transit Authority (GTTA), a related party, without compensation. The transfer included all assets and liabilities and employees except for the railway rolling stock and related debt. The debt was fully discharged with a final payment in July 2006. The Greater Toronto Transit Authority is now continued under the name Metrolinx.

In accordance with the Act, the Authority's objects are to exercise its rights and fulfill its obligations in respect of the railway rolling stock and to perform such duties in respect of the rights and obligations as are assigned to it by the Minister of Transportation.

As an agency of the Crown, the Authority is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act of Canada.

2. Accounting Policies

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles as follows:

(A) CAPITAL ASSETS

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

Other railway rolling stock	25 years
Locomotives	20 years

(B) ADMINISTRATIVE EXPENSES

Administrative services are provided by the Ministry of Transportation, a related party, without charge.

Toronto Area Transit Operating Authority

Notes to Financial Statements
March 31, 2010 (dollars in thousands)

3. Capital Assets

The capital assets are comprised of locomotives and other railway rolling stock that were on lease to Metrolinx until ownership was transferred to Metrolinx. Through two separate asset transfers on February 19, 2010 and March 31, 2010, the Authority transferred all of its remaining assets with a book value of $58,536 to Metrolinx for nominal consideration. As both Metrolinx and the Authority are consolidated Agencies of the Crown, these transactions will not result in losses in the Province of Ontario's financial statements.

	2010 ($)			2009 ($)
	Cost	Accumulated Amortization	Net	Net
Other Railway Rolling Stock	—	—	—	69,116
Locomotives	—	—	—	5,363
	—	—	—	74,479

4. Wind-up of the Agency

With the transfer of its assets to Metrolinx, the Toronto Area Transit Operating Authority has fulfilled its purpose and obligations as identified in its enabling legislation. Therefore, the Ministry of Transportation is pursuing a wind-up of the Authority in fiscal 2011.

WATERFRONToronto

Management's Responsibility for the Financial Statements

May 7, 2010

The integrity and objectivity of the accompanying financial statements of the Toronto Waterfront Revitalization Corporation ("the Corporation") is the responsibility of management. These financial statements have been prepared in compliance with legislation and in accordance with Canadian generally accepted accounting principles for not-for-profit organizations established by the Canadian Institute of Chartered Accountants. Significant accounting policies of the Corporation are described in Note 2 to financial statements.

Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded, and reliable financial information is available on a timely basis for the preparation of the financial statements.

Management meets with the external auditors, the Finance, Audit and Risk Management Committee and the Board of Directors to review the financial statements and discuss any significant financial reporting or internal control matters prior to approval of the financial statements.

The financial statements have been audited by Deloitte & Touche LLP, independent external auditors appointed by the Board of Directors. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Corporation's financial statements.

Sohail.

President and CEO

Interim Corporate Controller

Deloitte.

Deloitte & Touche LLP
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Auditors' Report

To the Board of Directors of the
Toronto Waterfront Revitalization Corporation

We have audited the statement of financial position of the Toronto Waterfront Revitalization Corporation as at March 31, 2010 and the statements of financial activities and net assets and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 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
May 7, 2010

Toronto Waterfront Revitalization Corporation

Statement of financial position
as at March 31, 2010

	2010	2009
	$	$
Assets		
Current		
Cash	**85,045,263**	35,028,901
Contributions receivable - Province of Ontario	**-**	5,250,000
GST receivable	**1,119,598**	710,761
Accrued interest and other receivables	**825,846**	108,808
Prepaid expenses and deposits (Note 4)	**8,063,454**	2,637,926
	95,054,161	43,736,396
Restricted cash (Note 5)	**4,731,400**	-
Capital assets (Note 6)	**110,136,630**	100,847,113
Other assets (Note 7)	**3,042,814**	788,774
	212,965,005	145,372,283
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities (Note 8)	**27,299,693**	20,581,678
Deferred contributions and grants (Note 10)	**80,605,161**	28,672,701
Other liabilities - current (Note 9)	**16,091**	16,091
	107,920,945	49,270,470
Accrued benefit liability (Note 11)	**103,001**	100,251
Other liabilities (Note 9)	**1,898,725**	1,558,238
	109,922,671	50,928,959
Net assets (Note 12)	**103,042,334**	94,443,324
	212,965,005	145,372,283

Commitments (Note 13)

Approved by the Board

Director

Director

Toronto Waterfront Revitalization Corporation

Statement of financial activities and net assets
year ended March 31, 2010

	2010	2009
	$	$
Revenue		
Government contributions		
Government of Canada	**107,724,351**	77,411,037
Province of Ontario	**13,840,237**	17,033,911
City of Toronto	**34,373,817**	36,316,810
	155,938,405	130,761,758
Less contributions for land acquisition	**(8,599,010)**	(55,693,827)
Less increase in deferred contributions and grants related to future periods	**(51,932,460)**	4,495,774
Net government contributions	**95,406,935**	79,563,705
Rent	**3,005,599**	1,465,161
Interest and other	**126,642**	686,862
	98,539,176	81,715,728
Expenses		
Construction/implementation	**56,336,602**	29,170,636
Design and contract management	**15,452,952**	27,739,932
Planning and approvals	**6,740,444**	6,614,717
Project management	**5,920,132**	4,507,906
Salaries, fees and benefits	**5,030,392**	4,930,531
Occupancy, IT and office expenses	**4,002,057**	2,419,738
Legal fees	**2,569,393**	4,504,939
Amortization	**1,746,388**	390,060
Audit, finance and other professional fees	**740,816**	1,437,269
	98,539,176	81,715,728
Excess of revenue over expenses	**-**	-
Net assets, beginning of year	**94,443,324**	38,749,497
Add government contributions for land acquisition	**8,599,010**	55,693,827
Net assets, end of year	**103,042,334**	94,443,324

Toronto Waterfront Revitalization Corporation

Statement of cash flows
year ended March 31, 2010

	2010	2009
	$	$
Operating activities		
Excess of revenue over expenses	**-**	-
Amortization which does not involve cash		
Capital assets	**1,746,388**	390,060
	1,746,388	390,060
Changes in non-cash operating items		
Decrease (increase) in contributions receivable	**5,250,000**	(5,250,000)
(Increase) decrease in GST receivable	**(408,837)**	1,199,431
Increase in prepaid expenses and deposits, accrued interest and other receivables, and other assets	**(8,396,606)**	(2,044,746)
Increase in accounts payable and accrued liabilities	**6,697,915**	2,688,478
Increase in other liabilities	**340,487**	14,017
Increase in accrued benefit liability	**2,750**	21,483
Increase (decrease) in deferred contributions and grants	**51,932,460**	(4,495,774)
	57,164,557	(7,477,051)
Investing activities		
Acquisition of capital assets	**(11,015,805)**	(61,081,305)
Increase in restricted cash	**(4,731,400)**	-
	(15,747,205)	(61,081,305)
Financing activities		
Government contributions for non-amortized capital assets	**8,599,010**	55,693,827
Net inflow (outflow) of cash	**50,016,362**	(12,864,530)
Cash, beginning of year	**35,028,901**	47,893,430
Cash, end of year	**85,045,263**	35,028,901

Toronto Waterfront Revitalization Corporation

Notes to the financial statements
March 31, 2010

1. Description of Corporation

The Toronto Waterfront Revitalization Corporation (the “Corporation” or “TWRC”) was initially incorporated on November 1, 2001 under the Ontario Business Corporations Act with the Province of Ontario being its sole shareholder.

Pursuant to the Toronto Waterfront Revitalization Corporation Act, 2002 (the “Act”), the Corporation was continued as a corporation without share capital on May 15, 2003. The Corporation is deemed not to be a Crown Agency within the meaning of the Crown Agency Act.

Under the Act, the Corporation's objects are to:

(a) implement a plan that enhances the economic, social and cultural value of the land in the designated waterfront area and create an accessible and active waterfront for living, working and recreation and to do so in a fiscally and environmentally responsible manner;

(b) ensure that ongoing development in the designated waterfront area can continue in a financially self-sustaining manner;

(c) promote and encourage involvement of the private sector in the development of the designated waterfront area;

(d) encourage public input into the development of the designated waterfront area; and

(e) engage in such other activities as may be prescribed by regulation.

2. Significant accounting policies

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

(b) Revenue recognition

The Corporation follows the deferral method of accounting for contributions from the Governments. Under this method, restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

(c) Financial instruments

The Corporation’s financial assets and financial liabilities are classified and measured as follows:

Asset/liability	Category	Measurement
Cash	Held for trading	Fair value
Contributions receivable	Loans and receivables	Amortized cost
GST receivable	Loans and receivables	Amortized cost
Accrued interest and other receivables	Held for trading	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Other liabilities	Other financial liabilities	Amortized cost

Held for trading items are measured at fair value, with changes in their fair value recognized in the Statement of Financial Activities and Net Assets in the current period. Loans and receivables are measured at amortized cost, using the effective interest method, net of any impairment. Other financial liabilities are measured at amortized cost, using the effective interest method.

The carrying value of cash, contributions receivable, GST receivable, accrued interest and other receivables, accounts payable and accrued liabilities and other liabilities approximate their fair values due to the relatively short term maturity.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements
March 31, 2010

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

Other accounts noted on the Statement of Financial Position, such as prepaid expenses and deposits, capital assets, other assets, deferred contributions and grants, and accrued benefit liability are not financial instruments.

As allowed under Section 3855 “Financial Instruments –Recognition and Measurement”, the Corporation has elected not to account for non-financial contracts as derivatives, and not to account for embedded derivatives in non-financial contracts, leases and insurance contracts as embedded derivatives.

The Corporation has elected to follow the disclosure requirements of Section 3861 “Financial Instruments – Disclosure and Presentation” of the CICA Handbook.

(d) Contributions receivable and deferred contributions

Annual contribution commitments by the Governments under signed Contribution Agreements which have not been received by the Corporation are recorded as contributions receivable when the amount is determinable and the ultimate collection is likely.

Under the Contribution Agreement, contributions from the Governments can only be applied towards payments of Eligible Costs in respect of Project Activities, as defined in the Agreements. Accordingly, all unspent funds are recorded as deferred contributions.

Contributions from the Governments used for the purchase of amortized capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets. Contributions for the purchase of non-amortized capital assets, such as land, are recognized as a direct contribution to net assets.

(e) Payroll costs

Project management expenses include payroll costs for employees whose activities are directly attributed to specific projects. All other employees’ payroll costs are disclosed in “Salaries, fees and benefits” in the Statement of Financial Activities and Net Assets.

(f) Recognition of expenditures incurred by Eligible Recipients

The Corporation has entered into agreements with Eligible Recipients responsible for managing various projects on Toronto's Waterfront. Expenditures related to these projects are recorded in the financial statements of the Corporation on an accrual basis based upon actual funding requests and estimated funding requests submitted by the Eligible Recipients in accordance with approved project work plans. Under the terms of the agreements, the Corporation does not assume ownership or ongoing operational responsibility upon project completion.

(g) Capital assets

Capital assets are recorded at cost less accumulated amortization. With the exception of land which is not amortized, capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements		5 years
Furniture and fixtures		5 years
Computer hardware and software		3 years
Office equipment		5 years
District Energy	– Interim Plant	3 years
	– Energy Transfer Stations	25 years

Construction in progress comprises capital assets under construction, assets not yet placed in service and pre-construction activities related to specific projects expected to be constructed. Betterments, which extend the estimated life of an asset, are capitalized. Repairs and maintenance costs are charged to expense.

Capital costs incurred by the Corporation on assets for which the Corporation does not have legal title are charged to expense.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements
March 31, 2010

2. Significant accounting policies (continued)

(h) Taxes

The Corporation is exempt from income taxes pursuant to paragraph 149(1) (d.3) of the Income Tax Act (Canada) and is eligible to claim a 100% rebate for GST for property and services acquired pursuant to section 123(1)(b) of the Excise Tax Act.

(i) Executive pension plan

The Corporation accrues its obligations under the President's pension plan and the related costs, net of plan assets. The Corporation has adopted the following policies:

- The cost of pension benefits earned is actuarially determined using the projected unit credit method pro-rated on service and management's best estimate of expected plan performance, salary escalation and retirement age of the President.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- Actuarial gains (losses) arise from the difference between the actual long-term rate of return on plan assets for the year or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over 6 years.

(j) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. The items subject to the most significant estimates are accrued liabilities, deferred revenue, and accrued benefit liability and the amortization of capital assets.

3. Change in accounting policies

Adoption of accounting policies

Series of Sections 4400 – Not-for-profit organizations

In September 2008, the Canadian Institute of Chartered Accountants ("CICA") issued amendments to several of the existing sections on accounting, measurement and financial reporting by Not-for-profit organizations contained in the 4400 series of Sections of the CICA Handbook.

Section 1000 – Financial statement concepts

On April 1, 2009, the Corporation adopted the amendments made to Section 1000 "Financial statement concepts". The amended section requires an entity to demonstrate that any expenditure that it wishes to present as an asset meets the conceptual definition of an asset or is permitted to be recorded as an asset under specific CICA Handbook sections.

The adoption of these amendments did not result in any change in how the Corporation accounted for its transactions and balances in its financial statements.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements
March 31, 2010

4. Prepaid expenses and deposits

	2010	2009
	$	$
Construction deposits	**7,840,065**	2,181,199
Prepaid expenses	**165,177**	246,015
Deposits in trust - land	**-**	152,500
Other assets - current portion of environmental liability Insurance (Note 7)	**58,212**	58,212
	8,063,454	2,637,926

The Corporation has provided the City of Toronto and Toronto Hydro with certain construction deposits to guarantee satisfactory performance, completion of work and related obligations required for the construction of municipal and hydro infrastructure by the Corporation. The construction deposits will be released to Waterfront Toronto at the expiration of all performance and guarantee periods.

5. Restricted cash

The Corporation has $4,731,400 (March 31, 2009 - $Nil) in cash which is subject to restrictions that prevent its use for current purposes. This cash balance forms part of a security fund set up with the City of Toronto (the “City”) for a TWRC development initiative. Under the terms of the agreement, TWRC cannot withdraw funds from the security fund without the authorization of the City and the City can only draw on the security fund subject to certain conditions and providing sufficient and appropriate notice to TWRC.

6. Capital assets

			2010	2009
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Land	**103,042,334**	**-**	**103,042,334**	94,443,324
Leasehold improvements	**611,747**	**417,983**	**193,764**	283,193
Furniture and fixtures	**637,698**	**482,256**	**155,442**	200,372
Computer hardware and software	**1,626,117**	**896,799**	**729,318**	406,835
Office equipment	**253,267**	**113,763**	**139,504**	87,820
District Energy				
- Interim Plant	**5,548,078**	**1,257,004**	**4,291,074**	-
- Energy Transfer Stations	**547,349**	**14,289**	**533,060**	-
- Construction in progress	**1,052,134**	**-**	**1,052,134**	5,425,569
	113,318,725	**3,182,094**	**110,136,630**	100,847,113

The Corporation owns land containing environmental contamination. As the Corporation does not have any legal obligation to remediate the lands, no environmental remediation liability has been recognized in these financial statements.

The costs associated with the Corporation’s voluntary environmental remediation, which depends on the ultimate use of the lands, will be recognized in the period incurred.

The Corporation owns buildings on a number of its properties. As none of the buildings are intended for use other than on a short term rental basis and all will ultimately be demolished, they have been recorded at a carrying value of $Nil (March 31, 2009 - $Nil).

Toronto Waterfront Revitalization Corporation
Notes to the financial statements
March 31, 2010

7. Other assets

Included in other assets of $3,101,026 (March 31, 2009 - $846,986) is an advance given to the Toronto and Region Conservation Authority (March 31, 2010 - $2,650,000, March 31, 2009 - $500,000) to be applied to various projects expected to continue until December 2011, long term portion of environmental impairment liability insurance (March 31, 2010 - $230,562, March 31, 2009 - $288,774) paid in advance by the Corporation and the long term portion of rent receivable from tenants (March 31, 2010 - $162,252, March 31, 2009 - $Nil). The Corporation's environmental insurance policy is for three properties with coverage ending December 21, 2012, September 22, 2015, and March 31, 2018, respectively. The total cost is being amortized on a straight line basis over the term of the coverage.

	2010	2009
	$	$
Total other assets	**3,101,026**	846,986
Less current portion (Note 4)	**58,212**	58,212
Long-term portion	**3,042,814**	788,774

8. Accounts payable and accrued liabilities

	2010	2009
	$	$
Accounts payable	**4,898,736**	9,976,384
Accrued liabilities	**18,540,504**	9,745,076
Holdbacks payable	**3,860,453**	860,218
	27,299,693	20,581,678

9. Other liabilities

Other liabilities at March 31, 2010 total $1,914,816 (March 31, 2009 - $1,574,329) and represent a tenants leasehold improvement allowance, future obligations related to business relocation, rents received in advance from tenants and deferred district energy operating revenues for which the Corporation does not yet have the authority to earn and therefore cannot yet recognize as revenue.

	2010	2009
	$	$
Tenant leasehold improvement allowance	**20,105**	36,196
Business relocation future obligations	**1,543,133**	1,538,133
Rent received in advance and deferred revenues	**351,578**	-
Total other liabilities	**1,914,816**	1,574,329
Less current portion	**16,091**	16,091
	1,898,725	1,558,238

Toronto Waterfront Revitalization Corporation

Notes to the financial statements
March 31, 2010

10. Deferred contributions and grants

Deferred contributions and grants represent contributions from the Governments which have not been applied to eligible costs at March 31, 2010, as well as contributions received for the purchase of capital assets.

	2010	2009
	$	$
Expenses of future periods		
Balance, beginning of year	**22,268,912**	31,762,104
Additional contributions received/receivable	**144,922,600**	69,680,453
Less amounts recognized as revenue	**(93,660,547)**	(79,173,645)
Balance, end of year	**73,530,965**	22,268,912
Capital contributions		
Balance, beginning of year	**6,403,789**	1,406,371
Acquisition of capital assets	**11,015,805**	61,081,305
Less direct contribution to net assets	**(8,599,010)**	(55,693,827)
Less amount amortized to revenue	**(1,746,388)**	(390,060)
Balance, end of year (Note12b)	**7,074,196**	6,403,789
	80,605,161	28,672,701

11. Executive pension plan

The Corporation maintains a registered pension plan known as “The Pension Plan for Presidents of TWRC” (the Plan). The Plan is a defined benefit plan and was transferred from the President’s previous employer to the Corporation, pursuant to the President’s employment contract. The Plan was registered in the Corporation’s name April 21, 2003 with no assets or liabilities until January 1, 2005 when a transfer was affected from the President’s previous employer. The Plan provides pension benefits based on length of service and final average earnings.

The Corporation measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial update of the plan was as of March 31, 2010. The last valuation for funding purposes was as January 1, 2009.

A reconciliation of the funded status of the Plan to the amount recorded in the financial statements is as follows:

	2010	2009
	$	$
Accrued benefit obligation	**1,256,275**	1,182,078
Fair value of plan assets	**1,281,481**	1,174,158
Funded status - plan surplus (deficit)	**25,206**	(7,920)
Unamortized net actuarial gain	**(128,207)**	(92,331)
Accrued benefit liability	**(103,001)**	(100,251)

Toronto Waterfront Revitalization Corporation
Notes to the financial statements
March 31, 2010

11. Executive pension plan (continued)

Details of the accrued benefit obligation are as follows:

	2010	2009
	$	$
Accrued benefit obligation, beginning of year	**1,182,078**	1,297,270
Current service cost	**30,595**	36,021
Interest cost on accrued benefit obligation	**72,760**	66,665
Actuarial gain on accrued benefit obligation	**(29,158)**	(217,879)
Accrued benefit obligation, end of year	**1,256,275**	1,182,077

The Plan expense for the year is determined as follows:

	2010	2009
	$	$
Current service cost	**30,595**	36,021
Interest cost on accrued benefit obligation	**72,760**	66,665
Expected return on plan assets	**(71,328)**	(54,764)
Amortization of net actuarial gain	**-**	1,917
Plan expense	**32,027**	49,839

The significant actuarial assumptions adopted in measuring the accrued benefit obligation are as follows:

	2010	2009
	%	%
Discount rate	**6.00**	6.00
Expected long-term rate of return on plan assets	**6.00**	6.00
Rate of salary escalation	**2.50**	2.50

12. Net assets

a) Net assets recorded on the Statement of Financial Position are comprised of the following:

	2010	2009
	$	$
Invested in capital assets (Note 12b)	**103,042,334**	94,443,324
Unrestricted	**-**	-
	103,042,334	94,443,324

Toronto Waterfront Revitalization Corporation

Notes to the financial statements
March 31, 2010

12. Net assets (continued)

b) Invested in capital assets represents the following:

	2010	2009
	$	$
Capital assets	**110,136,630**	100,847,113
Less amount financed by deferred capital contributions (Note 10)	**(7,074,196)**	(6,403,789)
Less amount financed by accounts payable and accrued liabilities	**(20,100)**	-
	103,042,334	94,443,324

13. Commitments

The Corporation is committed to payments under operating leases for equipment and office space through 2013 in the amount of $892,468. Annual payments for the next three fiscal years are as follows:

	$
2011	700,402
2012	187,357
2013	4,709
	892,468

In addition, the Corporation has other commitments of $94,888,639. These commitments comprise contracts directly entered into by the Corporation, purchase and sale agreements, “commitments under Development Agreements,” and/or delivery agreements with Eligible Recipients who are responsible for managing various projects on Toronto’s waterfront, and a commitment to the City of Toronto for road realignment.

14. Capital management

In managing capital, the Corporation focuses on liquid resources available for operations and project implementation. The need for sufficient resources is considered in the preparation of an annual long term expenditure plan (“LTEP”) and in the monitoring of cash flows and actual expenditures compared to the LTEP. In addition, the Corporation has established a target of having three months of project implementation and operating costs held in available liquid assets. As at March 31, 2010, the Corporation has met its objective of having sufficient liquid resources to meet its current obligations.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements
March 31, 2010

15. Guarantees

(a) Under the terms and conditions of the Contribution Agreements, the Corporation provides an indemnity to the City of Toronto, Province of Ontario and Government of Canada and their respective officers, employees and agents, from and against all claims, losses, damages, costs, expenses, actions and other proceedings related to any injury to or death of a person or damage to or loss of property, infringement of rights or any other loss or damages whatsoever arising directly or indirectly from any willful or negligent act, omission or delay on the part of the Corporation, the Corporation's directors, officers, employees, contractors, agents or Third Party Contractors, in carrying out a project or as a result of the project, except to the extent that the injury, loss of damage has been caused by the City of Toronto, Province of Ontario and/or Government of Canada or their respective officers, employees or agents.
The Corporation requires all Eligible Recipients to indemnify the Corporation from and against liability on the same basis outlined above.

The Corporation requires most third party contractors to indemnify each level of government and the Corporation, its officers, employees and agents against all claims, liabilities and demands with respect to any injury to persons (including death), damage to, loss or destruction of property or infringement of rights caused by or arising directly from:

(i) the breach of any term or condition of the contract by the third party contractor or its officers, employees or agents; or
(ii) any omission or any willful or negligent act of the third party contractor or its officers, employees or agents in relation to the applicable project.

(b) Under the Delivery Agreement with each Eligible Recipient respectively, the Corporation provides an indemnity to the Eligible Recipient and its respective officers, employees and agents, from and against any claims with respect to direct loss arising from:

(i) any breach by the Corporation of the Delivery Agreement or documents or certificates given pursuant to the Agreement, or
(ii) any negligent or willful acts or omissions of the Corporation, its officers, directors, employees or agents, in relation to the project.

Management attempts to limit the Corporation's exposure under these indemnifications through the purchase of directors and officers insurance, the allocation of risk to Eligible Recipients and contractors (outlined above) and through enforcing the Corporation's and Eligible Recipients' policies and procedures, as well as intense oversight where appropriate.

(c) The Corporation has entered into three Development Agreements with three third party builders with respect to lands located in the West Don Lands and East Bayfront. Under these agreements, the Corporation has provided the builders certain milestone guarantees based on specific Corporation development obligations. The guarantees primarily relate to schedule delays. The maximum potential future payment related to these guarantees is $7.5 million under one development agreement and although under the other two development agreements the amounts are not determinable, they are limited to the amount up to the respective builder's carrying costs and/or out of pocket expenses incurred on the development. Management attempts to limit the Corporation's potential exposure under these guarantees through appropriate schedule, cost and scope management practices.

GOVERNMENT BUSINESS ENTERPRISES

Algonquin Forestry Authority
Year ended March 31, 2010

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, 2010 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

June 4, 2010
Toronto, ON

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

Algonquin Forestry Authority
Statement of Financial Position
March 31

		2010		2009
Assets				
Current				
Cash and cash equivalents	**$**	**2,505,722**	$	4,787,517
Receivables		**5,988,464**		3,837,663
Inventory		**358,049**		583,801
Prepaids		**5,147**		4,840
		8,857,382		9,213,821
Capital assets (Note 6)		**346,610**		419,194
	$	**9,203,992**	$	9,633,015
Liabilities				
Current				
Payables and accruals	**$**	**1,188,656**	$	1,501,302
Contractors' performance holdbacks		**61,185**		71,677
Due to Consolidated Revenue Fund		**183,452**		174,665
Deferred contributions (Note 7)		**260, 626**		215,098
		1,693,919		1,962,742
Obligation for employee future benefits (Note 8)		**457,148**		456,817
		2,151,067		2,419,559
Net assets				
Invested in capital assets		**346,610**		419,194
Restricted – Forest Renewal Fund (Notes 5 & 14)		**2,500,000**		2,500,000
Unrestricted - General Fund		**4,206,315**		4,294,262
		7,052,925		7,213,456
	$	**9,203,992**	$	9,633,015

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 2010**	Total 2009
Revenue				
Product sales	$ 16,199,305	$ -	**$ 16,199,305**	$ 17,614,870
Forest renewal activity		808,947	**808,947**	771,260
Standing timber sales	3,240	-	**3,240**	76,113
Other (Note 9)	2,060,641	130,694	**2,191,335**	2,391,651
	18,263,186	939,641	**19,202,827**	20,853,894
Expense				
Direct program costs	14,141,153	984,586	**15,125,739**	17,404,661
Crown timber stumpage charges	1,654,067	-	**1,654,067**	1,663,409
Public access road maintenance	266,532	-	**266,532**	305,750
Operations planning	165,286	-	**165,286**	132,162
Wood measurement	60,365	-	**60,365**	60,185
	16,287,403	984,586	**17,271,989**	19,566,167
Operating Income	1,975,783	(44,945)	**1,930,838**	1,287,727
Administrative and other				
Salaries and benefits	1,646,939	197,010	**1,843,949**	1,707,923
Amortization	148,780	36,199	**184,979**	220,820
Office supplies and expenses	109,000	252	**109,252**	96,081
Office rent	39,925	12,000	**51,925**	49,253
Directors' allowances and expenses	37,088	-	**37,088**	56,594
Public relations	24,875	-	**24,875**	28,462
Insurance	15,900	7,425	**23,325**	23,728
Staff travel and training	13,400	1,296	**14,696**	30,375
Consulting, legal and miscellaneous	1,280	-	**1,280**	19,542
	2,037,187	254,182	**2,291,369**	2,232,778
Loss before assessment	(61,404)	(299,127)	**(360,531)**	(945,051)
Recovery of penalties and interest on GST assessment (Note12)	200,000	-	**200,000**	-
Net surplus (loss) for the year	$ 138,596	$ (299,127)	**$ (160,531)**	$ (945,051)

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	**2010** **Total**	2009 Total
Balance, beginning of year	$ 419,194	$ 2,500,000	$ 4,294,262	**$ 7,213,456**	$ 8,158,507
Interfund transfer (Note 14)	-	262,928	(262,928)	**-**	-
Net (loss) surplus for the year	-	(299,127)	138,596	**(160,531)**	(945,051)
Amortization	(184,979)	36,199	148,780	**-**	-
Investment in capital assets	112,395	-	(112,395)	**-**	-
Balance, end of year	$ 346,610	$ 2,500,000	$ 4,206,315	**$ 7,052,925**	$ 7,213,456

See accompanying notes to the financial statements.

Algonquin Forestry Authority
Statement of Cash Flows
Year Ended March 31

	2010	2009
Cash and cash equivalents derived from (applied to)		
Operating		
Net surplus (loss) for the year:		
General Fund	**$ 138,596**	$ (633,229)
Forest Renewal Fund	**(299,127)**	(311,822)
Add (deduct): non-cash items		
Amortization	**184,979**	220,820
Gain on sale of capital assets	**(19,629)**	-
	4,819	(724,231)
Change in non-cash operating working capital	**(2,239,707)**	119,999
	(2,234,888)	(604,232)
Financing		
Obligation for employee future benefits	**331**	(14,531)
Deferred contributions	**45,528**	115,599
	45,859	101,068
Investing		
Disposal of temporary investments	**-**	2,860,365
Acquisition of capital assets	**(112,395)**	(166,042)
Proceeds on sale of capital assets	**19,629**	5,682
	(92,766)	2,700,005
(Decrease) increase in cash and cash equivalents	**(2,281,795)**	2,196,841
Cash and cash equivalents, beginning of year	**4,787,517**	2,590,676
Cash and cash equivalents, end of year	**$ 2,505,722**	$ 4,787,517

See accompanying notes to the financial statements.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2010

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.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2010

2. Significant accounting policies (cont'd)

Use of estimates (cont'd)

Significant accounting estimates 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 surplus (loss).

- 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 surplus (loss).

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, 2010

2. Significant accounting policies (cont'd)

Allocation of expenses

The Authority allocates to the Forest Renewal Fund certain expenses incurred by the General Fund. Allocated costs include a portion of administrative salaries and related benefits for three employees, building and content insurance and office rent. Administrative salaries are allocated based on a percentage of approved budgeted salaries as follows:

Bookkeeper	20%
Supervisor of Information and Communications	10%
G.I.S. Technician	30%

Insurance and office rent are allocated proportionately based on the salaries charged to the Forest Renewal Fund.

3. Application of new accounting standards

Financial statement presentation by not-for-profit organizations

Effective April 1, 2009, the Authority adopted the amendments to CICA Handbook Section 4400, "Financial Statement Presentation by Not-for-Profit Organizations". This standard has been amended to permit a not-for-profit organization to present net assets invested in capital assets as a category of internally restricted net assets and clarification of presentation of revenue and expenses on a gross basis when the entity is acting as the principal in a transaction. The adoption of this standard has not resulted in any changes in the presentation of revenue and expenses and has not resulted in additional disclosures regarding internally restricted net assets.

Capital assets held by not-for-profit organizations

Effective April 1, 2009, the Authority adopted the amendments to CICA Handbook Section 4430 "Capital Assets Held by Not-for-Profit Organizations". This standard has been amended to reflect the changes in Section 4400. The adoption of the amended standard has not resulted in any additional disclosures.

Disclosure of allocated expenses by not-for-profit organizations

Effective April 1, 2009, the Authority adopted CICA Handbook Section 4470 "Disclosure of Allocated Expenses by Not-for-Profit Organizations". This new standard establishes disclosure standards for a not-for-profit organization that classifies its expenses by function and allocates its expenses to a number of functions to which the expenses relate. The adoption of this Section has resulted in expanded disclosures, which are included in Note 2 (accounting policy) and Note 16.

Cash flow statements

Effective April 1, 2009, the Authority adopted the amendments to CICA Handbook Section 1540 "Cash Flow Statements". This standard has been amended to include not-for-profit organizations within the scope of the standard. The adoption of the amended standard has not resulted in any additional disclosures.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2010

4. Future accounting pronouncements

Amendments to financial instruments – recognition and measurement

The CICA amended Section 3855 "Financial instruments – Recognition and Measurement" to clarify the application of the effective interest method after a debt instrument has been impaired. These amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after July 1, 2009. The Authority does not expect the amended standard to have any impact on its financial statements.

5. 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.

6. Capital assets

			2010	2009
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Portable steel structures	$ 440,854	$ 309,985	**$ 130,869**	$ 124,496
Forest renewal assets	362,386	290,093	**72,293**	77,736
Automotive equipment	314,916	254,887	**60,029**	72,804
Bridges and access roads	5,346,800	5,288,530	**58,270**	111,992
Technical equipment	191,163	181,533	**9,630**	11,422
Data processing equipment	149,267	140,454	**8,813**	11,923
Furniture and fixtures	83,358	79,970	**3,388**	4,575
Leasehold improvements	44,805	42,470	**2,335**	2,982
Trailers	13,690	12,707	**983**	1,264
	$ 6,947,239	$ 6,600,629	**$ 346,610**	$ 419,194

7. 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:

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2010

7. Deferred contributions (cont'd)

Public Access Road Maintenance:	2010	2009
Beginning balance	**$ 133,089**	$ 99,499
Add: amount received in the year	**300,080**	339,340
Less: amount spent on road maintenance and related amortization costs in the year	**(266,532)**	(305,750)
Ending balance	**$ 166,637**	$ 133,089
Other Park-related Projects:		
Beginning balance	**$ 82,009**	$ ---
Add: amount received in the year	**57,844**	82,009
Less: amount spent on projects in the year	**(45,864)**	---
Ending balance	**93,989**	82,009
Total	**$ 260,626**	$ 215,098

8. 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 of 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 $179,838 (2009 - $107,954) are included in salaries and benefits in the Statement of Operations.

The Authority also provides termination benefits to qualifying employees. All full-time employees qualify for a severance payment equal to one week of salary for each year of continuous service with the Authority, to a maximum of one half of the employee's annual salary. The total obligation for severance payments vested amounts to $ 457,148 at year-end (2009 - $456,817).

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

9. Road maintenance funding

Included in General Fund Other Revenue is revenue of $ 1.75 million (2009 - $1.96 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 was passed on to the Authority's customers through a rebate allocated on the basis of sales volumes.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2010

10. Remuneration of appointments

Total remuneration of the Board members of the Authority was approximately $ 18,900 during the fiscal year (2009 - $20,400).

11. 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.

12. 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, 2002 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. As a result of previously submitting a Request for Taxpayer Relief to the CRA, subsequent to year-end, the Authority received notification that it qualifies for a reduced penalty and as such, the Authority will receive a refund from CRA. An estimated recovery of $200,000 has been recorded at March 31, 2010.

13. Capital management

The Authority considers cash (and cash equivalents) 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 5) and the Authority has complied with this requirement.

14. 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.

15. Inventory write-down

During the year, the Authority has recorded an inventory write-down of $35,350 (2009 – nil) which is included in direct program costs.

Algonquin Forestry Authority
Notes to the Financial Statements
March 31, 2010

16. Allocated expenses

The following expenses have been allocated to the Forest Renewal Fund:

	2010	2009
Office rent	$ 10,007	$ 11,345
Insurance	2,320	3,080
Administrative salaries and related benefits	42,590	41,552
	$ 54,917	$ 55,977

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, 2010.

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 38, 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 Senior 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	Sandy Struthers
President and Chief Executive Officer	Senior 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 sheets of Hydro One Inc. (the Company) as at December 31, 2009 and December 31, 2008, and the consolidated statements of operations and comprehensive income, retained earnings, accumulated other comprehensive income, and cash flows for the years 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 audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and December 31, 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 11, 2010

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Year ended December 31 (Canadian dollars in millions, except per share amounts)	**2009**	**2008**
Revenues		
Transmission *(Note 15)*	1,147	1,212
Distribution *(Note 15)*	3,534	3,334
Other	63	51
	4,744	4,597
Costs		
Purchased power *(Note 15)*	2,326	2,181
Operation, maintenance and administration *(Note 15)*	1,057	965
Depreciation and amortization *(Note 3)*	537	548
	3,920	3,694
Income before financing charges and provision for payments in lieu of corporate income taxes	824	903
Financing charges *(Note 4)*	308	292
Income before provision for payments in lieu of corporate income taxes	516	611
Provision for payments in lieu of corporate income taxes *(Notes 5 and 15)*	46	113
Net income	470	498
Other comprehensive loss	-	(1)
Comprehensive income	470	497
Basic and fully diluted earnings per common share *(Canadian dollars) (Note 14)*	4,528	4,797

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year ended December 31 (Canadian dollars in millions)	**2009**	**2008**
Retained earnings, January 1	1,497	1,258
Change in accounting policy for the recognition of future income tax assets and liabilities *(Note 2)*	12	-
Net income	470	498
Dividends *(Note 14)*	(188)	(259)
Retained earnings, December 31	1,791	1,497

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

Year ended December 31 (Canadian dollars in millions)	**2009**	**2008**
Accumulated other comprehensive income, January 1	(10)	(9)
Other comprehensive loss	-	(1)
Accumulated other comprehensive income, December 31	(10)	(10)

See accompanying notes to Consolidated Financial Statements.

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HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS

December 31 (Canadian dollars in millions)	**2009**	**2008**
Assets		
Current assets:		
Cash	-	16
Accounts receivable (net of allowance for doubtful accounts - $25 million; 2008 - $23 million) *(Note 15)*	843	754
Regulatory assets *(Note 8)*	72	64
Materials and supplies	21	19
Future income tax assets *(Notes 2 and 5)*	21	2
Other	16	18
	973	873
Fixed assets *(Notes 2 and 6)*:		
Fixed assets in service	18,407	17,334
Less: accumulated depreciation	6,815	6,418
	11,592	10,916
Construction in progress	1,256	912
Future use land, components and spares	150	132
	12,998	11,960
Other long-term assets:		
Deferred pension asset *(Note 12)*	424	441
Regulatory assets *(Notes 2 and 8)*	1,033	291
Goodwill	133	133
Intangible assets (net of accumulated amortization) *(Notes 2 and 7)*	218	162
Future income tax assets *(Notes 2 and 5)*	18	-
Other	13	18
	1,839	1,045
Total assets	15,810	13,878

See accompanying notes to Consolidated Financial Statements.

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HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (continued)

December 31 (Canadian dollars in millions)	**2009**	**2008**
Liabilities		
Current liabilities:		
Bank indebtedness	26	-
Accounts payable and accrued charges *(Notes 13 and 15)*	800	793
Regulatory liabilities *(Notes 2 and 8)*	100	43
Accrued interest	74	64
Short-term notes payable	55	-
Long-term debt payable within one year *(Note 9)*	600	400
	1,655	1,300
Long-term debt *(Note 9)*	6,281	5,733
Other long-term liabilities:		
Employee future benefits other than pension *(Note 12)*	940	908
Regulatory liabilities *(Notes 2 and 8)*	504	564
Future income tax liabilities *(Notes 2 and 5)*	693	-
Environmental liabilities *(Note 13)*	303	237
Long-term accounts payable and other liabilities	16	12
	2,456	1,721
Total liabilities	10,392	8,754
Contingencies and commitments *(Notes 17 and 18)*		
Shareholder's equity *(Note 14)*		
Preferred shares (authorized: unlimited; issued: 12,920,000)	323	323
Common shares (authorized: unlimited; issued: 100,000)	3,314	3,314
Retained earnings	1,791	1,497
Accumulated other comprehensive income	(10)	(10)
Total shareholder's equity	5,418	5,124
Total liabilities and shareholder's equity	15,810	13,878

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:

James Arnett
Chair

Walter Murray
Chair, Audit and Finance Committee

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HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (Canadian dollars in millions)	**2009**	**2008**
Operating activities		
Net income	470	498
Environmental expenditures	(9)	(14)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	487	502
Revenue difference deferral account	-	(73)
Regulatory liability refund account	(24)	30
Smart meters	(16)	1
External revenue variance account	12	-
Revenue recovery account	7	(25)
Other regulatory asset and liability accounts	(13)	6
Future income taxes	16	-
Amortization of debt costs	-	2
	930	927
Changes in non-cash balances related to operations *(Note 16)*	(38)	125
Net cash from operating activities	892	1,052
Financing activities		
Long-term debt issued	1,150	1,050
Long-term debt retired	(400)	(540)
Short-term notes payable	55	-
Dividends paid	(188)	(259)
Other	2	3
Net cash from financing activities	619	254
Investing activities		
Capital expenditures		
Fixed assets	(1,473)	(1,185)
Intangible assets	(93)	(99)
	(1,566)	(1,284)
Other assets	13	6
Net cash used in investing activities	(1,553)	(1,278)
Net change in cash and cash equivalents	(42)	28
Cash and cash equivalents, January 1	16	(12)
Cash and cash equivalents, December 31 *(Note 16)*	(26)	16

See accompanying notes to Consolidated Financial Statements.

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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 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).

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 Ontario Energy Board (OEB).

Transmission

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 revenue difference deferral account (RDDA), the earnings sharing mechanism (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 allowing Hydro One Networks to recover revenues consistent with the OEB-approved 2008 revenue requirement which reflected the full repayment to customers of the amounts recorded in the ESM and the RDDA at the end of 2008.

To achieve the necessary funding in support of required infrastructure, Hydro One Networks filed a transmission rate application for 2009 and 2010 rates in September 2008. The application sought OEB approval for revenue requirement of approximately $1,233 million and $1,341 million, based on a return on equity of 8.53% and 9.35% for 2009 and 2010, respectively. On May 28, 2009, the OEB issued its decision in respect of this application. The decision, which was effective July 1, 2009, resulted in a reduced revenue requirement of $1,180 million and $1,240 million in 2009 and 2010, respectively, primarily due to a lower approved return on equity. The OEB decision disallowed development capital expenditures of $180 million for 2010, but agreed to reconsider the projects if additional evidence was provided. On September 4, 2009, Hydro One Networks filed the additional

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

evidence on two projects amounting to approximately $160 million in capital expenditures. The OEB approved the supplemental evidence for inclusion in Hydro One Networks 2010 rates. This resulted in a revised revenue requirement of $1,257 million for 2010, on the basis of an updated return on equity of 8.39% for 2010.

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.

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%, 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. 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 is being recovered over a 27-month period commencing February 1, 2009 and ending April 30, 2011.

In late 2008, Hydro One Networks filed an incentive regulation application for 2009 rates, with an update filed in January 2009, to reflect the impact of the 2008 distribution rate decision. The application was filed on the basis of the OEB's third generation IRM process which adjusts rates by considering inflation, productivity targets, significant events outside the control of management and a capital adjustment mechanism to recover costs for new incremental capital coming in service beyond a prescribed threshold. On May 13, 2009, the OEB released its decision approving the basic IRM increase and the $1.65 per month per metered customer for smart meters. The revised rates were approved effective May 1, 2009 with an implementation date of June 1, 2009.

On November 1, 2007, Hydro One Brampton filed an application for 2008 rates on the basis of the OEB's second generation IRM policy which incorporates an OEB-approved formula that considers inflation and efficiency targets. On March 19, 2008, the OEB released its decision. The revised rates, including an amount of $0.67 cents per month per metered customer for smart meters, were approved with an implementation date of May 1, 2008.

On November 7, 2008, Hydro One Brampton filed an application on the same basis for 2009 distribution rates. On March 13, 2009, the OEB released it decision and approved the submission on the basis of its second generation IRM policy. The revised rates, including an amount of $1.00 per month per metered customer for smart meters, were approved for implementation effective May 1, 2009.

On August 29, 2008, Hydro One Remote Communities filed a 2009 cost of service rate application proposing an increase of about $10 million over the 2006 approved revenue requirement as a result of increased fuel costs. On April 30, 2009, the OEB issued a decision regarding this rate application approving all work program expenditures effective May 1, 2009.

Regulatory Accounting

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

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

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 8.

Revenue Recognition and Allocation

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

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized as electricity is delivered to customers. The Company estimates the monthly revenue for the period based on wholesale power purchases because customer meters are not generally read at the end of each month. Unbilled revenue included within accounts receivable as at December 31, 2009 amounted to $434 million (2008 - $383 million).

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

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

Corporate Income and Capital Taxes

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

Effective January 1, 2009, the Company adopted amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, *Income Taxes* and CICA Handbook Section 1100, *Generally Accepted Accounting Principles*. These amended sections establish new standards for the recognition, measurement, presentation and disclosure of future income tax assets and liabilities of rate regulated enterprises.

For transactions and events that cause temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, the Company recognized future income tax assets and liabilities, and corresponding regulatory liabilities and assets, as a result of adopting these amended standards on January 1, 2009.

Adjustments to retained earnings were recorded for the cumulative earnings impact of future income tax assets and liabilities as at December 31, 2008 that are excluded from the rate setting process.

Current Income Taxes

The provision for current taxes and the assets and liabilities recognized for the current and prior periods are measured at the amounts receivable or payable from/to the OEFC.

Future Income Taxes

Future income taxes are provided for using the liability method and are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

Future income tax liabilities are generally recognized on all taxable temporary differences and future tax assets are recognized to the extent that it is more likely than not that they be realized from taxable profits available against which deductible temporary differences can be utilized.

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to the statement of operations and comprehensive income.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the "more likely than not" criterion. Previously unrecognized future income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more likely than not of being recovered from future taxable profits.

The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-making process.

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.

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 in perpetuity, no asset retirement obligation exists. If, at some future date, a particular site is shown not to meet the perpetuity assumption, it will be reviewed to determine if an asset retirement obligation exists. If it becomes possible to estimate the fair value cost of disposing of assets that the Company is legally required to remove, a related asset retirement obligation will be recognized at that time.

Transmission

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

Distribution

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

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

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 and Development 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 and intangible assets under development, based on the OEB's approved allowance for funds used during construction (2009 – 5.89%; 2008 – 5.32%).

Depreciation and Amortization

The capital costs of fixed assets and intangible assets, primarily consisting of applications software, 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 and intangible depreciation and amortization rates, as required by the OEB. The last review resulted in changes to rates effective January 1, 2007. A summary of depreciation and amortization rates for the various classes of assets is included below:

	Depreciation and amortization rates (%)	
	Range	Average
Transmission	1% - 3%	2%
Distribution	1% - 13%	2%
Communication	1% - 13%	5%
Administration and service	1% - 20%	7%

The costs of intangible assets are primarily included within the administration and service classification above and these assets are amortized on a straight-line basis. Amortization rates for computer applications software and other assets range from 9% to 11%.

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 or amortization, 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 or amortization expense. Depreciation expense also includes the costs incurred to remove fixed assets.

The estimated service lives of fixed or intangible 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.

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

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

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.

Intangible Assets

Intangible assets represent computer applications software and other assets. These assets are carried at cost net of accumulated amortization. The cost of computer applications is comprised of materials, labour, overheads and the OEB-approved allowance for funds used during construction applicable to development activities within the regulated businesses.

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced CICA Handbook Section 3062, *Goodwill and Other Intangible Assets* and CICA Handbook Section 3450, *Research and Development Costs*. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and other intangible assets.

As a result of adopting this new accounting standard, the Company reclassified computer applications software previously classified as fixed assets and reclassified other assets previously classified as long-term other assets to intangible assets.

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	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 14 Note	Not classified

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

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.

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, and related hedging instrument, are not classified.

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

Effective for the 2009 annual reporting period, the Company adopted amendments to the CICA Handbook Section 3862, *Financial Instruments Disclosure.* This amended section improves financial instrument fair value measurement and liquidity risk management disclosures. The amendments require an entity to classify fair value measurements using a fair value hierarchy in levels ranging from 1 to 3 that reflect the significance of the inputs used in making these measurements. The amendments also provide clarification about the required liquidity risk disclosures. Upon application by the Company, the fair value hierarchy level used in the determination of the fair market value of the long-term debt has been disclosed 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 records a liability for the estimated future expenditures associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyls (PCBs) contaminated mineral oil removed 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 recorded 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

International Financial Reporting Standards (IFRS)

On February 13, 2008 the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian generally accepted accounting principles for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. On October 14, 2009, the Public Sector Accounting Board released a decision summary confirming that government organizations following commercial practices adhere to standards for publicly accountable entities after January 1, 2011. As such, the Company will apply IFRS to its financial statements ending December 31, 2011 with restatement of the amounts recorded on the opening IFRS balance sheet as at January 1, 2010, for comparative purposes.

The Company continues to assess the impact of conversion to IFRS on its results of operations. The International Accounting Standards Board (IASB) issued an exposure draft on rate regulated activities in July, 2009. Responses to the IASB's request for comment varied substantially. As a result, the IASB staff has postponed presenting their analysis of the responses to the IASB until February, 2010. This presentation may include options for the next steps of the rate regulated activities project. It is unclear at this time what the outcome of the Board's deliberations will be and how that will impact the Company's reporting under IFRS. The effect on the Company's future financial position and results of operations are not estimable at this time.

3. DEPRECIATION AND AMORTIZATION

Year ended December 31 (Canadian dollars in millions)	**2009**	**2008**
Depreciation of fixed assets in service	418	404
Amortization of intangible assets	36	14
Fixed asset removal costs	50	46
Amortization of regulatory and other assets	33	84
	537	548

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

4. FINANCING CHARGES

Year ended December 31 (Canadian dollars in millions)	2009	2008
Interest on short-term notes payable	-	2
Interest on long-term debt payable	369	331
Interest accreted on regulatory accounts	1	2
Less: Interest capitalized on construction and development in progress	(58)	(36)
Interest earned on investments	(1)	(7)
Other	(3)	-
	308	292

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. The reconciliation between the statutory and effective tax rates is provided as follows:

(Canadian dollars in millions)	2009	2008
Income before provision for PILs	516	611
Federal and Ontario statutory income tax rate	33.00%	33.50%
Provision for PILs at statutory rate	170	205
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Transmission amounts paid but not recognized for accounting purposes	-	(34)
Capital cost allowance in excess of depreciation and amortization	(74)	(32)
Retail settlement variance accounts	4	15
Pension contributions in excess of pension expense	(15)	(13)
Overheads capitalized for accounting but deducted for tax purposes	(14)	(12)
Interest capitalized for accounting purposes but deducted for tax purposes	(19)	(11)
Distribution amounts paid but not recognized for accounting purposes	-	(8)
Employee future benefits other than pension expense in excess of cash payments	1	6
Environmental expenditures	(3)	(5)
Other	(6)	-
Net temporary differences	(126)	(94)
Net permanent differences	2	2
Total income tax provision for PILs	46	113
Current income tax provision for PILs	30	113
Future income tax provision for PILs	16	-
Total income tax provision for PILs	46	113
Effective income tax rate	8.91%	18.49%

The provision for payments in lieu of current income taxes of $30 million represents the amount payable to the OEFC with respect to current year earnings. There is no outstanding balance due to the OEFC (2008 - $nil).

The provision for payments in lieu of future income taxes of $16 million reflects the increase in the liability for payments in lieu of future income taxes that are not expected to be recovered from the Company's customers through future rates. The increase in the liability for payments in lieu of future income taxes that is expected to be recovered from the Company's customers through future rates has resulted in an increase in regulatory assets.

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

Future Income Tax Assets and Liabilities

Payments in lieu of future income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Company's assets and liabilities. The tax effects of these differences are as follows:

December 31 (Canadian dollars in millions)	**2009**
Future income tax assets	
Capital cost allowance in excess of depreciation and amortization	6
Employee future benefits other than pension expense in excess of cash payments	4
Retail settlement variance accounts	3
Environmental expenditures	3
Other	3
Total future income tax assets	19
Less: current portion	1
	18

December 31 (Canadian dollars in millions)	**2009**
Future income tax liabilities	
Capital cost allowance in excess of depreciation and amortization	(1,019)
Employee future benefits other than pension expense in excess of cash payments	315
Environmental expenditures	82
Transmission and Distribution amounts received but not recognized for accounting purposes	(73)
Goodwill	25
Retail settlement variance accounts	5
Other	(8)
Total future income tax liabilities	(673)
Less: current portion	20
	(693)

As at December 31, 2009, payments in lieu of future income tax liabilities of $461 thousand (2008 - $4 million), based on substantively enacted income tax rates and laws, have not been recorded, as it is more likely than not that the assets will not be realized in the future.

6. FIXED ASSETS

December 31 (Canadian dollars in millions)	Fixed Assets	Accumulated Depreciation	Construction in Progress	Total
2009				
Transmission	9,485	3,455	956	6,986
Distribution	6,773	2,392	220	4,601
Communication	806	376	54	484
Administration and service	1,007	510	26	523
Easements	486	82	-	404
	18,557	6,815	1,256	12,998

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

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	894	426	34	502
Easements	487	77	-	410
	17,466	6,418	912	11,960

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 $55 million in 2009 (2008 - $33 million).

7. INTANGIBLE ASSETS

December 31 (Canadian dollars in millions)	Intangible Assets	Accumulated Amortization	Development in Progress	Total
2009				
Computer applications software	379	166	3	216
Other assets	5	3	-	2
	384	169	3	218
2008				
Computer applications software	270	162	51	159
Other assets	5	2	-	3
	275	164	51	162

Financing costs are capitalized on intangible assets under development, including allowance for funds used during construction on regulated assets and were $3 million in 2009 (2008 - $3 million).

8. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-making process. Hydro One has recorded the following regulatory assets and liabilities:

December 31 (Canadian dollars in millions)	**2009**	**2008**
Regulatory assets:		
Regulatory future income tax asset	683	-
Environmental	327	253
Rural and remote rate protection variance account	24	17
Regulatory asset recovery account II	19	43
Smart meters	19	3
Revenue recovery account	18	25
Other	15	14
Total regulatory assets	1,105	355
Less: current portion	72	64
	1,033	291

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

December 31 (Canadian dollars in millions)	**2009**	**2008**
Regulatory liabilities:		
Deferred pension	424	441
Regulatory liability refund account	49	73
Regulatory future income tax liability	32	-
Retail settlement variance accounts	29	31
Regulatory asset recovery account I	23	19
Export and wheeling fees	15	27
External revenue variance account	12	-
Other	20	16
Total regulatory liabilities	604	607
Less: current portion	100	43
	504	564

Regulatory Assets

Regulatory Future Income Tax Asset and Liability

Future income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-making process. In the absence of rate regulated accounting, the Company's provision for PILs would have been recognized using the liability method and there would be no regulatory accounts set up for taxes to be recovered through future rates. As a result the provision for PILs would have been higher by approximately $127 million (2008 - $79 million) including the impact of a change in substantively enacted tax rates.

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate past environmental contamination (see Note 13). Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2008, this regulatory asset increased by $195 million to reflect the additional liability recorded in respect of the issuance of Environment Canada's final PCB regulations. In 2009, the regulatory asset increased by $30 million to reflect related increases in the Company's PCB liability and by $40 million for an increase in the land assessment and remediation (LAR) liability.

The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred. The OEB has the discretion to examine and assess the prudence and the timing of recovery of all of Hydro One's actual environmental expenditures. In the absence of rate regulated accounting, operation, maintenance and administration expenses would have been higher by $70 million (2008 - $195 million). In addition, amortization expense in 2009 would have been lower by $9 million (2008 - $14 million) and financing charges would have been higher by $13 million (2008 - $7 million).

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, and subsequent OEB utility rate decisions, are tracked by the Company in the RRRP variance account to be disposed of at a later date.

Regulatory Asset Recovery Account II (RARA II) or Rider 2

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

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

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 2009 would have been lower by $23 million (2008 - $23 million). In addition, related financing charges would have remained the same (2008 – higher by $2 million).

Smart Meters

On March 21, 2006, the OEB approved the establishment of regulatory deferral accounts for smart meter-related expenditures and approved a monthly rate adder charge of $0.27 and $0.28 cents per residential metered customer for Hydro One Networks and Hydro One Brampton, respectively. The Company recorded a regulatory asset consisting of the net balance of capital and operating expenditures for smart meters, less recoveries received from the rate adder. Effective May 1, 2007, the OEB increased the monthly adder to $0.93 cents and $0.67 cents per metered customer for Hydro One Networks and Hydro One Brampton, respectively.

On August 8, 2007 the OEB issued its decision allowing certain expenditures incurred by Hydro One Networks and Hydro One Brampton associated with minimum functionality for advanced metering infrastructure to be recovered and allowing certain capital expenditures to be included in rate base. As a result of this decision, the Company discontinued recording its smart meter expenditures as regulatory assets and instead began recording such expenditures as capital expenditures or as operation, maintenance and administration costs as appropriate. This OEB decision also required that revenues for smart meter expenditures not yet reviewed and approved, be recorded based upon a calculated revenue requirement in the same regulatory deferral account as amounts received under the approved smart meter rate adders. As a result, the difference between revenue recorded on this basis and actual recoveries received under existing rate adders are reflected as the carrying value of the regulatory asset account.

On December 18, 2008, as part of the OEB's decision on 2008 distribution rates, the OEB approved the recovery of certain excess functionality expenditures and the under-recovery of smart meter minimum functionality expenditures (revenue requirement net of revenue received from the monthly rate adder). The expenditures related to excess functionality are being recovered through the regulatory liability refund account.

Effective May 1, 2009, the OEB increased the respective monthly rate adders for Hydro One Brampton and Hydro One Networks residential customers to $1.00 and $1.65 per month per metered customer. Hydro One Networks, as part of its application for 2010 and 2011 distribution rates, has requested the approval for the disposition of costs exceeding minimum functionality and the under recovery of smart meter minimum functionality expenditures (revenue requirement net of revenue received from the monthly rate adder) through to December 31, 2008.

Revenue Recovery Account (RRA) or Rider 4

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 were 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 a rate rider, over a period of 27 months commencing February 1, 2009 and ending April 30, 2011.

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 higher by $9 million (2008 – lower by $38 million).

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

Regulatory Liability Refund Account (RLRA) or Rider 3

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 including retail settlement variance amounts, deferred tax changes, OEB costs and smart meters. 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.

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 RSVA accumulated prior to December 31, 2003, inclusive of interest, within the RARA I. The OEB's April 12, 2006 decision allowed for recovery of RSVA 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 RSVA accumulated since May 1, 2006 through to April 30, 2008, inclusive of interest, within the RLRA. Hydro One Networks has accumulated a net liability in its RSVA since May 1, 2008.

Regulatory Asset Recovery Account I (RARA I) or Rider 1

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. In the absence of rate regulated accounting, amortization expense in 2009 would have remained the same (2008 – lower by $5 million).

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 Networks' 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.

External Revenue Variance Account

On May 28, 2009, the OEB issued its decision regarding the 2009 and 2010 rates for the Transmission Business of Hydro One Networks. As part of the decision, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use and external revenue from station maintenance and engineering and construction work. These revenue sources are an offset to the Company's revenue requirement, and as such, the OEB requested the establishment of new variance accounts to capture any difference between the forecasted and actual revenues from these sources of external revenue. The balance reflects the excess of 2009 external revenue compared to the OEB-approved forecast.

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

9. DEBT

December 31 (Canadian dollars in millions)	2009	2008
Long-term debt:		
3.95% notes due 2009	-	400
7.15% debentures due 2010	400	400
3.89% notes due 2010	200	100
4.08% notes due 2011 [1]	250	250
6.40% notes due 2011	250	250
5.77% notes due 2012	600	600
5.00% notes due 2013	600	400
3.13% notes due 2014	250	-
4.64% notes due 2016	450	450
5.18% notes due 2017	600	600
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
6.03% notes due 2039	300	-
5.49% notes due 2040	300	-
6.59% notes due 2043	315	315
5.00% notes due 2046	75	75
	6,875	6,125
Add: Unrealized hedged loss [1]	11	15
Less: Long-term debt payable within one year	(600)	(400)
Net unamortized premiums	24	20
Unamortized debt issuance costs	(29)	(27)
Long-term debt	6,281	5,733

[1] 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 $11 million (2008 - $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 2009, the notes had a weighted average interest rate of 0.3%.

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 19, 2009, Hydro One issued new notes comprised of medium-term notes with a principal amount of $250 million having a 5 year term and a coupon rate of 3.13%. The notes are due November 19, 2014.

The maximum authorized principal amount of medium-term notes issuable under this program is $3,000 million of which, as at December 31, 2009, $2,750 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 10.

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

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

The carrying value of financial instruments as at December 31, 2009 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					
Accounts receivable	-	-	-	843	-
Other assets (long-term)	11	-	-	2	-
Financial Liabilities					
Bank indebtedness	-	-	-	-	26
Accounts payable and accrued charges[1]	-	-	-	-	795
Short-term notes payable	-	-	-	-	55
Long-term debt	-	261	-	-	6,620

[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, provided in the table below, is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as level 1 as the inputs used reflect quoted prices in an active market.

December 31 (Canadian dollars in millions)	**2009**		**2008**	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt[1]	6,875	7,302	6,125	6,128

[1] The carrying value of long-term debt represents the par value of the notes and debentures, other than 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 the Company 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 based on the forecast for long-term Government of Canada bond yields and the spread in 30 year "A" rated Canadian utility bonds over the 30 year benchmark Government of Canada bond yield. The Company estimates that a 1% decrease in the forecast long-term Government of Canada bond yield or the "A" rated Canadian utility spread used in determining the Company's rate of return would reduce its Transmission Business' results of operations by approximately $15 million and its Distribution Business' results of operations by approximately $10 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, 2009, 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, 2009, 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 $25 million (2008 - $23 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, 2009, approximately 4% of the Company's accounts receivable were 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, 2009.

Derivative financial instruments result in exposure to credit risk since there is a risk of counter-party default. As at December 31, 2009, 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 note 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 $11 million as at December 31, 2009.

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 committed revolving credit facilities with a syndicate of banks of $1,000 million as at December 31, 2009 maturing August 20, 2010. The short-term liquidity available to the Company should be sufficient to fund normal operating requirements.

As at December 31, 2009, accounts payable and accrued charges in the amount of $800 million and the short-term notes payable in the amount of $55 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 $600 million. Interest payments over the next 12 months on the Company's outstanding short-term notes payable and long-term debt amount to $372 million.

As at December 31, 2009, Hydro One has issued long-term debt in the amount of $6,875 million and the Company is required to make interest payments in the amount of $5,967 million. Principal outstanding, interest payments and related weighted average interest rates 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	600	372	6.1
2 years	500	345	5.2
3 years	600	324	5.8
4 years	600	289	5.0
5 years	250	259	3.1
	2,550	1,589	5.3
6 – 10 years	1,050	1,121	4.9
Over 10 years	3,275	3,257	6.1
	6,875	5,967	5.6

11. 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, short-term notes payable, long-term debt and cash and cash equivalents. The Company's capital structure as at December 31, 2009 and December 31, 2008 was as follows:

(Canadian dollars in millions)	**2009**	**2008**
Short-term notes payable	55	-
Long-term debt payable within one year	600	400
Less: Cash and cash equivalents	(26)	16
	681	384
Long-term debt	6,281	5,733
Preferred Shares	323	323
Common Shares	3,314	3,314
Retained Earnings	1,791	1,497
	5,428	5,134
Total Capital	12,390	11,251

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 "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, 2009, Hydro One is in compliance with all of these covenants and limitations.

12. 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, 2009 and 2008 was as follows:

	% of Plan Assets	
December 31	**2009**	**2008**
Equity securities	63.3	62.0
Debt securities	32.9	33.3
Other	3.8	4.7
	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 at December 31, 2009 and 2008.

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 (FSCO) on September 20, 2007, effective for December 31, 2006, the Company contributed $112 million to its pension plan in respect of 2009 (2008 - $101 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 2009, 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 $155 million (2008 - $142 million).

Pension Asset Transfer

Effective March 1, 2002, Hydro One began receiving a range of services from Inergi LP (Inergi), 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. On March 10, 2008, the Company was granted consent from the FSCO to transfer pension assets and related pension liabilities for affected employees from the Hydro One Pension Plan to the Inergi Pension Plan. Under the agreement, the Company recognized a settlement of $21 million in its results of operations for the first quarter of 2008, inclusive of a related interest credit of $6 million. The pension asset transfer took place in the second quarter of 2008.

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

Year ended December 31 (Canadian dollars in millions)	Pension **2009**	**2008**	Employee Future Benefits other than Pension **2009**	**2008**
Change in accrued benefit obligation				
Accrued benefit obligation, January 1	4,007	5,077	874	1,094
Current service cost	73	98	19	22
Interest cost	286	277	63	60
Benefits paid	(270)	(272)	(43)	(41)
Plan amendments	-	-	-	-
Net actuarial loss (gain)	644	(1,173)	91	(261)
Accrued benefit obligation, December 31	4,740	4,007	1,004	874
Change in plan assets				
Fair value of plan assets, January 1	3,836	5,100	-	-
Actual return on plan assets	642	(1,121)	-	-
Reciprocal transfers[2]	6	21	-	-
Benefits paid	(270)	(272)	-	-
Employer's contributions[1]	112	101	-	-
Employees' contributions	21	20	-	-
Administrative expenses	(11)	(13)	-	-
Fair value of plan assets, December 31	4,336	3,836	-	-
Funded status				
Unfunded benefit obligation	(404)	(171)	(1,004)	(874)
Unamortized net actuarial losses (gains)	814	594	10	(92)
Unamortized past service costs	14	18	14	18
Deferred pension asset (accrued benefit liability)	424	441	(980)	(948)
Less: current portion	-	-	40	40
Deferred pension asset (long-term liability)	424	441	(940)	(908)

[1] In January 2010, the Company made a contribution of $10 million in respect of 2009 (2009 - $10 million in respect of 2008).

[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 pension plan.

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

Year ended December 31 (Canadian dollars in millions)	Pension 2009	Pension 2008	Employee Future Benefits Other Than Pension 2009	Employee Future Benefits Other Than Pension 2008
Components of net periodic benefit cost				
Current service cost, net of employee contributions	52	78	19	22
Interest cost	286	277	63	60
Actual return on plan asset net of expenses	(631)	1,113	-	-
Actuarial loss (gain)	644	(1,173)	91	(261)
Other	(1)	-	-	-
Costs arising in the period	350	295	173	(179)
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	359	(1,465)	-	-
Actuarial (gain) loss	(584)	1,206	(101)	269
Plan amendments	4	4	4	4
Net periodic benefit cost	129	40	76	94
Charged to results of operations[3]	68	63	50	57
Effect of 1% increase in health care cost trends on:				
Accrued benefit obligation, December 31	-	-	141	108
Service cost and interest cost	-	-	13	14
Effect of 1% decrease in health care cost trends on:				
Accrued benefit obligation, December 31	-	-	(113)	(88)
Service cost and interest cost	-	-	(10)	(11)
Significant assumptions				
For net periodic benefit cost:				
Expected rate of return on plan assets	7.25%	7.00%	-	-
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%
Average remaining service life of employees *(years)*	10	10	11	11
Rate of increase in health care cost trend[4]	-	-	4.81%	4.40%
For accrued benefit obligation, December 31:				
Weighted average discount rate	6.50%	7.25%	6.50%	7.25%
Rate of compensation scale escalation (without merit)	2.50%	2.75%	2.50%	2.75%
Rate of cost of living increase	2.00%	2.00%	2.00%	2.00%
Rate of increase in health care cost trend[5]	-	-	4.81%	4.81%

[3] The Company follows the cash basis of accounting. During 2009, pension costs of $113 million (2008 - $103 million) were attributed to labour, of which $68 million (2008 - $63 million) was charged to operations and $45 million (2008 - $40 million) was capitalized as part of the cost of fixed assets.

[4] 8.81% in 2009 grading down to 4.81% per annum in and after 2029 (2008 – 8.33% in 2008 grading down to 4.40% per annum in and after 2018).

[5] 8.57% in 2010 grading down to 4.81% per annum in and after 2029 (2008 – 8.81% in 2009 grading down to 4.81% per annum in and after 2023).

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

13. ENVIRONMENTAL LIABILITIES

December 31 (Canadian dollars in millions)	2009	2008
Environmental liabilities, January 1	253	65
Interest accretion	13	7
Expenditures	(9)	(14)
Revaluation adjustment	70	195
Environmental liabilities, December 31	327	253
Less: current portion	(24)	(16)
	303	237

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2009 and in total thereafter are as follows: 2010 - $24 million; 2011 - $34 million; 2012 - $34 million; 2013 - $42 million; 2014 - $37 million and thereafter - $218 million.

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

There are uncertainties in estimating future environmental costs due to potential external events such as changing legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, for the PCB program, 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.

In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future environmental expenditures have been discounted using factors ranging from 3.75% to 6.25%, depending on the appropriate rate for the period when increases in the obligations were first recorded.

PCB's

On September 17, 2008, Environment Canada published its final regulations governing the management, storage and disposal of PCBs. These regulations were enacted under the *Canadian Environmental Protection Act, 1999*. The regulations impose timelines for disposal of PCBs based on criteria including type of equipment, in-use status and PCB-contamination thresholds. All PCBs in concentrations of 500 parts per million (ppm) or more, except specified equipment, had to be disposed of by the end of 2009. However, in 2009, Hydro One sought and received an extension until 2014 for removal of certain station equipment that could be contaminated in excess of this threshold. Under the regulations PCBs in equipment in concentrations greater than 50 ppm and less than 500 ppm, or more than 50 ppm for pole-top transformers, pole-top auxiliary electrical equipment and light ballasts 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 that must be compliant by 2014. Assets to be disposed of by 2025 primarily consist of pole mounted distribution line transformers and light ballasts. Contaminated distribution and transmission station equipment will generally be

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

replaced or will be decontaminated by removing PCB-contaminated insulating oil and retrofilling with less than 2 ppm replacement oil.

Management's best estimate of the total estimated future expenditures to comply with PCB regulations is about $320 million. These expenditures will be incurred over the period from 2010 to 2025. As a result of its most recent cost estimate to comply with Environment Canada's PCB regulations and Environment Canada interpretations thereof, the Company has increased its December 31, 2009 environmental liability by approximately $30 million compared to September 30, 2009.

LAR

As a result of 2009 changes to provincial regulations governing land contamination mitigation and changes in acceptable regulated contamination thresholds, as well as other factors, the Company reviewed its liability for contaminated LAR. As a result of this review, the Company recorded a $40 million increase in its related liability, as compared to September 30, 2009. The Company's best estimate of the total future expenditures to complete its LAR program is about $69 million. As part of its review, the Company extended the term of its planned program for distribution properties from 2013 to 2020 and for transmission properties from 2015 to 2020.

Asbestos-Containing Materials

As a result of regulatory changes, Hydro One expects to incur future expenditures to identify, remove and dispose of asbestos-containing materials installed in some of its facilities. The Company plans to undertake additional studies, using the assistance of external experts as required, to estimate the incremental expenditures associated with removing such materials prior to facility demolition. This information will allow the Company to reasonably estimate and record any obligation it may have to incur such expenditures. The Company also anticipates that such future expenditures will be recoverable in future electricity rates.

14. 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 2009, preferred dividends in the amount of $18 million (2008 - $18 million) and common dividends in the amount of $170 million (2008 - $241 million) were declared.

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

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.

15. RELATED PARTY TRANSACTIONS

The Province, OEFC, IESO, Ontario Power Authority (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 received revenue for transmission services from IESO, based on uniform transmission rates approved by the OEB. Transmission revenue for 2009 includes $1,119 million (2008 - $1,072 million) related to these services.

Hydro One receives amounts for rural rate protection from the IESO. Distribution revenue for 2009 includes $127 million (2008 - $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 2009 includes $31 million (2008 - $21 million) related to these services.

In 2009, Hydro One purchased power in the amount of $2,296 million (2008 - $2,128 million) from the IESO administered electricity market, $19 million (2008 - $35 million) from OPG and $11 million (2008 - $18 million) from OEFC.

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 2009, Hydro One incurred $10 million (2008 - $9 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 $13 million (2008 - $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 $2 million (2008 - $1 million).

The OPA funds some of our Conservation Demand Management (CDM) programs. The funding includes program costs, incentives, management fees and bonuses. In 2009, Hydro One received $23 million from the OPA in respect of the CDM programs (2008 – $11 million) and had a net accounts receivable of $1 million (2008 - $6 million).

The provision for payments in lieu of corporate income taxes, property taxes and capital 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)	**2009**	**2008**
Accounts receivable	103	103
Accounts payable and accrued charges	(250)	(260)

Included in accounts payable and accrued charges are amounts owing to the IESO in respect of power purchases of $211 million (2008 - $225 million).

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

16. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the purposes of the Consolidated Statements of Cash Flows, “cash and cash equivalents” refers to the Consolidated Balance Sheet items “cash” and “bank indebtedness. The changes in non-cash balances related to operations consist of the following:

Year ended December 31 (Canadian dollars in millions)	**2009**	**2008**
Accounts receivable (increase) decrease	(89)	5
Materials and supplies (increase) decrease	(2)	4
Accounts payable and accrued charges increase	-	58
Accrued interest increase	10	9
Long-term accounts payable and other liabilities increase (decrease)	4	(1)
Employee future benefits other than pension increase	32	53
Other	7	(3)
	(38)	125

Supplementary information:		
Interest paid	361	330
Payments in lieu of corporate income taxes	77	145

17. 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 Superior Court of 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 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 the Whitesand First Nation Band and the Red Rock First Nation Band are set out. These actions seek declaratory relief, injunctive relief and damages in an unspecified amount. The claims arise out of flooding activities of Ontario Hydro and the alleged effects of flooding on lands in which the two First Nations claim an interest. By an agreement dated May 2009, all parties entered into an agreement to dismiss all of the actions against Hydro One without costs.

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, we are required to manage these assets until we have obtained all consents necessary to complete the transfer of title of these assets to us. We cannot predict the aggregate amount that we may have to pay, either on an annual or one-time basis, to obtain the required consents. However, we anticipate having to pay annually more than the $822,000 that we paid to these Indian bands and bodies in 2009. If we cannot obtain consents from the Indian bands and bodies, OEFC will continue to hold these assets for an indefinite period of time. If we cannot reach a satisfactory settlement, we 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 our net income if we are not able to recover them in future rate orders.

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

18. 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, 2009, and in total thereafter are as follows: 2010 - $104 million; 2011 - $101 million; 2012 - $17 million; 2013 - $nil; 2014 - $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, 2009 and December 31, 2008, the Company provided prudential support to the IESO on behalf of Hydro One Networks and Hydro One Brampton using only parental guarantees of $325 million (2008 - $325 million). Prudential support at December 31, 2009 was also provided on behalf of two distributors using guarantees of $660 thousand (2008 - $nil). The IESO could draw on these guarantees if these subsidiaries or distributors fail 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.

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, 2009, Hydro One had bank letters of credit of $107 million (2008 - $107 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, 2009, and in total thereafter are as follows: 2010 - $9 million; 2011 - $5 million; 2012 - $7 million; 2013 - $6 million; 2014 - $6 million and thereafter - $26 million.

19. 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.

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

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
2009				
Segment profit				
Revenues	1,147	3,534	63	4,744
Purchased power	-	2,326	-	2,326
Operation, maintenance and administration	438	564	55	1,057
Depreciation and amortization	240	287	10	537
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	469	357	(2)	824
Financing charges				308
Income before provision for payments in lieu of corporate income taxes				516
Capital expenditures	918	643	5	1,566
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

December 31 (Canadian dollars in millions)	2009	2008
Total assets		
Transmission	9,118	7,877
Distribution	6,531	5,873
Other	161	128
	15,810	13,878

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

20. SUBSEQUENT EVENTS

On January 22, 2010 Hydro One issued $500 million in notes under the Company's MTN Program. The issue was an additional offering of 3.13% notes maturing on November 19, 2014, originally issued on November 19, 2009. The total amount outstanding for this issue is now $750 million.

On January 22, 2010, Hydro One entered into two $250 million notional principal amount fixed-to-floating interest rate swaps to convert $500 million of Hydro One's 3.13% coupon note maturing November 19, 2014, into three-month variable rate debt.

On January 22, 2010, Hydro One purchased $250 million Province of Ontario Floating Rate Notes maturing on November 19, 2014 as a form of alternate liquidity to supplement its bank credit facilities.

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

On February 2, 2010, Hydro One entered into an additional $500 million committed revolving credit facility which supports its Commercial Paper Program and matures February 2013.

On February 3, 2010, Hydro One reduced its $1,000 million committed revolving credit facility maturing on August 20, 2010 by $250 million, to $750 million.

21. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2009 Consolidated Financial Statements.

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

Year ended December 31 (Canadian dollars in millions)	**2009**	**2008**	**2007**	**2006**	**2005**
Statement of operations data					
Revenues					
Transmission	1,147	1,212	1,242	1,245	1,310
Distribution	3,534	3,334	3,382	3,273	3,085
Other	63	51	31	27	21
	4,744	4,597	4,655	4,545	4,416
Costs					
Purchased power	2,326	2,181	2,240	2,221	2,131
Operation, maintenance and administration	1,057	965	995	880	792
Depreciation and amortization	537	548	521	515	487
	3,920	3,694	3,756	3,616	3,410
Regulatory recovery[1]	-	-	-	-	91
Income before financing charges and provision for payments in lieu of corporate income taxes	824	903	899	929	1,006
Financing charges	308	292	295	295	325
Income before provision for payments in lieu of corporate income taxes	516	611	604	634	681
Provision for payments in lieu of corporate income taxes	46	113	205	179	198
Net income	470	498	399	455	483
Basic and fully diluted earnings per common share *(Canadian dollars)*	4,528	4,797	3,809	4,366	4,652

December 31 (Canadian dollars in millions)					
Balance sheet data					
Assets					
Transmission	9,118	7,877	7,273	6,950	6,813
Distribution	6,531	5,873	5,407	5,161	4,893
Other	161	128	106	99	92
Total assets	15,810	13,878	12,786	12,210	11,798
Liabilities					
Current liabilities (including current portion of long-term debt)	1,655	1,300	1,452	1,194	1,341
Long-term debt	6,281	5,733	5,063	4,848	4,443
Other long-term liabilities	2,456	1,721	1,385	1,347	1,298
Shareholder's equity					
Share capital	3,637	3,637	3,637	3,637	3,637
Retained earnings	1,791	1,497	1,258	1,184	1,079
Accumulated other comprehensive income	(10)	(10)	(9)	-	-
Total liabilities and shareholder's equity	15,810	13,878	12,786	12,210	11,798

[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.

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

Year ended December 31 (Canadian dollars in millions)	2009	2008	2007	2006	2005
Other financial data					
Capital expenditures					
Transmission	918	704	560	402	349
Distribution	643	570	511	417	338
Other	5	10	20	4	4
Total capital expenditures	1,566	1,284	1,091	823	691
Ratios					
Net asset coverage on long-term debt[2]	1.79	1.84	1.87	1.92	1.93
Earnings coverage ratio[3]	2.15	2.63	2.67	2.67	2.69
Operating statistics					
Transmission					
Units transmitted *(TWh)*[4]	139.2	148.7	152.2	151.1	157.0
Ontario 20-minute system peak demand *(MW)*[4]	24,477	24,231	25,809	27,056	26,219
Ontario 60-minute system peak demand *(MW)*[4]	24,380	24,195	25,737	27,005	26,160
Total transmission lines *(circuit-kilometres)*	28,924	29,039	28,915	28,600	28,547
Distribution					
Units distributed to Hydro One customers *(TWh)*[4]	28.9	29.9	30.2	29.0	29.7
Units distributed through Hydro One lines *(TWh)*[4,5]	43.5	44.7	45.7	44.7	45.6
Total distribution lines *(circuit-kilometres)*	123,528	123,260	122,933	122,460	122,118
Customers	1,333,920	1,325,745	1,311,714	1,293,396	1,273,768
Total regular employees	5,427	5,032	4,602	4,295	4,189

[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.

hydroOne

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. Alex Browning
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 10, 2010

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, 2010 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, 2010 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, 2010

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

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Liquor Control Board of Ontario
Balance Sheet
As at March 31, 2010

	2010 ($000)	2009 ($000)
<u>ASSETS</u>		
Current		
Cash and cash equivalents	217,791	162,098
Accounts receivable, trade and others	23,705	21,612
Inventories (Note 3)	344,534	342,860
Prepaid expenses	13,574	16,889
	599,604	543,459
Long-term		
Capital assets & intangible assets (Note 4)	294,446	259,986
	894,050	803,445
<u>LIABILITIES AND RETAINED INCOME</u>		
Current		
Accounts payable and accrued liabilities	436,397	389,802
Current portion of non-pension employee future benefits (Note 5)	5,925	4,915
	442,322	394,717
Long-term		
Non-pension employee future benefits (Note 5)	71,942	54,552
Retained income	379,786	354,176
	894,050	803,445

Commitments and Contingencies (Notes 6 and 9)

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, 2010

	2010 ($000)	2009 ($000)
Sales and other income	4,344,099	4,297,642
Cost and expenses		
Cost of sales	2,198,920	2,204,942
Retail stores and marketing	477,517	450,345
Warehousing and distribution	85,913	88,845
Administration	97,424	96,930
Amortization	48,716	46,406
	2,908,490	2,887,468
Net income for the year	1,435,609	1,410,174
Retained income, beginning of year	354,176	340,238
Adjustment to opening retained income resulting from adoption of new accounting standards for inventories (Note 2e)	-	3,764
	1,789,785	1,754,176
Deduct		
Dividend paid to the Province of Ontario	1,410,000	1,395,000
Payment on behalf of the Province of Ontario (Note 10)	-	5,000
	1,410,000	1,400,000
Retained income, end of year	379,785	354,176

See accompanying notes to financial statements.

Liquor Control Board of Ontario

Statement of Cash Flows

Year Ended March 31, 2010

	2010 ($000)	2009 ($000)
Cash provided from operations		
Net income	1,435,609	1,410,174
Amortization	48,716	46,406
(Gain) Loss on sale of capital assets	318	(1,330)
	1,484,643	1,455,250
Net change in non-cash items increase/(decrease)		
Accounts Receivable, trade and others	(2,093)	4,512
Inventory	(1,674)	(3,741)
Prepaids	3,315	1,514
Accounts Payable and accrued liabilities	46,595	26,381
Employee Future Benefits	18,400	(5,967)
	1,549,186	1,477,949
Cash used for investment activities		
Purchase of capital assets	(84,148)	(59,769)
Proceeds from sale of capital assets	655	2,266
	(83,493)	(57,503)
Cash used for financing activities		
Dividend paid to the Province of Ontario	(1,410,000)	(1,395,000)
Payment on behalf of the Province of Ontario	-	(5,000)
	(1,410,000)	(1,400,000)
Increase in cash during the year	55,693	20,446
Cash and cash equivalents, beginning of year	162,098	141,652
Cash and cash equivalents, end of year	217,791	162,098

See accompanying notes to financial statements.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2010

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

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2010

and the techniques used to identify, monitor and manage these risks. Section 3863 essentially carries forward the 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 7 for the resulting disclosures from implementation.

(d) 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.

(e) Inventories

Effective April 1, 2008, the Board implemented CICA Handbook Section 3031 "*Inventories*", 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 are presented in Note 3.

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 resulted in 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, 2010

(f) Capital Assets

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

Buildings	20 years
Furniture and Equipment	5 years
Leasehold Improvements	Lesser of the average remaining lease term and estimated useful life of the improvements
Computer Equipment	3 years or 4 years

Construction in progress includes assets not available for use which are not amortized.

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

(g) Intangible Assets

In February 2008, the CICA adopted Handbook Section 3064, Goodwill and Intangible Assets, which replaces CICA 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 Board adopted the Handbook Section on April 1, 2009 and reclassified prior period comparative amounts from property, plant and equipment to intangible assets.

Intangible assets, which lack physical substance, are stated at cost. Amortization is provided on a straight-line basis over their estimated useful service lives, as follows:

Computer software	3 years or 4 years

Software in development includes assets not yet available for use which are therefore not amortized.

(h) Employee Future Benefits

i. 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. See Note 5 for the resulting disclosures.

Liquor Control Board of Ontario
Notes to Financial Statements
March 31, 2010

ii. Non-pension Employee Future Benefits

Employee future benefits other than those provided by the Province include accrued contractual severance payments, executive compensation time banking, unfunded workers compensation obligation and unused vacation entitlements. These plans provide benefits to employees when they are no longer providing active service. The Board accrues these employee future benefits over the periods in which the employees earn the benefits. The cost of other post-retirement, non-pension employee benefits is paid by the Province and is not included in the Statement of Income and Retained Income.

The cost of the contractual severance payments and executive compensation time banking was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The unfunded workers compensation liability was determined using the Average Awards Method. The annual benefit cost is the sum of the service cost, one year's interest cost and any amortization of gains and losses. The net actuarial gains and losses are amortized on a straight line basis over the expected average remaining service lifetime of the employee. See Note 5 for the resulting disclosures.

(i) Revenue Recognition

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

(j) Expense Recognition

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

(k) Leases

The Board leases most of its retail locations and office space. Terms vary in length and typically permit renewal for additional periods. Minimum rent, including scheduled escalations and any rent free periods, are expensed on a straight-line basis over the term of the lease. Landlord inducements are deferred and amortized as reductions to rent expense on a straight-line basis over the same period.

3. INVENTORIES

The cost of inventories sold during the year and recognized as a cost of sales expense during the year ended March 31, 2010 was $2,199 million (2009 - $2,205 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2010 (2009 – nil).

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2010

4. CAPITAL ASSETS & INTANGIBLE ASSETS

	March 31, 2010 ($000)			March 31, 2009 ($000)
Capital Assets	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	12,895	—	12,895	12,952
Buildings	363,367	256,244	107,123	105,504
Furniture and equipment	95,041	73,828	21,213	24,143
Leasehold improvements	301,131	194,847	106,284	66,798
Computer equipment	55,033	42,843	12,190	12,465
Construction in progress	7,781	—	7,781	11,200
	835,248	567,762	267,486	233,062
Intangible Assets				
Computer software	80,373	61,229	19,144	24,246
Software in development	7,816	—	7,816	2,678
	88,189	61,229	26,960	26,924
Total Capital and Intangible Assets	**923,437**	**628,991**	**294,446**	**259,986**

5. EMPLOYEE FUTURE BENEFITS

a) Pension Plan

For the year ended March 31, 2010, the expense was $19.2 million (2009 – $17.8 million) and is included in cost and expenses in the Statement of Income and Retained Income.

b) Non-pension

The accrued benefit obligation includes accruals for contractual severance payments, executive compensation time banking and unfunded workers compensation obligation.

For the year ended March 31, 2010 the actuarially determined benefit obligation of the contractual severance, executive compensation time banking and unfunded workers compensation obligation was $85.8 million (2009 – $57.3 million). The accrued benefit liability as at March 31, 2010, is $77.9 million (2009 – $59.5 million) of which $5.9 million (2009 – $4.9 million) is classified as a current liability. The difference between the benefit obligation and the benefit liability is the unamortized net actuarial experience gain or loss.

The Board measures its accrued benefits obligation for accounting purposes as at March 31st of each year. The latest actuarial valuation for the contractual severance and executive compensation time banking was performed as at March 31, 2010. The latest actuarial assessment for the unfunded workers compensation was performed as at December 31, 2009. The Board will conduct an actuarial valuation of employee future benefits every three years; therefore the next valuation will be done for the year ending March 31, 2013.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2010

	March 31, 2010 ($000's)	March 31, 2009 ($000's)
Employee Benefit plan assets	--	--
Employee benefit plan liabilities	85,838	57,349
Employee benefit plan deficit	85,838	57,349
Unamortized net actuarial experience gain/(loss)	(7,971)	2,118
Accrued benefit liability	**77,867**	**59,467**
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	59,467	56,920
Expense for the year	27,185	10,360
Benefits paid during the year	(8,785)	(7,813)
Benefit obligation, end of year	**77,867**	**59,467**

The cost of unused vacation entitlements are accrued and included in Accounts payable and accrued liabilities on the Balance Sheet. As at March 31, 2010, $9.3 million (2009- $8.4 million) was accrued.

6. LEASE COMMITMENTS

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

	($000)
2011	55,459
2012	55,839
2013	52,662
2014	49,356
2015	45,915
Thereafter	364,942
	624,173

7. 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 Canadian dollars. The Board is exposed to foreign currency risk arising from various currency exposures, primarily with respect to US dollars and Euro dollars.

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, 2010, the Board had no foreign exchange forward contracts (2009 – nil).

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2010

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, 2010, the Board recognized a net foreign exchange gain of $6.3 million (2009 - $0.2 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, 2010, 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 (2009 – nil).

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, 2010, approximately 68% (2009 – 70%) of the Board's accounts 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, 2010 ($000's)	March 31, 2009 ($000's)
Allowance at beginning of period	285	256
Provision for losses	361	139
Recoveries	160	536
Write-offs	(706)	(646)
Allowance at end of period	100	285

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.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2010

8. 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 ensure sufficient liquidity in support of its financial obligations to achieve its business plans;
- to maintain healthy liquidity reserves and access to capital as outlined in its investment and foreign exchange policies; and
- to ensure that cash management decisions are based upon the preservation of capital as a primary objective

As at March 31, 2010 the LCBO met these objectives.

In managing cash and cash equivalents, the Board maintains balances that are:

- sufficient to meet its accounts payable obligations due within the next 45-60 days;
- sufficient to meet the timing of dividend transfers; and
- sufficient to meet approved capital expenditures throughout the current fiscal year.

The Board is not subject to any externally imposed capital requirements.

9. 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.

10. WASTE DIVERSION

In prior years, the Board was directed by the Province to assist municipalities with their container recycling costs, including $5 million per year on a transitional basis for the first two years following the introduction of the Ontario Deposit Return Program effective February 5, 2007. Currently, the Board is responsible under the *Waste Diversion Act, 2002* to pay municipalities -- through Stewardship Ontario, an industry funded waste diversion organization -- for costs associated with container waste and non-container waste recycled through municipal Blue Box systems. For the year ended March 31, 2010, the Board contributed $2.1 million and these expenditures are included in Administration in the Statement of Income and Retained Income.

11. 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 ("the program") on wine, liquor and non-common 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.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2010

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.

For the year ended March 31, 2010, the Board collected $56.0 million (2009 – $56.4 million) of deposits on containers and was invoiced $43.5 million (2009 - $41.3 million) for refunds to the customers.

Expenditures in connection with the program for the year ended March 31, 2010, amounted to $28.2 million (2009 - $27.3 million) for service fees to Brewers Retail Inc. and $0.1 million (2009 - $0.1 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. Based on historical redemption patterns, for the year ended March 31, 2010, the Board changed the estimated redemption rate for the program from 85% to 80%. Accordingly, for the year ended March 31, 2010 the Board applied $16.8 million (2009 - $8.4 million) of unredeemed deposits as a reduction to expenditures in connection with the program.

12. 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 transition from Canadian GAAP to IFRS will be applicable to the Board's financial statements for fiscal 2011/2012, at which time the Board will prepare both its fiscal 2011/2012 and fiscal 2010/2011 comparative financial information using IFRS.

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 18, 2009

Robert J. McIlveen
Executive Director, Corporate Services
December 18, 2009

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, 2009 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, 2009 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 18, 2009

Balance Sheet ~ October 31, 2009

STATEMENT 1

	(In thousands of dollars)	
Assets	2009	2008
	$	$
Current Assets		
Cash	2,161	2,255
Accounts receivable	2,036	2,000
Inventories		
Saleable merchandise	5,129	4,551
Maintenance and other supplies	1,560	1,519
Prepaid expenses	386	303
	11,272	10,628
Fixed Assets - notes 2 and 3	154,491	158,558
Other Asset	56	63
	165,819	**169,249**
Liabilities and Equity		
Current Liabilities		
Accounts payable	5,467	5,967
Accrued payroll	2,214	2,403
Deferred income - notes 15 and 16	3,471	367
Current portion of long-term financing	2,112	2,055
	13,264	10,792
Long-Term Financing - note 3	29,845	31,818
Post-Employment Benefits - note 4	3,600	3,560
Power Plant Stabilization Obligation - note 15	21,243	-
Commitments - notes 6 and 15		
Contingencies - notes 7 and 15		
Equity – Statement 2	97,867	123,079
	165,819	**169,249**

See accompanying notes

Signed on behalf of the Commission:

Chairman

Commissioner

Statement of Equity ~ for the year ended October 31, 2009

STATEMENT 2

	(In thousands of dollars)	
	2009	2008
	$	$
Equity, Beginning of Year	124,348	127,872
Accounting Change - note 17	(1,269)	(1,269)
Equity, Beginning of Year as Restated	123,079	126,603
Net Loss for the Year - Statement 3	(3,969)	(3,524)
Power Plant Stabilization Adjustment - note 15	(21,243)	-
Equity, End of Year	**97,867**	**123,079**

See accompanying notes

Statement of Operations ~ for the year ended October 31, 2009

STATEMENT 3

	(In thousands of dollars)	
	2009	2008
	$	$
Income		
Gift shops, restaurants and attractions	62,686	65,857
Land rent	6,213	6,215
Commissions, rentals and fees	2,710	2,905
Premium on United States funds – net	307	1,071
Gain (loss) on disposal of fixed assets – net	665	(44)
Sundry income	153	576
	72,734	76,580
Expenses		
Gift shops, restaurants and attractions		
Cost of goods sold	10,475	11,526
Operating expenses	29,852	31,788
Maintenance	12,393	13,488
Administrative and police	9,884	9,588
Marketing and promotion	4,101	4,435
	66,705	70,825
Net Income for the Year before Undernoted Items	6,029	5,755
Other Items		
Interest expense - net - note 8	1,719	810
Depreciation - note 9	8,279	8,469
	9,998	9,279
Net Loss for the Year	**(3,969)**	**(3,524)**

See accompanying notes

Statement of Cash Flows ~ for the year ended October 31, 2009

STATEMENT 4

	2009	2008
	(In thousands of dollars)	
	$	$
Operating Activities		
Net loss for the year	(3,969)	(3,524)
Charges against income not requiring an outlay of funds		
- post-employment benefits	369	364
- depreciation	8,279	8,469
- amortization of franchise fee	7	6
- loss (gain) on disposal of fixed assets - net	(665)	44
	4,021	5,359
Net change in non-cash working capital balances related to operations - note 11	1,677	(3,940)
Funds provided by operating activities	5,698	1,419
Investing Activities		
Fixed asset acquisitions - note 11	(4,086)	(24,123)
Proceeds on sale of fixed assets	685	32
Franchise fee payment		(69)
Funds used by investing activities	(3,401)	(24,160)
Financing Activities		
Net decrease in long-term financing	(2,062)	(1,573)
Cash outlay related to post-employment benefits	(329)	(261)
Funds used by financing activities	(2,391)	(1,834)
Decrease in Cash Position	(94)	(24,575)
Cash Position, Beginning of Year	2,255	26,830
Cash Position, End of Year	**2,161**	**2,255**

See accompanying notes

Notes to Financial Statements ~ for the year ended October 31, 2009

Organization

The Niagara Parks Commission (the "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.

The Commission is also classified as a "Government Business Enterprise" by the Ministry of Finance and as such, the Commission's audited financial statements are published as part of the Public Accounts.

1. Significant Accounting Policies

Basis of accounting

The financial statements of 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 14 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.

Notes to Financial Statements ~ for the year ended October 31, 2009

1. Significant Accounting Policies - continued

Financial instruments

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

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.

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	2009	2008
	$	$	$	$
Land	14,359	–	14,359	13,555
Land improvements	17,135	–	17,135	17,135
Buildings, roadways and structures	189,908	76,702	113,206	115,041
Equipment and furnishings	40,650	32,632	8,018	10,247
Vehicles	9,076	7,833	1,243	1,406
	271,128	117,167	153,961	157,384
Capital works in progress	530	–	530	1,174
	271,658	**117,167**	**154,491**	**158,558**

Notes to Financial Statements ~ for the year ended October 31, 2009

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

	2009 $	2008 $
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	30,783	31,815
Unsecured fixed rate term loan requiring principal payments of $ 1,000,000 per annum, bearing interest at 4.01% through to December, 2009	1,000	2,000
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 1,076 to August, 2011, secured by equipment with a net book value of $ 34,853	22	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	13	20
The Commission has an option to purchase land requiring annual payments of $ 7,300 until Jauary 2028 - see note 16	139	_
Obligation under capital lease, bearing interest of nil, requiring monthly payments of $463 to September, 2009	–	3
	31,957	33,873
Less portion due within one year	2,112	2,055
	29,845	**31,818**

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

(In thousands of dollars)

	$
2010	2,112
2011	1,162
2012	1,204
2013	1,264
2014	1,328

Notes to Financial Statements ~ for the year ended October 31, 2009

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, 2009 is $ 3,600,464 (2008 - $ 3,560,461).

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, 2009 is $ 3,357,976 (2008 - $ 3,317,973). 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)*

	2009 $	2008 $
Employee benefit plan assets	–	–
Employee benefit plan liabilities	3,600	3,560
Employee benefit plan deficit	**3,600**	**3,560**
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	3,560	3,457
Expense for the year	369	364
Benefits paid during the year	(329)	(261)
Benefit obligation, end of year	**3,600**	**3,560**

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 defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines the Commission's annual payments 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 Commission. The Commission's annual payments of $ 1,582,962 (2008 - $ 1,649,534), are included in the administrative and general expense 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, 2009

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 expired on October 31, 2009. The Commission has negotiated an extension on these facilities until the tendering of a five year contract for banking services is awarded. As at October 31, 2009, NIL has been drawn upon for all credit facilities.

On November 18, 2009, the Commission received $6 ,500,000 which represents an additional unsecured loan requiring blended payments of principal and interest of $ 569,159 per annum, bearing interest at 5.07% through to April, 2027.

6. Commitments

Capital Projects

The Commission is committed to spending approximately $ 550,000 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)*

	2009 $	2008 $
Interest income	(23)	(431)
Loan interest expense	1,742	1,241
	1,719	**810**

9. Depreciation *(In thousands of dollars)*

	2009 $	2008 $
Depreciation of income producing assets	4,850	5,085
Depreciation of non-income producing assets	3,429	3,384
	8,279	**8,469**

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 $ 777,000.

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

(In thousands of dollars)

	$
2010	391
2011	203
2012	183

Notes to Financial Statements ~ for the year ended October 31, 2009

11. Statement of Cash Flows

Changes in working capital components include:

	(In thousands of dollars)	
	2009	2008
	$	$
Accounts receivable	(36)	(237)
Inventories	(619)	(1,458)
Prepaid expenses	(83)	97
Accounts payable and accrued payroll	(689)	(2,359)
Deferred income	3,104	17
	1,677	**(3,940)**

Acquisition of fixed assets

During the year, fixed assets were acquired at an aggregate cost of $ 4,232,000 (2008 - $ 24,561,000) of which $ 146,000 (2008 - $438,000) was acquired by means of capital leases and other non-cash acquisitions. Cash payments of $ 4,086,000 (2008 - $ 24,123,000) were made to purchase fixed assets.

Interest

	(In thousands of dollars)	
	2009	2008
	$	$
Interest received	**23**	**431**
Interest paid	**1,820**	**2,714**

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 $ 53,637 that is denominated in US dollars. These funds have been converted to the Canadian equivalent at the rate of $ 1 US equals $ 1.0704 Canadian. The Commission realizes approximately 10.89% (2008 - 14.87%) of its sales in foreign currency. Consequently, some assets and revenues are exposed to foreign exchange fluctuations.

Cash Flow Risk

The Commission has 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 nil (2008 - $ 598,609) 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, 2009

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 was transferred 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 "stabilize and 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. The Ventin Group also identified the remaining lead paint as a deficiency which OPG should have resealed. 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 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. As at October 31, 2009, ongoing negotiations with the Province have not resulted in any assurance that the Commission will not be responsible for any future costs. Any costs that are expected to be incurred for the purposes described above will not commence without funding received from the Province.

Therefore, an asset retirement obligation of $ 25,146,000 was calculated. This value represents the Commission's best estimate of the costs required to "stabilize and mothball" the four sites related to the power stations based on the report received from the Ventin Group. The report also identifies contingency costs of approximately $ 3,600,000 which have not been accrued in the asset retirement obligation at this time. The Commission estimates that this work could take approximately 3 to 4 years to complete. In order to determine the net present value of the asset retirement obligation, staff have estimated that, subject to financing being received from the Province, work will not commence for several years. Therefore it is estimated that the work may commence in 2016. The cost of capital and the rate of inflation estimated over the course of the calculation is 5.059% and 3% respectively. This resulted in a net present value of $ 21,243,000 as at October 31, 2009 and was recorded directly to equity.

As at October 31, 2009, the Commission has received $ 1,550,000 in funding from the Ministry of Tourism to assist in the "stabilizing and mothball" process. This amount is recorded in deferred income on the Balance Sheet and is to be spent by July 31, 2010. The Commission has incurred annual costs related to maintenance and security for all sites. To date, $ 32,714 of the funding has been utilized for this purpose.

Notes to Financial Statements ~ for the year ended October 31, 2009

16. Niagara Parks Commission and Peace Bridge Authority Land Transfer Obligation

During the year, the Commission and the Peace Bridge Authority ("PBA") entered into an agreement to transfer parcels of land. The PBA acquired a 5.952 acre parcel located in Fort Erie from the Commission for $ 2,021,206. The Commission acquired an option for $ 670,000 plus an annual sum of $ 7,300 adjusted for inflation, to receive 1.973 acres of river front property located at the end of Jarvis Street in Fort Erie from the PBA. The agreement calls for the net proceeds to the Commission in the amount of $ 1,351,206 to be spent on a) funding improvements at Old Fort Erie which are intended for the 200th year anniversary of the War of 1812 and b) returning and or maintaining the Jarvis Street property as parkland. It is the Commission's intent to use the net proceeds as part of a submission to the Federal and Provincial governments in order to obtain matching grants. The net proceeds have been recorded as part of deferred income on the Balance Sheet. To date, no expenditures have been incurred on this project.

17. Accounting Change

Accrued unused vacation pay credits earned by full-time employees were not previously recorded. The estimated value of this liability is $ 1,269,344 and has been retroactively adjusted to equity. The vacation pay liability is included in accrued payroll. Accrued payroll as at October 31, 2008 has increased to $ 2,403,000 from $ 1,134,000.

18. International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") in place of Canadian generally accepted accounting principles for reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged standards will be incorporated into Canadian generally accepted accounting principles prior to 2011, with the remaining standards to be adopted at the change over date. At this time, the impact on the Commission's future financial position and results of operations is not reasonably determinable or estimable

Ontario Clean Water Agency

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.

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

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

Original signed	Original signed
Robin Kind President and Chief Executive Officer	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 the Minister of Finance

I have audited the balance sheet of the Ontario Clean Water Agency as at December 31, 2009 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, 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
March 19, 2010

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

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ONTARIO CLEAN WATER AGENCY

Balance Sheet
As at December 31, 2009

(in thousands of dollars)

	2009	December 31, 2008
Assets		
Current assets:		
Cash and short-term investments	50,171	26,250
Accounts receivable, net		
Municipalities and other customers (note 2d)	24,510	24,261
Ministry of the Environment	360	374
Goods and services tax receivable	1,229	1,894
Prepaid Expenses	3,223	2,951
Current portion of investments receivable for water and wasterwater facilities (note 2e)	762	1,554
	80,255	57,284
Non-current assets		
Investments in term deposits (note 2f)	5,031	26,000
Investments receivable for water and wastewater facilities (note 2e)	5,526	6,272
Loan receivable - Infrastructure Ontario (note 2i)	120,000	120,000
Fixed assets, net (note 3)	4,570	4,009
	135,127	156,281
Total Assets	215,382	213,565

ONTARIO CLEAN WATER AGENCY

Balance Sheet
As at December 31, 2009

		(in thousands of dollars)
	2009	**December 31, 2008**
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**16,878**	**17,494**
Current portion of employee future benefits (note 7a)	**2,660**	**2,568**
	19,538	**20,062**
Long-term liabilities:		
Municipal contributions payable (note 2h)	**252**	**257**
Employee future benefits (note 7a)	**9,943**	**9,932**
	10,195	**10,189**
Equity of Ontario:		
Contributed surplus (note 5b)	**95,994**	**96,047**
Retained earnings	**89,655**	**87,267**
	185,649	**183,314**
Contingencies (note 6)		
Total Liabilities and Equity	**215,382**	**213,565**

See accompanying notes to financial statements

On behalf of the Board

Director **Director**

ONTARIO CLEAN WATER AGENCY

Statement of Income and Retained Earnings
For the year ended December 31, 2009

(in thousands of dollars)

	2009	2008
Utility Operations Revenues:		
Utility operations	**139,977**	130,072
Fees	**2,837**	2,390
Total Operating Revenues	**142,814**	132,462
Operating Expenses:		
Salaries and benefits (note 7a and note 7b)	**59,286**	55,892
Other operating expenses	**81,710**	75,730
Amortization of fixed assets	**2,006**	2,187
Total Operating Expenses	**143,002**	133,809
Net Loss - Utility Operations	**(188)**	(1,347)
Financing Revenues:		
Interest from investments, loans receivable and facilities under construction (note 2g)	**2,696**	6,036
Total Financing Revenues	**2,696**	6,036
Financing Expenses:		
Loan administration expenses	**60**	49
Amortization of fixed assets	**60**	60
Total Financing Expenses	**120**	109
Net Income - Financing	**2,576**	5,927
Net Income for the Year	**2,388**	4,580
Retained earnings, opening balance	**87,267**	82,687
Retained earnings, ending balance	**89,655**	87,267

See accompanying notes to financial statements

ONTARIO CLEAN WATER AGENCY

Statement of Cash Flows
For the period ended December 31, 2009

(in thousands of dollars)

	2009	December 31, 2008
Cash Provided by (used for) Operating Activities		
Net Loss - Utility Operations	**(188)**	(1,347)
Items Not Affecting Cash		
Amortization of fixed assets	**2,006**	2,187
Increase in future employee benefits expense	**103**	1,408
(Decrease) increase in municipal contributions payable	**(5)**	5
	1,916	2,253
Changes in non-cash operating working capital		
Accounts Receivable	**430**	(872)
Note Receivable	**0**	203
Prepaid Expenses	**(272)**	202
Accounts Payable and Accrued Liabilities	**(616)**	(1,140)
	(458)	(1,607)
Net Cash Flows from operating activities	**1,458**	646
Cash Used in Investing Activities		
Interest Received	**3,136**	5,730
Principal Repaid on Loans	**1,098**	1,232
Decrease (increase) in Term Deposits	**20,969**	(26,000)
Fixed Assets Acquired	**(2,627)**	(1,714)
Financing Expenses	**(60)**	(49)
Net cash flows from investing activities	**22,516**	(20,801)
Cash Used in Financing Activities		
Changes in Contributed Capital (Note 5b)	**(53)**	227
Increase (Decrease) in Cash	**23,921**	(19,928)
Cash and Short-Term Investments, Opening Balance	**26,250**	46,178
Cash and Short-Term Investments, Closing Balance	**50,171**	26,250

ONTARIO CLEAN WATER AGENCY
December 31, 2009
Notes to Financial Statements

GENERAL

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

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

- assisting municipalities to provide water and wastewater services on a cost-recovery basis by financing, planning, developing, building and operating such works and services;
- financing, building and operating water and wastewater facilities on behalf of Ontario on a cost-recovery basis; and
- providing these services to protect human health and the environment, 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 (GAAP) 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 on a straight line basis as follows:

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

ONTARIO CLEAN WATER AGENCY
December 31, 2009
Notes to Financial Statements

1. **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(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.

ONTARIO CLEAN WATER AGENCY
December 31, 2009
Notes to Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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 Dec 2009 Carrying Amount	Fair Value
	(in thousand of dollars)	
Cash and Short-Term Investments	50,171	51,073
Accounts Receivable	26,099	26,099
Investments in Term Deposits	5,031	5,302
Investments Receivable	6,288	6,993
Loan Receivable-Infrastructure Ontario	120,000	120,000
Accounts Payable and Accrued Liabilities	16,878	16,878

(b) Credit Risk

The carrying value of financial assets represents the maximum exposure to credit risk as at December 31, 2009, as follows:

	(in thousands of dollars)
Cash and Short-Term Investments	50,171
Accounts Receivable	26,099
Investments in Term Deposits	5,031
Investments Receivable	6,288
Loan Receivable-Infrastructure Ontario	120,000

ONTARIO CLEAN WATER AGENCY
December 31, 2009
Notes to Financial Statements

2. FINANCIAL INSTRUMENTS (Cont'd)

(c) Interest Rate Risk

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

	Amount	Interest Rate	Maturity
	(in thousands of dollars)		
Infrastructure Ontario	120,000	variable	Mar. 2023
Cash	18,176	variable	
Short-Term Investments	31,995	0.6%-4.25%	Dec.2010
Term Deposits	5,031	3.16%	Mar. 2011

Had interest rates been 1% higher (lower) in December 2009, 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, 2009 was as follows:

	(in thousands of dollars)
Not past due	12,630
Past Due 31-60 days	3,803
Past Due 61-90 days	769
Past Due 91-120 days	1,747
Past Due 121-150 days	279
More Than 151 days	6,995
Accounts Receivable (Gross)	26,223
Allowance for Doubtful Accounts January 1, 2009	1,325
Increase in Allowance	388
Allowance for Doubtful Accounts December 31, 2009	1,713
Total Net Accounts Receivable Municipalities and Other Customers	24,510

ONTARIO CLEAN WATER AGENCY
December 31, 2009
Notes to Financial Statements

2. FINANCIAL INSTRUMENTS (Cont'd)

(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 5.96**%** and 10.52**%.** Scheduled principal repayments of the investments are as follows:

(12 Months Beginning January)	*(in thousands of dollars)*
2010	762
2011	786
2012	813
2013	815
2014	796
Thereafter	2,222
	6,194
Less: Current portion	762
	5,432
Adjustment to Amortized Cost	94
	5,526

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 March 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, 2009, 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, 2009 totaled $5.9 million.

ONTARIO CLEAN WATER AGENCY
December 31, 2009
Notes to Financial Statements

2. FINANCIAL INSTRUMENTS (Cont'd)

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 $5 million in a term deposit with the rate of 3.16% which has a 2 year term maturing on March 4th, 2011.

(g) Financing Revenue

Financing revenue is broken down as follows:

	(in thousands of dollars)
a. Interest from Cash and short-term investments	1,366
b. Interest from Investment Receivable	510
c. Interest from Investment in Term Deposits	131
d. Interest from Loan Receivable-Infrastructure Ontario	689
Total	**2,696**

(h) Municipal Contributions Payable

At December 31, 2009, the Agency held funds on behalf of the municipalities amounting to $0.3 million (2008 - $0.3 million). These funds are included in cash and short-term investments.

(i) 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.

(j) 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.

ONTARIO CLEAN WATER AGENCY
December 31, 2009
Notes to Financial Statements

3. FIXED ASSETS

(in thousands of dollars)	Cost	Accumulated Amortization	**Net December 31, 2009**	Net December 31, 2008
Furniture and fixtures	1,766	1,622	**144**	212
Automotive equipment	1,850	352	**1,498**	67
Computer hardware	8,560	8,020	**540**	946
Computer software	4,536	4,316	**220**	448
Machinery and equipment	805	546	**259**	281
Information systems	2,495	680	**1,815**	1,620
Leasehold improvements	6,780	6,686	**94**	435
	26,792	22,222	**4,570**	4,009

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)	
2010	2,097
2011	1,805
2012	951
2013	236
	5,089

ONTARIO CLEAN WATER AGENCY
December 31, 2009
Notes to Financial Statements

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 $55.2 million. The Province has considerable influence on the use of these resources.

(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. 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. Recoveries of past charges of contributed surplus are reflected as an increase to contributed surplus.

(in thousands of dollars)	**December 31, 2009**	December 31, 2008
Opening balance, January 1	**96,047**	95,820
Adjustments to opening balance	**(53)**	227
	95,994	96,047

ONTARIO CLEAN WATER AGENCY
December 31, 2009
Notes to Financial Statements

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 $12.6 million (2008 - $12.5 million) of which $2.7 million has been classified as current liability. The amount charged to the income statement in 2009 was $1.7 million (2008 - $1.9 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 $2.3 million (2008 - $2.5 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, 2008.

It is management's opinion that the balance at December 31, 2009 will not be materially different. Adjustment to the estimated WSIB obligation cumulative balance, if any, will be made in the year the updated 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.

ONTARIO CLEAN WATER AGENCY
December 31, 2009
Notes to Financial Statements

7. RELATED PARTY TRANSACTIONS (Cont'd)

(b) Pension Plan

The Agency's full-time employees participate in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU-PF), which are defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU-PF, determines the Agency's annual payments of 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 agency. The Agency's annual payments of $2.6 million (2008 - $2.5 million), are 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 $2.3 million (2008 - $2.8 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 (2008 - $2.6 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 (i).

(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.

(V) The Agency has a $0.8 million accounts payable to the Ministry of the Environment for rent proceeds it collects for a property, net of realty taxes paid, managed on behalf of the Ministry.

ONTARIO CLEAN WATER AGENCY
December 31, 2009
Notes to Financial Statements

8. RECLASSIFICATION

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

9. FUTURE ACCOUNTING PRONOUNCEMENTS

In October 2009 exposure draft the Canadian Institute of Chartered Accountants clarified that government business enterprises would have to follow International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. It is likely that the agency is a government business enterprise based on the definition in the accounting standards, although the Province has yet to confirm this decision.

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.

Bohodar Rubashewsky	Lisa Bell-Murray
Interim Chief Executive Officer	Vice President Controller

June 23, 2010

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AUDITORS' REPORT

To the Board of Directors of the Ontario Lottery and Gaming Corporation
and to the Minister of Finance

We have audited the consolidated balance sheets of the Ontario Lottery and Gaming Corporation as at March 31, 2010 and 2009 and the consolidated statements of income and other comprehensive income, retained earnings and cash flows for the years 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 audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

June 15, 2010

Ontario Lottery and Gaming Corporation
Consolidated Balance Sheet
As at March 31, 2010, with comparative figures for 2009
(in thousands of dollars)

		2010		2009 (Restated - note 1(s)(i))
Assets				
Current assets				
Cash and cash equivalents	$	324,640	$	323,952
Accounts receivable		78,239		60,384
Prepaid expenses		32,478		36,834
Inventories (Note 2)		29,695		21,723
Current portion of loans receivable (Note 4)		6,121		7,209
		471,173		450,102
Restricted cash (Note 3)		199,103		192,887
Loans receivable (Note 4)		25,858		29,248
Property, plant and equipment (Note 5)		2,492,286		2,495,836
Goodwill		1,776		1,776
Cash and short-term investments held for First Nations (Note 6)		191,696		176,249
	$	**3,381,892**	**$**	**3,346,098**
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	321,817	$	342,200
Due to operators (Note 7)		37,544		44,464
Due to Chippewas of Mnjikaning (Note 7)		1,577		1,675
Due to Government of Canada (Note 17)		7,421		5,376
Deferred revenues		15,807		17,555
Current portion of long-term debt (Note 8)		49,313		86,765
		433,479		498,035
Due to First Nations (Note 6)		191,696		176,249
Long-term debt (Note 8)		186,077		169,607
Accrued future benefit costs (Note 15)		18,694		15,709
Asset retirement obligation		1,535		1,499
Equity				
Retained earnings		2,358,441		2,292,765
Contributed surplus		62,345		62,345
Reserves (Note 3)		129,625		129,889
		2,550,411		2,484,999
	$	**3,381,892**	**$**	**3,346,098**

Commitments (Notes 3, 4, 7 and 11)
Contingencies (Notes 7 and 12)

See accompanying notes to consolidated financial statements.

On behalf of the Board

Paul Godfrey, Chair

Thomas O'Brien, Director

Ontario Lottery and Gaming Corporation

Consolidated Statement of Income and Other Comprehensive Income

Year ended March 31, 2010, with comparative figures for 2009
(in thousands of dollars)

	2010	2009 (Restated - note 1(s)(i))
Revenues		
Lotteries and bingo	$ 2,890,258	$ 2,947,616
Resort casinos	1,353,214	1,408,813
Casinos and slots at racetracks	2,035,547	2,070,559
	6,279,019	**6,426,988**
Operating expenses		
Lotteries and bingo	2,093,341	2,192,526
Resort casinos	1,428,093	1,506,714
Casinos and slots at racetracks	1,100,221	1,103,139
	4,621,655	**4,802,379**
Income before the undernoted	**1,657,364**	**1,624,609**
Interest and other income	58,612	37,795
Interest on long-term debt	(7,218)	(9,316)
Foreign exchange gain	9,986	17,762
Net income and other comprehensive income	$ **1,718,744**	$ **1,670,850**

Segmented information (Note 13)

See accompanying notes to consolidated financial statements.

Ontario Lottery and Gaming Corporation

Consolidated Statement of Retained Earnings

Year ended March 31, 2010, with comparative figures for 2009
(in thousands of dollars)

	2010	2009 (Restated - note 1(s)(i))
Retained earnings, beginning of year	$ 2,292,765	$ 2,251,737
Adjustment on adoption of new accounting standard for goodwill and intangible assets (Note 1(s)(i))	-	(4,848)
As restated	2,292,765	2,246,889
Net income	1,718,744	1,670,850
Transfers from reserves, net	264	39,070
Distribution to First Nations on behalf of the Province of Ontario	(67,184)	(67,805)
Payments to the Province of Ontario	(1,586,148)	(1,596,239)
Retained earnings, end of year	**$ 2,358,441**	**$ 2,292,765**

See accompanying notes to consolidated financial statements.

Ontario Lottery and Gaming Corporation
Consolidated Statement of Cash Flows
Year ended March 31, 2010, with comparative figures for 2009
(in thousands of dollars)

	2010	2009 (Restated - note 1(s)(i))
Cash flows from (used in) operating activities		
Net income	$ 1,718,744	$ 1,670,850
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of property, plant and equipment and asset retirement obligation	234,339	259,245
Accretion expense	36	147
Loss on disposal of property, plant and equipment	8,622	5,240
Impairment of long-lived assets	3,997	-
Accrued future benefit costs	2,986	(10,363)
Change in non-cash working capital:		
Accounts receivable	(17,856)	18,515
Prepaid expenses	4,356	(6,356)
Inventories	(7,972)	1,457
Accounts payable and accrued liabilities	(32,282)	(24,471)
Due to operators	(6,920)	2,127
Due to Chippewas of Mnjikaning	(98)	(282)
Due to Government of Canada	2,044	(3,158)
Deferred revenues	(1,748)	1,424
Due to First Nations	(340)	(4,466)
Net cash from operating activities	1,907,908	1,909,909
Cash flows from (used in) financing activities		
Increase in long-term debt	18,524	144,068
Repayments of long-term debt	(87,055)	(184,858)
Payment of capital lease obligations	(92)	-
Payments to Province of Ontario	(1,586,148)	(1,596,239)
Distributions to First Nations	(66,844)	(63,339)
Net cash used in financing activities	(1,721,615)	(1,700,368)
Cash flows from (used in) investing activities		
Issuance of loans receivable	(2,238)	(190)
Repayment of loans receivable	6,717	9,229
Capital expenditures	(187,328)	(248,588)
Proceeds on disposal of property, plant and equipment	3,460	2,204
Increase in restricted cash	(6,216)	(9,396)
Net cash used in investing activities	(185,605)	(246,741)
Increase (decrease) in cash and cash equivalents	688	(37,200)
Cash and cash equivalents, beginning of year	323,952	361,152
Cash and cash equivalents, end of year	**$ 324,640**	**$ 323,952**
Cash and cash equivalents are comprised of:		
Cash	$ 323,240	$ 314,642
Cash equivalents	1,400	9,310
	$ 324,640	$ 323,952
Supplemental cash flow information:		
Cash interest received	$ 3,042	$ 9,423
Cash paid for interest	6,808	5,951
Supplemental disclosure relating to non-cash financing and investing activities:		
Acquisition of Casino Niagara building through capital lease	$ 47,640	$ -

See accompanying notes to consolidated financial statements.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements

Year ended March 31, 2010, with comparative figures for 2009
(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 Slot Machine Facility, seventeen slot operations at racetracks and four resort casinos (including Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (Fallsview)) in the Province of Ontario.

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

The assets, liabilities and operations of the Great Blue Heron 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.

b. Revenue recognition

Lottery and bingo games are sold to the public by contracted lottery retailers and bingo service providers. Revenue from tickets sold to consumers for lottery games, for which results are determined based on a draw, is recognized when 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 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. Promotional allowance is recorded as a reduction to revenue in accordance with EIC-156. Discretionary incentive programs, such as non-cashable free play, are offered based on past levels of play or to incent future play. Discretionary, non-cashable free play is not recorded as revenue. Non-discretionary incentive programs,

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2010, with comparative figures for 2009
(tabular amounts in thousands of dollars)

such as point-based loyalty programs, are offered based on past levels of play.

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.

Loyalty programs

The patrons' 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 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 6 to 12-month period. Promotional allowances include the estimated redemption value of the points as they are earned.

Coupons and other incentives

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 as described below:

- Prize expense for tickets sold to consumers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs.
- Prize expense for instant games is recognized when retailers make them available for sale to the public, as indicated by the retailer's activation of tickets.
- Prize expense for sports wagering games is recognized when the last wagered event occurs.
- Prize expense for bingo gaming is recognized when the bingo paper or electronic game is sold to the consumer.
- 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.

Prize expense is adjusted on a monthly basis to reflect amounts actually won and/or unclaimed.

Unclaimed prizes on national games are returned to the patrons 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.

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements

Year ended March 31, 2010, with comparative figures for 2009
(tabular amounts in thousands of dollars)

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 ticket 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. Commission amounts that are paid to a retailer for selling a major prize is recorded as an expense when the ticket is redeemed.

Bingo service providers receive a commission based on either a percentage of total gaming revenue, plus or minus incentive adjustments for achieving sales, prize payout, and cost of goods sold targets or a percentage of total gaming revenue less total prize payout. Municipalities who host the Corporation’s bingo halls receive a commission based on either a percentage of total revenue or a percentage of total revenue less total prize payout.

Racetrack site holders and the horse racing industry are each entitled to receive a predetermined percentage of revenue from slots, or other amounts as agreed to, 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 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, 2010, cash and cash equivalents include bank term deposits amounting to $1,400,000 (2009 – $9,310,000) at an interest rate of 0.1 per cent (2009 – 0.35 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 $1,512,000 (2009 – $2,720,000) has been recorded on this receivable balance. As at March 31, 2010, the net book value of retailer and bingo service provider accounts receivable was $36,407,000 (2009 – $29,378,000).

h. Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined using the weighted average cost or first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to complete the sale.

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 10 years
Casino and racetrack slot operations gaming assets	2 to 10 years
Energy centre assets	15 to 40 years
Assets under capital lease	Over term of lease

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2010, with comparative figures for 2009
(tabular amounts in thousands of dollars)

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 property, plant and equipment, are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The impairment analysis is performed using a two-step process. Step I of the impairment test assesses if the carrying value of the long-lived assets exceeds their estimated undiscounted future cash flows in order to assess if the assets are impaired. In the event the estimated undiscounted future cash flows are lower than the carrying value of the assets, a Step II impairment test must be carried out to determine the impairment charge. In Step II, long-lived assets are written down to their estimated fair values. Given there is no readily available quoted value for the Corporation's long-lived assets, the Corporation determines fair value of its long-lived assets using the estimated discounted future cash flow expected from their use and eventual disposition. The discounted future cash flows in Step II are based on the undiscounted cash flows in Step I. In assessing long-lived assets for impairment, assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

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, 2010 and March 31, 2009, no impairments in the carrying value of these assets existed, except as disclosed in Note 5.

k. Leases

Leases that transfer substantially all the benefits, risks and rewards of ownership to the Corporation are recorded as capital leases and classified as property, plant and equipment with a corresponding increase to obligations under capital leases. Property under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property and the present value of those lease payments. Amortization will be recorded upon commencement of commercial operations. All other leases are classified as operating leases under which leasing costs are expensed in the period incurred.

l. 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.

m. 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

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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, 2010, the Corporation recorded amortization expense of $48,000 (2009 – $105,000) in the consolidated statement of income and other comprehensive income. The Corporation recorded a liability of $1,535,000 (2009 – $1,499,000) 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 $291,000 (2009 – $406,000).

The gross amount of the obligation is $1,610,000 (2009 – $1,446,000), which is expected to be paid out in one to fifteen years. The credit adjusted risk-free rate is 2.4 per cent (2009 – 4.5 per cent). The accretion expense for the year was $36,000 (2009 – $147,000).

n. 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. Absent any triggering factors during the year, the Corporation conducts its goodwill impairment test in the fourth quarter of the year. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill 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, 2010 and March 31, 2009, no impairment in the carrying value of this asset existed.

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.

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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, 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 are 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 and 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, 2010 and March 31, 2009.

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 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.

The Corporation discloses the significance of financial instruments on its financial position and performance, the nature and extent of risks arising from financial instruments to which the Corporation is exposed to during the year and at the consolidated balance sheet date, and how the Corporation manage those risks, as disclosed in Note 9.

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r. Capital disclosures

The Corporation discloses information that enables users of its consolidated financial statement to evaluate the Corporation's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences for such non-compliance, as disclosed in Note 10.

s. Adoption of new accounting standards

i. Goodwill and intangible assets

Effective April 1, 2009, the Corporation adopted CICA 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 guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets.

The new standard was applied retrospectively, with a restatement of prior periods. The adoption of CICA 3064 resulted in a $6,845,000 decrease in deferred pre-opening costs, which consists of compensation, consulting, and other direct costs incurred in connection with the development and opening of gaming sites, of which $4,848,000 was recorded as a decrease in retained earnings at April 1, 2008. A total of $1,997,000 in costs incurred in fiscal 2009 that were previously deferred were expensed. These changes reflect the reversal of the amortization of pre-opening and deferred expenditures previously recorded in those years, and the expensing of pre-opening and deferred expenditures previously capitalized. Furthermore, the adoption of CICA 3064 has also resulted in a reclassification of $12,893,000 from assets contributed to Chippewas of Mnjikaning to property, plant and equipment at April 1, 2009. The Corporation had determined that these assets can be capitalized under CICA Handbook Section 3061, Property, Plant and Equipment (CICA 3061); however the Corporation made an accounting policy choice to capitalize the assets under EIC-27, Revenue and Expenditures during the Pre-Operating Period (EIC-27), and CICA Handbook Section 3070, Deferred Charges (CICA 3070) instead. CICA 3070 has been withdrawn and with the adoption of CICA 3064, the Corporation determined that a change in accounting policy was appropriate and that the assets should be reclassified to property, plant and equipment and be accounted for in accordance with CICA 3061. There was no impact of this change in accounting policy on current or previous reported amortization expense as the assets will continue to be amortized over the period of the Casino Rama ground lease.

ii. Financial instruments

Effective April 1, 2009, the Corporation adopted CICA Handbook Section 3862, Financial Instruments – Disclosures (CICA 3862), that includes additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements.

Fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and financial liabilities in Level 2 include valuations using inputs based on observable market data, either directly or indirectly other than quoted prices. Level 3 valuations are based on inputs that are not based on observable market data. The additional disclosures are included in Note 9.

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

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CICA 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the year and at the balance sheet date, and how the entity manages those risks.

CICA 3863 establishes standards for 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 any impact on the classification and measurement of the Corporation's financial instruments or liquidity risk disclosures. The disclosures pursuant to this amended Handbook Section are included in Note 9.

In 2009, the Canadian Accounting Standards Board (AcSB) amended Sections 3855 – Financial Instruments – Recognition and Measurement, and 3862 – Financial Instruments – Disclosures. These amendments enhance existing disclosure requirements and provide additional guidance in the assessment and accounting treatment of certain financial instruments and in calculating the effective interest rate. The additional disclosures are included in Note 9.

t. Recent Canadian accounting pronouncements

i. Business combinations

In October of 2008, the CICA issued Handbook Section 1582, Business Combinations (CICA 1582), concurrently with Handbook Section 1601, Consolidated Financial Statements (CICA 1601), and Handbook Section 1602, Non-controlling Interests (CICA 1602). CICA 1582, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. CICA 1601 carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. CICA 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Corporation's consolidated financial statements commencing on April 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Corporation will assess the impact of the new standards on its consolidated financial statements when if and when it completes a business combination.

ii. Multiple deliverable revenue arrangements

In December 2009, the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements (EIC-175). EIC-175, which replaces EIC-142, Revenue Arrangements with Multiple Deliverables, addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. This new standard is effective for the Corporation's consolidated financial statements commencing on April 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Corporation will assess the impact of the new standard on its financial statements.

iii. 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.

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The Canadian Accounting Standards Board has determined that government business enterprises will be required to adopt IFRS. IFRS will replace current Canadian GAAP for those enterprises. 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 transition to IFRS represents a significant initiative (IFRS Transition Project) for the Corporation that is supported by a formal governance structure. The Corporation's IFRS Transition Project continues to progress in accordance with management's transition plan. Pursuant to management's plans a preliminary assessment of the accounting and financial reporting differences under IFRS compared to Canadian GAAP has been completed. However, management has not yet finalized the determination of the impact of these differences on the consolidated financial statements. As management finalizes its assessment, the Corporation intends to disclose such impacts in its future consolidated financial statements.

2. Inventories

	2010	2009
Slot machine and table game parts	$6,821	$ 9,772
Lottery tickets and paper	16,870	7,912
Security and surveillance parts	1,487	1,488
Food and beverage	3,274	3,177
Retail	609	704
Other	2,797	3,229
	31,858	26,282
Less allowance	(2,163)	(4,559)
	$29,695	$ 21,723

Inventory costs, included in operating expenses, for the year ended March 31, 2010 was $102,489,000 (2009 – $108,032,000). During the year ended March 31, 2010, the Corporation recorded inventory write-downs in operating expenses of $119,000 (2009 – $1,228,000).

3. Restricted cash and reserves

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

	2010	2009
Reserves		
Capital renewals	$29,728	$31,449
Operating	58,466	59,106
Severance	41,431	39,334
	129,625	129,889
Less unrestricted capital renewals and operating	(5,013)	(6,765)
Funded reserves balance	124,612	123,124
Prize funds on deposit	49,391	45,913
Term loan proceeds	25,100	23,850
	$199,103	$192,887

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

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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 2010, the Corporation transferred cash of $53,000,000 (2009 – $35,500,000) to Caesars Windsor for their working capital requirements. The Corporation has committed to transferring additional amounts of up to $81,500,000 to Caesars Windsor in fiscal 2011. The Corporation and the Operator of Caesars Windsor have agreed that both the operating and capital renewals reserves at Caesars Windsor, totaling $5,013,000 (2009 - $6,765,000), 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 of $79,274,000 (2009 - $76,081,000) less an estimate for prizes not expected to be claimed by consumers of $29,883,000 (2009 - $30,168,000).

Term loan proceeds represent restricted cash that is to be used for construction purposes at Caesars Windsor and for the renovation and expansion at Ajax Downs.

4. Loans receivable

	2010	2009
Loans receivable	$31,979	$38,307
Less allowance for uncollectible loans	-	(1,850)
	31,979	36,457
Less current portion of loans receivable	(6,121)	(7,209)
	$25,858	$29,248

The Corporation has loaned and is committed to loan funds to certain racetrack site holders 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 site holders' 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 site holders.

During fiscal 2010, additional funds were advanced to a site holder for the development and expansion of its property. During the fiscal year $2,244,000 (2009 – $15,210,000) had been advanced to a site holder and has been included in loans receivable. The Corporation's maximum remaining commitment as at March 31, 2010 is $4,256,000.

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5. Property, plant and equipment

			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value (Restated, note 1(s)(i))
Land	$137,824	$ –	$137,824	$137,824
Buildings	1,916,788	299,596	1,617,192	1,639,824
Furniture and fixtures	668,490	507,430	161,060	186,056
Leasehold improvements	627,283	405,958	221,325	242,242
Lottery gaming assets	113,834	87,055	26,779	14,607
Casino and racetrack slot operation gaming assets	702,947	479,611	223,336	211,816
Assets under capital lease	47,640	25	47,615	-
Construction in progress and assets not in use	57,155	-	57,155	63,467
	$4,271,961	$1,779,675	$2,492,286	$2,495,836

Amortization for the year was $234,339,000 (2009 – $259,245,000). During the year, net interest of $836,000 (2009 – $1,054,000) was capitalized.

a. Impairment of long-lived assets

During 2010, management performed an impairment analysis on the asset groups at Casears Windsor, one of its Slots at Racetrack facilities, and its bingo operations as a result of triggering events described below.

Management performed an impairment analysis on the Caesars Windsor asset group as several triggering events occurred such as: a vote in Ohio that concluded that casino style gaming will be allowed in the state which is expected to negatively impact Caesars Windsor's future revenue; the implementation of passport requirements at the U.S. border which has caused a continued deterioration in Caesars Windsor's revenues; and the announcement of the introduction of Harmonized Sales Tax (HST). The Corporation conducted a Step I impairment test on the recoverability of the Caesars Windsor asset group at the property by comparing the carrying value of the asset group to the estimated undiscounted future cash flows. The Corporation determined that the expected future cash flows over the economic life of the principal assets, which are the buildings, were greater than the carrying value of the long-lived assets and that no impairment existed.

Management performed an impairment analysis on the asset group at one of its Slots at Racetrack facilities as a result of triggering events, such as the continued deterioration in revenue at the facility which resulted in a significant reduction in future projected cash flows for the facility. The Corporation conducted a Step I impairment test on the recoverability of the asset group at the facility by comparing the carrying value of the asset group to the estimated undiscounted future cash flows. The Corporation determined that the expected future cash flows over the economic life of the principal assets were less than the carrying value of the long-lived assets, indicating that an impairment existed. A Step II test was undertaken to determine the fair value of the long-lived assets in the asset group and the Corporation recorded a non-cash impairment charge of $3,997,000 to reduce the long-lived assets to their estimated fair value. The fair value of the property, plant and equipment was determined using a discounted cash flow methodology. The charge is included in general and administration expenses on the Consolidated Statement of Income and Other Comprehensive Income under Casinos and Slots at Racetracks in Note 13 to the consolidated financial statements.

Management performed an impairment analysis on the bingo operation asset group as a result of triggering events, such as the current period operating and cash flow loss for the bingo operation and the historical operating and cash flow losses. In addition, projections indicate a net cash flow loss for the year ending

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March 31, 2011. The Corporation conducted a Step I impairment test on the recoverability of the asset group of the operations by comparing the carrying value of the bingo operation asset group to the estimated undiscounted future cash flows. The Corporation determined that the expected future cash flows over the economic life of the principal assets were greater than the carrying value of the long-lived assets and that no impairment existed.

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

	2010	2009
Segregated bank account, beginning of year	$159,490	$195,755
Distributions to the segregated bank account during the year	23,397	21,763
Distributions from the segregated bank account during the year – per Court Order	(7,952)	(62,441)
Interest earned during the year	506	4,413
Segregated bank account, end of year	175,441	159,490
Current distribution due to First Nations	16,255	16,759
	$191,696	$176,249

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 First Nation (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 and 2010, additional orders were received from the Superior Court Justice of Ontario which required a total of $23,019,000 to be released from the segregated bank account to OFNLP. Pursuant to the terms of the Post-2011 Contract, as defined below, the Chippewas of Mnjikaning's entitlement to any share of the revenues under the Agreement shall cease as of August 1, 2011. The balance of funds accrued prior to August 1, 2011 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 7(d) to the consolidated financial statements.

On January 26, 2010, the Corporation and the Chippewas of Mnjikaning announced that they had entered into an agreement dated July 17, 2009 relating to Casino Rama for the 20-year period commencing August 1, 2011 and relating to possible future development (the 'Post-2011 Contract'). The key terms of this new agreement are outlined in Note 7 (d) to the consolidated financial statements.

The payment related to the monthly distribution of the net revenue for March 2010 of $16,255,000 is included above as a current distribution due to First Nations.

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7. 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. These transactions include loan agreements with the Ontario Financing Authority, as described in Note 8 to the consolidated financial statements.

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 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 January 22, 2010, the Corporation entered into a new operating agreement with Great Blue Heron Gaming Company, a subsidiary of Casinos Austria, among others. The agreement commences on the opening of the new casino facility and ends on the earlier of 20 years from the opening and June 28, 2031 and has terms 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, $5,815,000 (2009 - $5,780,000) was expensed. Other Chippewas of Mnjikaning charges amounting to $8,210,000 (2009 - $7,821,000) 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 from a company related to the Chippewas of Mnjikaning, $691,000 (2009 - $683,000) was expensed. 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, $350,000 was expensed (2009 - $349,000).

   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, $4,514,000 (2009 – $4,460,000) was expensed.

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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, $2,029,000 (2009 - $2,004,000) 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, $19,000 (2009 - $3,606,000) was paid to the Chippewas of Mnjikaning under this Letter of Agreement to pay contractors involved in the acquisition of leasehold improvements.

d. 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, the Ontario First Nations (2008) Limited Partnership and OFNLP entered into a Gaming Revenue Sharing and Financial Agreement (the ‘GRSFA’). The key terms of the GRSFA, relevant to OLG, are as follows:

i) The Province of Ontario shall pay, or require the Corporation to pay, to the OFNLP, 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 OFNLP shall, subject to acceptance by the Courts, discontinue the litigation related to the 20 per cent win contribution commenced in Ontario Superior Court of Justice (the ‘20% Action’) and release Her Majesty the Queen in right of Ontario and the Corporation.

In accordance with the terms of the GRSFA, the Chiefs of Ontario and OFNLP obtained an Order granting them leave to discontinue the 20% Action in its entirety against Her Majesty the Queen in right of Ontario and against the Corporation. The Chiefs of Ontario and OFNLP delivered and filed a Notice of Discontinuance dated February 25, 2008 discontinuing without costs the 20% Action in its entirety as against her Majesty the Queen in right of Ontario and as against the Corporation.

On January 26, 2010, the Corporation and the Chippewas of Mnjikaning announced that they had entered into an agreement dated July 17, 2009 relating to Casino Rama for the 20-year period commencing August 1, 2011 and relating to possible future development (the ‘Post-2011 Contract’). The key terms of the Post-2011 Contract, relevant to OLG, are as follows:

i) The term of the Post-2011 Contract will commence August 1, 2011 and continue until July 31, 2031, subject to earlier termination or the exercise by the Corporation of two successive options to extend the Post-2011 Contract for successive extension periods of ten years and then five years,

ii) The Chippewas of Mnjikaning shall be entitled to receive an annual fee (the ‘Rama Fee’) for each successive twelve month period commencing August 1, 2011 in an amount equal to the greater of 1.9 per cent of the Gross Revenues of the Complex, as defined, and $5,500,000, and

iii) The Corporation agrees to contribute $2,000,000 towards the capital cost of a gaming and executive development training centre.

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The Post-2011 Contract shall terminate on March 14, 2021 if the Chippewas of Mnjikaning and the Rama Corporation do not replace the existing surrenders and permits with a new surrender, or establish a land management regime on or before December 31, 2015.

Pursuant to the Post-2011 Contract, the Chippewas of Mnjikaning, the Corporation and the Province, as and where applicable, shall consent to the dismissal without costs of: (i) an action related to the legal and beneficial ownership of all capital assets purchased for use in the development and operation of Casino Rama and reimbursement of all retail sales tax paid or accrued in respect thereof, (ii) certain claims based on an alleged delay in the construction of Casino Rama, and certain claims related to the payment of 20% of Casino Rama revenues in the 20% Action, and (iii) certain claims and crossclaims asserted by the Chippewas of Mnjikaning in the 20% Action, and shall also use best efforts to obtain the consents to such dismissals from the other named parties.

e. 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, $4,188,000 (2009 – $4,556,000) was paid to the Mississaugas of Scugog Island First Nation.

f. 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, 2010, the Operator's fees, due to the Operator, included an Attractor fee accrual of $5,244,000 (2009 - $5,058,000).

8. Long-term debt

	2010	2009
Niagara Fallsview Casino Resort loan (a)	$ -	$43,880
Caesars Windsor loan (b)	169,607	212,492
Ajax Downs loan (c)	18,233	-
Obligation under capital lease (d)	47,550	-
	235,390	256,372
Less current portion	(49,313)	(86,765)
	$186,077	$169,607

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 was repayable over five years. The loan bore 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 Windsor and for financing the construction of the Windsor Clean Energy Centre (the Energy Centre). The Energy Centre was constructed to provide electricity, heating and cooling to the expanded Caesars Windsor facilities. 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.

c. Ajax Downs loan

In June 2009, 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 Ajax Downs. The initial loan balance of $18,524,000 plus interest is repayable over five years. The loan bears interest at a rate of 2.4 per cent per annum and is unsecured.

(tabular amounts in thousands of dollars)

d. Obligation under capital lease

Effective March 2010, the Corporation entered into an amending agreement for an additional 15-year lease term with Maple Leaf Entertainment Inc., Canadian Niagara Hotels Inc., 1032514 Ontario Limited and Greenburg International Inc. (collectively, the "Owners"), to lease the facility which houses Casino Niagara and to license the adjacent parking facilities. The agreement extends the term of the original lease and license agreements by an additional term of 15 years from March 10, 2010 to expire on March 9, 2025. This agreement is considered to be a capital lease for accounting purposes and has a calculated implicit interest rate of 8.2 per cent.

Repayments expected to be made over the next five years and thereafter are approximately:

		Obligation under capital lease		**Total**
	Long-term debt	Principal	Interest	
2011	$47,825	$1,488	$4,012	$53,325
2012	49,360	1,626	3,874	54,860
2013	50,945	1,771	3,729	56,445
2014	36,145	1,928	3,572	41,645
2015	3,565	2,112	3,400	9,077
Thereafter	-	38,625	19,047	57,672

The imputed interest portion of payments made in fiscal 2010 was $226,000.

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 April 1, 2008.

9. 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 site holders. The Corporation performs ongoing credit evaluations of retailers, bingo service providers, patrons and racetrack site holders and maintains reserves for potential credit losses on accounts receivable balances. The carrying amount of

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these financial assets represents the maximum credit exposure.

The amounts disclosed in the consolidated balance sheet are net of allowances for doubtful accounts, which consist 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, 2010 the Corporation had an allowance for doubtful accounts of $6,785,000 (2009 – $11,144,000), which represented approximately 5.8 per cent (2009 – 10.3 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.

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	$321,817	$321,817	$321,817	$ -	$ -	$ -
Due to operators	37,544	37,544	37,544	-	-	-
Due to Chippewas of Mnjikaning	1,577	1,577	1,577	-	-	-
Due to Government of Canada	7,421	7,421	7,421	-	-	-
Due to First Nations	191,696	191,696	-	-	191,696	-
Long-term debt, including obligation under capital lease	235,390	235,390	49,313	50,986	96,466	38,625

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.

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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 site holders 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 three loan agreements entered into with the Ontario Financing Authority and an obligation under capital lease. The obligation under capital lease, as noted in Note 8 (d), and the term loan agreements have a fixed interest rate for the entire term and are currently subject to limited interest rate risk.

The amount of cash and cash equivalents was $324,640,000 and the loans receivable was $31,979,000 as at March 31, 2010. The impact of fluctuations in interest rates on interest income from cash and cash equivalents and loans receivable 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 – 'USD') and by holding bank accounts and investments in USD.

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 USD. The Corporation's border properties attract US players who are required to exchange their USD 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 USD cash and bank accounts for the purposes of transacting in USD with patrons, as well as paying its US based suppliers. The balances held in USD are closely monitored to ensure future USD 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, 2010 was $9,986,000 (2009 - $17,762,000).

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:

	USD	
	2010	**2009**
Cash and cash equivalents	$15,853	$ 11,327
Accounts payable and accrued liabilities	(5,555)	(1,207)
Net exposure	$10,298	$ 10,120

All USD balances are shown in CAD equivalents.

<u>Sensitivity analysis</u>

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A ten per cent increase in USD at March 31, 2010 would have increased net income by $1,030,000 CAD (2009 – $1,012,000). A ten percent decrease in the USD at March 31, 2010 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.

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 or because they are receivable / payable on demand. The Corporation's financial instruments carried at fair value on the balance sheet, which consists of cash and cash equivalents, restricted cash, and cash and short-term investments held for First Nations are valued using quoted market prices, which is included in Level 1.

Loans receivable are carried at amortized cost using the effective interest method. The carrying value of loans receivable approximates the fair value as the rates utilized in the effective interest calculations reflect market prime rates. The loans receivable is included in Level 2 since the fair market value measurements are based on observable market data other than quoted prices.

The fair value of the Corporation's long-term debt, excluding the obligation under capital lease, is not determinable given its related party nature and there is no observable market for the Corporation's long-term debt. The obligation under capital lease is included in Level 2 since the fair market value measurements are based on observable market data other than quoted prices.

There were no financial statement categories in Level 3 (valuation techniques using non-observable market input) as at March 31, 2010.

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.

10. 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

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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.

11. Commitments

a. Obligations under operating leases

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

2011	$16,861
2012	6,815
2013	1,519
2014	1,226
2015	265
	26,686
Thereafter	6,419
	$33,105

b. Suppliers

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

2011	$15,169
2012	12,290
2013	11,359
2014	2,721
2015	110
	$41,649

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 compensatory payments over 20 years with payments commencing May 1, 1998 in the amount of $2,600,000 per annum for the first ten years and $3,000,000 per annum for the last ten years.

d. Niagara Fallsview Casino Resort

In connection with the terms of an agreement between Fallsview and the City of Niagara Falls (the City), the Corporation agreed to provide the City with compensation 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, for as long as Fallsview does not cease operations, adjusted for Consumer Price Index as defined in the agreement.

e. Casino Rama

In connection with the terms of the Post-2011 Contract between the Corporation and the Chippewas of Mnjikaning, as outlined in Note 7 (d) to the consolidated financial statements, the Corporation agreed to pay the Chippewas of Mnjikaning an annual fee, commencing August 1, 2011, in an amount equal to the greater of 1.9 per cent of the Gross Revenues of the Complex, as defined, and $5,500,000 in consideration of the Chippewas of Mnjikaning authorizing the extension of the operation of the Complex on the reserve, carrying out its responsibilities as provided in the terms of the Post-2011 Contract, and providing certain intellectual property rights for use relating to the Complex, during the term of the Post-2011 Contract continuing until July 31, 2031.

f. 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 $18,954,000

In connection with the terms of an amending agreement and an assignment, consent and acknowledgement agreement between the Corporation and a Slots at Racetrack site holder, the Corporation agreed to provide the site holder with payments commencing December 31, 2009 in the amount of $5,600,000 per annum for three years in lieu of a predetermined percentage of revenue from slots.

g. MSIFN

In fiscal 2010, the Corporation and the MSIFN entered into an agreement to construct a new casino facility, on MSIFN reserve lands, at an estimated total cost of $165,000,000. The new casino facility 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. Assuming financing approvals are obtained on a timely basis, construction is anticipated to commence in the fall of 2010 with completion and opening in the spring of 2013.

In January, 2010 the Corporation, MSIFN and the casino operator entered into an operating agreement. Concurrent with the development and with the operating agreement, the Corporation, MSIFN and the casino operator will be entering into a development agreement, support agreement, and sublicense agreement that will govern the construction of the facility and the operation of the casino going forward.

12. Contingencies

a. In August 2004, the Chippewas of Mnjikaning First Nation (the Plaintiff) issued a statement of claim against the Corporation, Ontario Gaming Assets Corporation, Her Majesty the Queen in right of Ontario and CHC Casinos Canada Limited, as defendant parties. The Plaintiff alleges to be the legal and beneficial owner of all capital assets purchased for use in the development and operation of Casino Rama and requires all amounts of retail sales tax that have been paid or accrued in respect of purchases of capital assets be reimbursed. The Plaintiff claims damages in the amount of $21,000,000 against the defendant parties, excluding CHC Casinos Canada Limited, and claims that title to all capital assets purchased for use in the development and operation of Casino Rama be transferred to the Plaintiff. Under the Post-2011 Contract, the Chippewas of Mnjikaning, Her Majesty the Queen in right of Ontario and the Corporation agreed to resolve this action by consenting to its dismissal on a without costs basis. Both CHC Casino Canada Limited and Ontario Gaming Assets Corporation have also agreed to provide their consents. The Post-2011 Contract also requires the Chippewas of Mnjikaning and the Province of Ontario to use best efforts to obtain OFNLP's consent to the dismissal of the action. Efforts are underway to obtain OFNLP's consent and it is reasonably anticipated that this will be forthcoming. As a consequence, it is anticipated that this action will be dismissed on consent, without costs. As a consequence of the foregoing, no amounts have been accrued in these consolidated financial statements.

b. The Corporation has signed five Bingo Centre Service Provider Agreements (Service Providers) for Bingo Revitalization Project pilot site operations in Barrie, Peterborough, Kingston, Sudbury and Windsor 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 $3,863,000 in respect of the Service Providers' capital investments in the Bingo Centres. No events have

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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. In a decision released on March 15, 2010, the plaintiff's motion was dismissed and denied certification. Procedures related to this action are ongoing. On April 5, 2010, the Corporation filed a routine costs submission claim which remains outstanding as at March 31, 2010. On April 14, 2010, lawyers for the plaintiff filed on appeal of the decision. The Corporation will continue to defend itself through the appeals process. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

e. 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.

f. On September 28, 2009, the Corporation was served with a statement of claim from Buttcon Construction Limited and Buttcon Energy Inc. (collectively 'Buttcon') related to the operation and ownership of the Windsor Energy Centre. The claim was for general damages and punitive or exemplary damages totaling $177,000,000 plus prejudgment interest and costs. Buttcon alleges among other things, breach of contract, breach of duty of good faith, deceit, misrepresentation, unlawful interference with legitimate business expectancy, loss of opportunity and damage to business reputation. On November 10, 2009, the Corporation served and filed is Statement of Defence and Counterclaim, in which the Corporation denies the allegations in the statement of claim and counterclaims for damages in the amount of $60,000,000 for breach of the operation and maintenance, improper management of the construction project, neglect, and failure to return the Corporation's property. The claim is at a very early stage and the Corporation intends to vigorously defend itself. The outcome is undeterminable as at March 31, 2010 and no amounts have been accrued in these consolidated financial statements.

g. 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.

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13. 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.

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2010	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
Revenues				
Lotteries and bingo	$2,890,258	$ –	$ –	$2,890,258
Slots	-	961,975	2,023,047	2,985,022
Tables	-	396,272	52,918	449,190
Non-gaming	-	259,892	31,125	291,017
	2,890,258	1,618,139	2,107,090	6,615,487
Less promotional allowances	-	264,925	71,543	336,468
	2,890,258	**1,353,214**	**2,035,547**	**6,279,019**
Operating expenses				
Non-gaming	-	247,852	34,464	282,316
Gaming and lottery operations	112,424	274,056	283,691	670,171
Lottery prizes	1,589,463	-	-	1,589,463
Commissions	204,340	-	410,289	614,629
Marketing and promotion	62,808	153,144	87,498	303,450
Operators' fees (Note 7b)	-	62,722	4,546	67,268
Amortization	16,190	133,064	85,085	234,339
General and administration (Note 15)	47,764	100,642	70,186	218,592
Facilities	8,418	145,845	82,213	236,476
Win contribution (Note 16)	-	271,753	16,729	288,482
Payments to Government of Canada (Note 17)	51,934	39,015	25,520	116,469
	2,093,341	**1,428,093**	**1,100,221**	**4,621,655**
Income before the undernoted	**796,917**	**(74,879)**	**935,326**	**1,657,364**
Interest and other income	4,229	28,265	26,118	58,612
Interest on long-term debt	-	(7,146)	(72)	(7,218)
Foreign exchange gain	2	7,929	2,055	9,986
	4,231	**29,048**	**28,101**	**61,380**
Net income (loss)	**801,148**	**(45,831)**	**963,427**	**1,718,744**

2009 (Restated, note 1(s)(i))	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	297,680	279,513	707,768
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 7b)	–	64,822	5,024	69,846
Amortization	31,693	143,501	84,051	259,245
General and administration (Note 15)	41,669	102,286	72,863	216,818
Facilities	8,108	154,590	80,861	243,559
Win contribution (Note 16)	–	287,449	18,188	305,637
Payments to Government of Canada (Note 17)	53,505	40,221	31,659	125,385
	2,192,526	**1,506,714**	**1,103,139**	**4,802,379**
Income before the undernoted	**755,090**	**(97,901)**	**967,420**	**1,624,609**
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)	**$758,742**	**($73,943)**	**$986,051**	**$1,670,850**

Ontario Lottery and Gaming Corporation
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Year ended March 31, 2010, with comparative figures for 2009
(tabular amounts in thousands of dollars)

Capital expenditures	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
2010	$21,713	$60,771	$104,844	$187,328
2009	$6,923	$160,041	$81,615	$248,579

14. Post employment benefits

The Corporation provides pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employee's Union Pension Fund (OPSEU Pension Fund), which are sole sponsored 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 the Corporation records 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 $20,172,000 (2009 – $18,332,000).

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 $20,703,000 (2009 – $21,078,000).

15. 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 2010, the cost of claim payments was $3,874,000 (2009 – $3,375,000) 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, 2010 is $20,320,000 (2009 – $17,074,000) of which $1,626,000 (2009 – $1,365,000) 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.

16. Win contribution

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from the Resort Casinos and the Great Blue Heron Slot Machine Facility, in accordance with the *Ontario Lottery and Gaming Corporation Act, 1999*.

17. Payments to Government of Canada

The Corporation made the following payments to the Government of Canada during the fiscal year:

	2010	2009
Payments on behalf of the Province of Ontario (a)	$25,452	$25,482
Goods and Services Tax (b)	91,017	99,903
	$116,469	$125,385

As at March 31, 2010, the amount due to Government of Canada was $7,421,000 (2009 – $5,376,000).

Ontario Lottery and Gaming Corporation
Notes to Consolidated Financial Statements
Year ended March 31, 2010, with comparative figures for 2009
(tabular amounts in thousands of dollars)

a. Payments on behalf of the Province of Ontario

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

b. Goods and Services Tax

As a prescribed Goods and Services Tax (GST) Registrant, the Corporation makes GST remittances to the Federal Government pursuant to the Games of Chance (*GST/HST*) Regulations of the *Excise Tax Act*. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities. The net tax attributable to gaming activities results in a 10 per cent tax burden on most taxable gaming expenditures incurred by the Corporation. The net tax attributable to non-gaming activities is calculated similar to any other GST registrant in Canada. The non-recoverable gaming activity GST payable to suppliers and the additional tax payable to the Federal Government is recognized as an expense in the financial statements as ‘Payments to Government’.

Effective July 1, 2010, the Province of Ontario will combine its provincial sales tax (PST) with the Federal Government’s GST by creating a single, harmonized sales tax (HST) with a 13 per cent rate (5 per cent federal component plus 8 per cent provincial component).

18. Comparative amounts

Certain prior year amounts have been reclassified to conform to 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 the 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 Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is 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, 2009. Accordingly, we, as OPG's President and CEO 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.

Tom Mitchell (signed)
President and Chief Executive Officer

Donn W. J. Hanbidge (signed)
Chief Financial Officer

March 4, 2010

ONTARIO POWER GENERATION

AUDITORS' REPORT

To the Shareholder of Ontario Power Generation Inc.

We have audited the consolidated balance sheets of Ontario Power Generation Inc. as at December 31, 2009 and 2008 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, 2009 and 2008 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 (signed)
Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 4, 2010

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31 *(millions of dollars except where noted)*	**2009**	**2008**
Revenue *(Note 19)*		
Revenue before revenue limit rebate	**5,640**	6,359
Revenue limit rebate *(Note 17)*	**(27)**	(277)
	5,613	6,082
Fuel expense *(Note 19)*	**991**	1,191
Gross margin *(Note 19)*	**4,622**	4,891
Expenses *(Note 19)*		
Operations, maintenance and administration	**2,882**	2,967
Depreciation and amortization *(Note 6)*	**760**	743
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 10)*	**634**	581
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds *(Note 10)*	**(683)**	93
Property and capital taxes	**86**	80
	3,679	4,464
Income before the following:	**943**	427
Other (gains) and losses *(Notes 4 and 18)*	**(10)**	(9)
Income before interest and income taxes	**953**	436
Net interest expense *(Note 9)*	**185**	165
Income before income taxes	**768**	271
Income tax expense (recovery) *(Note 11)*		
Current	**51**	255
Future	**94**	(72)
	145	183
Net income	**623**	88
Basic and diluted income per common share *(dollars)*	**2.43**	0.34
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)*	**2009**	**2008**
Operating activities		
Net income	**623**	88
Adjust for non-cash items:		
Depreciation and amortization *(Note 6)*	**760**	743
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 10)*	**634**	581
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds *(Notes 10 and 19)*	**(683)**	93
Pension costs *(Note 12)*	**69**	187
Other post employment benefits and supplementary pension plans *(Note 12)*	**180**	226
Future income taxes *(Note 11)*	**94**	(72)
Mark-to-market on derivative instruments	**16**	(33)
Provision for used nuclear fuel	**35**	33
Regulatory assets and liabilities *(Note 7)*	**(429)**	44
Other (gains) and losses *(Note 18)*	**(10)**	(9)
Other	**29**	19
	1,318	1,900
Contributions to nuclear fixed asset removal and nuclear waste management funds *(Note 10)*	**(339)**	(454)
Expenditures on fixed asset removal and nuclear waste management *(Note 10)*	**(189)**	(195)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management *(Note 10)*	**104**	82
Contributions to pension funds *(Note 12)*	**(271)**	(253)
Expenditures on other post employment benefits and supplementary pension plans *(Note 12)*	**(81)**	(81)
Revenue limit rebate *(Note 17)*	**(112)**	(292)
Net changes to other long-term assets and liabilities	**105**	90
Net changes in non-cash working capital balances *(Note 24)*	**(236)**	73
Cash flow provided by operating activities	**299**	870
Investing activities		
Increase in regulatory assets *(Note 7)*	**(2)**	(6)
Investment in fixed and intangible assets *(Notes 6 and 19)*	**(752)**	(661)
Net proceeds from sale of long-term investments	**1**	15
Cash flow used in investing activities	**(753)**	(652)
Financing activities		
Issuance of long-term debt *(Note 8)*	**565**	395
Repayment of long-term debt *(Note 8)*	**(359)**	(408)
Capital contribution by non-controlling interest	**4**	-
Cash flow provided by (used in) financing activities	**210**	(13)
Net (decrease) increase in cash and cash equivalents	**(244)**	205
Cash and cash equivalents, beginning of year	**315**	110
Cash and cash equivalents, end of year	**71**	315

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2009**	**2008**
Assets		
Current assets		
Cash and cash equivalents	**71**	315
Accounts receivable *(Note 5)*	**391**	525
Fuel inventory	**837**	736
Prepaid expenses	**47**	32
Income tax recoverable	**45**	-
Future income taxes *(Note 11)*	**51**	6
Materials and supplies *(Note 19)*	**132**	132
	1,574	1,746
Fixed assets *(Notes 6 and 19)*		
Property, plant and equipment	**18,656**	17,976
Less: accumulated depreciation	**5,820**	5,246
	12,836	12,730
Intangible assets *(Notes 6 and 19)*		
Intangible assets	**370**	357
Less: accumulated amortization	**318**	300
	52	57
Other long-term assets		
Deferred pension asset *(Note 12)*	**999**	797
Nuclear fixed asset removal and nuclear waste management funds *(Note 10)*	**10,246**	9,209
Long-term investments *(Note 4)*	**66**	74
Long-term materials and supplies *(Note 19)*	**388**	338
Future income taxes *(Note 11)*	**-**	62
Regulatory assets *(Note 7)*	**1,396**	522
Long-term accounts receivable and other assets	**27**	44
	13,122	11,046
	27,584	25,579

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31
(millions of dollars)

	2009	2008
Liabilities		
Current liabilities		
Accounts payable and accrued charges	**933**	1,015
Revenue limit rebate payable *(Note 17)*	**-**	85
Long-term debt due within one year *(Note 8)*	**978**	357
Deferred revenue due within one year	**12**	12
Income and capital taxes payable	**-**	104
	1,923	1,573
Long-term debt *(Note 8)*	**3,068**	3,483
Other long-term liabilities		
Fixed asset removal and nuclear waste management *(Note 10)*	**11,859**	11,384
Other post employment benefits and supplementary pension plans *(Note 12)*	**1,796**	1,703
Long-term accounts payable and accrued charges	**522**	445
Deferred revenue	**130**	108
Future income taxes *(Note 11)*	**633**	-
Regulatory liabilities *(Note 7)*	**172**	54
	15,112	13,694
Non-controlling interest *(Note 25)*	**4**	-
Shareholder's equity		
Common shares *(Note 15)*	**5,126**	5,126
Retained earnings	**2,375**	1,752
Accumulated other comprehensive loss	**(24)**	(49)
	7,477	6,829
	27,584	25,579

Commitments and Contingencies (Notes 7, 8, 12, 13, and 16)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Honourable Jake Epp (signed)
Chairman

M. George Lewis (signed)
Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years Ended December 31 *(millions of dollars)*	**2009**	**2008**
Common shares *(Note 15)*	**5,126**	5,126
Retained earnings		
Balance at beginning of year	**1,752**	1,664
Net income	**623**	88
Balance at end of year	**2,375**	1,752
Accumulated other comprehensive (loss) income, net of income taxes		
Balance at beginning of year	**(49)**	17
Other comprehensive income (loss) for the year	**25**	(66)
Balance at end of year	**(24)**	(49)
Total shareholder's equity at end of year	**7,477**	6,829

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31 *(millions of dollars)*	**2009**	**2008**
Net income	**623**	88
Other comprehensive income (loss), net of income taxes		
Net gain (loss) on derivatives designated as cash flow hedges[1]	**32**	(52)
Reclassification to income of gains on derivatives designated as cash flow hedges[2]	**(7)**	(14)
Other comprehensive income (loss) for the year	**25**	(66)
Comprehensive income	**648**	22

[1] Net of income tax expense of $2 million and $3 million for the years ended December 31, 2009 and 2008, respectively.
[2] Net of income tax recoveries of $3 million and $9 million for the years ended December 31, 2009 and 2008, respectively.

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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) and is wholly owned by the Province of Ontario (the "Province"). OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG's focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner.

2. BASIS OF PRESENTATION

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. The preparation of financial statements in conformity with Canadian GAAP 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. Effective January 1, 2009, the accounts of the Nuclear Waste Management Organization ("NWMO") are included in OPG's consolidated financial statements as OPG became the primary beneficiary of the NWMO. In accordance with Accounting Guideline 15, *Consolidation of Variable Interest Entities,* the applicable amounts in the accounts of the NWMO are therefore included in OPG's consolidated financial statements. All significant intercompany transactions have been eliminated on consolidation.

Certain of the 2008 comparative amounts have been reclassified from financial statements previously presented to conform to the 2009 consolidated financial statement presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents and Short-Term Investments

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

Interest earned on cash and cash equivalents and short-term investments of $1 million (2008 – $13 million) at an average effective rate of 0.7 percent (2008 – 3.0 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 the lower of weighted average cost and net realizable value.

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 and Intangible Assets and Depreciation and Amortization

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

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

Fixed assets are depreciated on a straight-line basis except for computers, and transport and work equipment, which are depreciated on a declining balance basis. Intangible assets, which consist of major application software, are amortized on a straight-line basis. As at December 31, 2009, the depreciation and amortization periods of fixed and intangible assets are as follows:

Nuclear generating stations and major components	15 to 58 years [1]
Thermal generating stations and major components	25 to 44 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] As at December 31, 2009, 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] Lambton unit 1 and 2 and Nanticoke unit 2 and 3 will be fully depreciated by September 30, 2010.

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

Ontario Regulation 53/05, a regulation pursuant to the *Ontario Energy Board Act, 1998,* provides that, effective April 1, 2005, regulated prices are received by OPG for electricity generated from the baseload hydroelectric facilities and all of the nuclear facilities. The regulation established regulated prices which applied up to April 1, 2008. The Ontario Energy Board's ("OEB") decision, issued in the fourth quarter of 2008, determined the new prices effective April 1, 2008. The regulated prices were based on 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.

The OEB's decision issued in the fourth quarter of 2008, as well as the OEB's decision issued in May 2009 on OPG's motion to review and vary a portion of the 2008 decision, authorized certain variance and deferral accounts effective April 1, 2008. The OEB's decision also ruled on the disposition of the balances previously recorded by OPG in variance and deferral accounts as at December 31, 2007. The impact of the regulation and 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 balances in variance and deferral accounts are recognized as regulatory assets and liabilities 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 a company assesses that there is sufficient assurance that incurred expenses will be recovered in the future, those expenses may be deferred and reported as a regulatory asset. When a regulator provides recovery through current rates for expenses that are not incurred then a regulatory liability is reported. 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. These estimates and assumptions will be reviewed as part of the OEB's regulatory process.

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. Interest is applied 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. See Notes 13 and 22 of these consolidated financial statements for additional disclosure related to OPG's investments in OPGV.

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 management 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 and amortization expense.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Pursuant to the Ontario Nuclear Funds Agreement (“ONFA”) between OPG and the Province, 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 management 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 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 offered into the real-time energy spot market administered by the Independent Electricity System Operator (“IESO”). Energy revenue, generated from the nuclear facilities for the period April 1, 2005 to March 31, 2008, was based on a regulated price of 4.95¢/kWh. The regulated price 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 the recovery of approved nuclear variance and deferral account balances.

The regulated price received for the period April 1, 2005 to March 31, 2008 for production from the regulated hydroelectric facilities was 3.30¢/kWh. For generation above 1,900 MWh in any hour, OPG received the Ontario electricity spot market price as an incentive mechanism to optimize hydroelectric production. The OEB established a new price for regulated hydroelectric generation of 3.67¢/kWh effective April 1, 2008. The OEB also approved a revised incentive mechanism, which became effective December 1, 2008. Under this mechanism, OPG receives the approved regulated price of 3.67¢/kWh for the actual average hourly net energy production from these hydroelectric facilities in that month. In the hours when the actual net energy production in Ontario is greater or less than the average hourly net volume in the month, hydroelectric revenues are adjusted by the difference between the average hourly net volume and the actual net energy production multiplied by spot market price. The regulated price of

3.67¢/kWh includes the recovery of approved hydroelectric regulatory balances based on recovery periods authorized by the OEB's decision.

During 2009, OPG filed an accounting order application to address the treatment of a number of variance and deferral accounts for the period after December 31, 2009. In the application for the accounting order, OPG sought the continuation of the rate rider of 0.20¢/kWh for recovery of nuclear regulatory balances approved in the OEB's 2008 decision. OPG also sought to establish the basis for recording additions to existing variance and deferral account balances after 2009. These requests were approved by the OEB's decision in October 2009. In addition, the OEB directed that OPG establish a new variance account to record potential over collection of hydroelectric variance account balances through the hydroelectric payment amount during 2010. OPG plans to file an application with the OEB for new payment amounts for its regulated facilities effective January 1, 2011.

Subject to the agreements with the Ontario Power Authority ("OPA") and the Ontario Electricity Financial Corporation ("OEFC"), and the revenue limit, the production from OPG's other generating assets remains unregulated and continues to be sold at the Ontario electricity spot market price. The generation output from 85 percent of 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 OPA pursuant to a ministerial directive, and forward sales as of January 1, 2005, was subject to a revenue limit for the period April 1, 2005 to April 30, 2009. 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 was also excluded from the output covered by the revenue limit.

The revenue limit was 4.7¢/kWh for the period May 1, 2007 to April 30, 2008, and increased to 4.8¢/kWh effective May 1, 2008. During this period, volumes sold under a Pilot Auction administered by the OPA were subject to a revenue limit that was 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits were returned to the IESO for the benefit of consumers. The term of the revenue limit rebate ended on April 30, 2009.

The Lambton and Nanticoke generating stations are subject to a contingency support agreement with the OEFC. The agreement was put in place to enable OPG to recover the costs of its coal-fired generating stations following implementation of OPG's carbon dioxide ("CO_2") emissions reduction strategy. Further, the production from Lennox was subject to the reliability must run ("RMR") contract up to September 30, 2009. The production from the Lac Seul and Ear Falls generating stations is subject to a HESA.

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 $79 million in 2009 and $177 million in 2008 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 revenue and revenue 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"). It also earns revenue from its 50 percent share of the results of the Portlands

Energy Centre (“PEC”) gas-fired generating station, which is co-owned with TransCanada Energy Ltd. 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 accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”): Handbook Section 1530, *Comprehensive Income*; Handbook Section 3855, *Financial Instruments – Recognition and Measurement* (“Section 3855”); and Handbook Section 3865, *Hedges*. Section 3855, was amended in July 2009 with the amendments applicable to the December 31, 2009 annual consolidated financial statements. These amendments did not impact OPG.

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 (“AOCI”). 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 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 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 AOCI 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

Some of OPG’s unregulated generation 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 is held in inventory and charged to OPG's operations at average cost as part of fuel expense, as required.

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 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. Effective January 1, 2009, similar post employment benefit programs were established by the NWMO. Information on the Company's post employment benefit programs is presented on a consolidated basis.

OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. The obligations for pension and other post retirement benefit costs are determined using the projected benefit method pro-rated on service. The obligation for long-term disability benefits is determined using the projected benefit method on a terminal basis. 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 is accumulated and amortized over future periods.

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 to full eligibility of the employees covered by the plan. 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 amortized over the expected average remaining service life, since OPG will realize the economic benefit over that period.

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 required to make 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 income 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.

From April 1, 2005 to December 31, 2008, OPG followed the taxes payable method for the rate regulated segments of its business. Under the taxes payable method, OPG did not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes were expected to be recovered or refunded through future regulated prices charged to customers.

As discussed in *Changes in Accounting Policies and Estimates*, effective January 1, 2009, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. Thus, effective January 1, 2009, OPG follows the liability method of tax accounting for all its business segments and records a corresponding regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

OPG makes payments in lieu of property tax on its nuclear and thermal 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

Accounting for Regulated Operations

The CICA revised its guidance on accounting for rate regulated operations, effective January 1, 2009, with amendments to Handbook Section 1100, *Generally Accepted Accounting Principles*, ("Section 1100"), Handbook Section 3465, *Income Taxes*, ("Section 3465"), and Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation,* ("AcG-19") 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. OPG applied the changes prospectively to interim and annual consolidated financial statements beginning January 1, 2009. The impact of the change is disclosed in Note 11, *Income Taxes*.

In addition, effective January 1, 2009, with the removal of the temporary exemption in Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under Handbook Section 1600, *Consolidated Financial Statements*, Handbook Section 3061, *Property, Plant and Equipment*, Section 3465, and Handbook Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*. Other assets and liabilities arising from rate regulation do not have specific guidance under a primary source of Canadian GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Handbook Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that these assets and liabilities qualify for recognition under Canadian GAAP and this recognition is consistent with the Financial Accounting Standards Board Accounting Standards Codification Topic 980, *Accounting for the Effects of Certain Types of Regulation* (formerly Financial Accounting Standards No. 71). As a result, there is no effect on the Company's financial statements for the year ended December 31, 2009, with the exception of the impact of the amendment to Section 3465, as discussed above.

Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets* ("Section 3064"), 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.

OPG adopted Section 3064 on January 1, 2009 and reclassified prior period comparative amounts from property, plant and equipment to intangible assets. The adoption of this standard did not have a significant impact on the Company's financial position or results of operations. Intangible assets are amortized over a period of five years.

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, 2009, the service life of thermal 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 reduced depreciation expense by $31 million annually. Subsequently, in September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. As a result of the unit closures, effective September 2009, OPG revised the end of life for these units to October 2010 from December 2014. This change in estimate was accounted for on a prospective basis and increased depreciation expense by $11 million in 2009. The change in estimate will increase the depreciation expense by $22 million in 2010.

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.

The Company extended the service life of the 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 the 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.

Restructuring

As a result of the decision to close two coal-fired units at each of the Lambton and Nanticoke generating stations, OPG has notified key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, of the decision in accordance with their respective collective bargaining agreements. The termination costs are estimated to be up to $35 million and are expected to be recorded in 2010 when they are finalized.

Financial Instruments – Disclosure and Presentation

In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments – Disclosures ("Section 3862")*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require entities to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measuring the financial instruments. The fair value hierarchy has three levels. Fair value of assets and liabilities included in Level 1 is determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. These amendments have been reflected in OPG's 2009 financial statements. Comparative information is not required by the amendment. Accordingly, the disclosure is only presented for the year ended December 31, 2009.

Future Changes in Accounting Policy

In February 2008, the Canadian Accounting Standards Board confirmed that Publicly Accountable Enterprises will be required to transition from Canadian GAAP to International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for interim and annual financial reporting purposes of fiscal years beginning on or after January 1, 2011. IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. In line with OPG's IFRS conversion project, an assessment has been completed to identify the key accounting differences from Canadian GAAP. OPG's assessment of the impact of IFRS will depend on the IFRS standards in effect at the time of transition and accounting elections made. Proposed changes to the IFRS accounting standards have the potential to introduce additional significant accounting differences. OPG's consolidated financial statements, as currently disclosed in accordance with Canadian GAAP, will be significantly different when presented in accordance with IFRS. OPG will publish its first consolidated financial statements prepared in accordance with IFRS for the period ending March 31, 2011, including one year of comparative figures.

4. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

Pursuant to the terms of a restructuring plan announced by the Pan-Canadian Investors Committee for third-party Asset-Backed Commercial Paper ("ABCP"), OPG's short-term commercial paper was exchanged for longer term notes of approximately $58 million in January 2009. 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 totaling $2 million for its short-term commercial paper held over the past 17 months. OPG replaced existing ABCP notes that had a net book value of $35 million ($58 million book value less a provision of $23 million) with new ABCP notes of $35 million, which represented the fair value of the new ABCP notes. The restructured notes are expected to have a maturity of eight to nine years. The exact maturity will be determined by the timing of the release of collateral as underlying swap trades mature. The stated maturity of the notes is 2056.

OPG classified the new ABCP notes for the purposes of measurement, subsequent to their initial recognition and related income reporting, as held-for-trading. Fair value was determined based on a discounted cash flow model. For purposes of CICA Section 3862 fair value hierarchy disclosures (Note 13), OPG has classified its investment in ABCP as Level 3 of the fair value hierarchy.

In 2009, the fair value of the ABCP notes increased by $1 million. The increase in fair value reflected improved market conditions, partially offset by the impact of a revised credit rating of the underlying notes. As at December 31, 2009, the ABCP holdings were valued at $36 million (2008 – $35 million). OPG continues to monitor the development of a secondary market.

As at December 31, 2009, the fair value of the ABCP reflected the latest information available including changes to credit market conditions. For the purposes of estimating future cash flows, OPG estimated that the ABCP notes would generate a weighted average return of 2.8 percent. These future cash flows were discounted using a rate of 6.1 percent.

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.

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. In accordance with the receivable purchase agreement, OPG reduced the securitized receivable balance by $50 million, from $300 million to $250 million in May and June of 2009 primarily due to lower cash flows from the IESO. During the third quarter of 2009, OPG renewed the agreement with a maturity date of August 31, 2010 and an amended commitment of $250 million.

For 2009, OPG has recognized pre-tax charges of $4 million (2008 – $12 million) on such sales at an average cost of funds of 2.1 percent (2008 – 3.9 percent). As at December 31, 2009, OPG had sold receivables of $250 million from its total portfolio of $436 million (2008 – $507 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)	**2009**	**2008**	**2009**	**2008**
Total receivables portfolio [1]	**436**	507	**398**	471
Receivables sold	**250**	300	**267**	300
Receivables retained	**186**	207	**131**	171
Average cost of funds			**2.1%**	3.9%

[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, 2009 and 2008.

Details of cash flows from securitizations for the years ended December 31, 2009 and 2008 are as follows:

(millions of dollars)	2009	2008
Collections reinvested in revolving sales [1]	**3,200**	3,600
Cash flows from retained interest	**1,577**	2,020

[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 securitized amount. The amounts reflect the total of twelve monthly amounts.

6. Fixed and Intangible Assets and Depreciation and Amortization

Depreciation and amortization expense consists of the following as at December 31, 2009 and 2008:

(millions of dollars)	2009	2008
Depreciation	**629**	606
Amortization of intangible assets	**21**	20
Amortization of regulatory assets and liabilities *(Note 7)*	**103**	111
Nuclear waste management costs	**7**	6
	760	743

Fixed assets consist of the following as at December 31, 2009 and 2008:

(millions of dollars)	2009	2008
Property, plant and equipment		
Nuclear generating stations	**6,654**	6,495
Regulated hydroelectric generating stations	**4,454**	4,425
Unregulated hydroelectric generating stations	**3,607**	3,558
Thermal generating stations	**1,674**	1,617
Other fixed assets	**1,043**	618
Construction in progress	**1,224**	1,263
	18,656	17,976
Less: accumulated depreciation		
Generating stations	**5,586**	5,084
Other fixed assets	**234**	162
	5,820	5,246
	12,836	12,730

Intangible assets consist of the following as at December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Intangible assets		
Nuclear generating stations	**128**	120
Unregulated hydroelectric generating stations	**2**	1
Thermal generating stations	**2**	1
Other intangible assets	**225**	226
Development in progress	**13**	9
	370	357
Less: accumulated amortization		
Generating stations	**108**	98
Other intangible assets	**210**	202
	318	300
	52	57

Interest capitalized to construction and development in progress at six percent during the years ended December 31, 2009 and 2008 was $57 million and $56 million, respectively.

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

The OEB's decision issued in the fourth quarter of 2008 authorized certain variance and deferral accounts effective April 1, 2008. In its decision the OEB also ruled on the disposition of the balances previously recorded by OPG in variance and deferral accounts as at December 31, 2007, including interest recorded on these balances at the rate of six percent. During the year ended December 31, 2009, the Company recorded additions to the variance and deferral accounts authorized by the OEB's decision, and amortized approved regulatory balances based on recovery periods established by the OEB. OPG also recorded interest on outstanding regulatory balances at the interest rate prescribed by the OEB effective April 1, 2008. The interest rate fluctuated in the range of 0.55 percent to 2.45 percent during the year ended December 31, 2009 and 3.35 percent to 4.08 percent during the nine months ended December 31, 2008. Regulatory balances disallowed by the OEB's decision were charged to operations in the fourth quarter of 2008. OPG will apply for recovery of regulatory balances recorded subsequent to December 31, 2007, including balances recorded for the three months ended March 31, 2008 pursuant to the regulation under the *Ontario Energy Board Act, 1998*, in its next application to the OEB.

During 2009, the OEB issued its decision on OPG's application for an accounting order to address the treatment of the variance and deferral accounts for the period after December 31, 2009. The OEB granted OPG's application to continue to recover the nuclear regulatory balances as at December 31, 2007, through the rate rider of 0.20¢/kWh. In addition, effective January 1, 2010, the OEB directed OPG to establish a variance account to record any over collection of approved hydroelectric regulatory balances through the hydroelectric payment amount of 3.67¢/kWh that remains in effect after December 31, 2009. The OEB also approved OPG's proposed basis for recording additions to nuclear and hydroelectric variance and deferral accounts, for the period after December 31, 2009.

During 2009, OPG also established and recorded additions to the Tax Loss Variance Account retroactive to April 1, 2008. This action was taken in accordance with the OEB's decision and order in May 2009 on OPG's motion to review, and vary a portion of the 2008 decision establishing current regulatory prices, as it pertains to the treatment of tax losses and their use for mitigation of regulated prices.

Beginning on January 1, 2009, OPG also started recording a regulatory asset or liability related to the recognition of future income taxes, as required by the CICA's amended guidance for accounting for rate regulated operations described in Notes 3 and 11.

The regulatory assets and liabilities recorded as at December 31, 2009 and 2008 were as follows:

(millions of dollars)	**2009**	**2008**
Regulatory assets		
Future income taxes *(Note 11)*	**592**	-
Bruce Lease Net Revenues Variance Account	**328**	260
Pickering A Return to Service Deferral Account	**82**	123
Tax Loss Variance Account	**295**	-
Nuclear Liabilities Deferral Account	**86**	132
Other	**13**	7
Total regulatory assets	**1,396**	522
Regulatory liabilities		
Nuclear Generation Development Costs – Capacity Refurbishment	**3**	6
Nuclear Generation Development Costs – New Nuclear Development	**55**	21
Hydroelectric Water Conditions Variance	**55**	22
Other	**59**	5
Total regulatory liabilities	**172**	54

The changes in the regulatory assets and liabilities for 2009 and 2008 are as follows:

(millions of dollars)	**Future Income Taxes**	**Bruce Lease Net Revenues Variance**	**Tax Loss Variance**	**Pickering A Return to Service Deferral**	**Nuclear Liabilities Deferral**	**Nuclear Generation Develop-ment Costs – Capacity Refurbish-ment**	**Nuclear Generation Develop-ment Costs – New Nuclear Develop-ment**	**Hydro-electric Water Conditions Variance**	**Other (net)**
Regulatory assets (liabilities), January 1, 2008	-	-	-	183	131	16	12	7	(7)
Increase (decrease) during the year	-	259	-	-	31	(6)	(30)	(25)	(2)
Interest	-	1	-	6	6	-	-	-	-
Amortization during the year	-	-	-	(66)	(36)	-	(3)	(4)	(2)
Other charges[1]	-	-	-	-	-	(16)	-	-	13
Regulatory assets (liabilities), December 31, 2008	-	260	-	123	132	(6)	(21)	(22)	2
Increase (decrease) during the year	592	64	292	-	-	3	(29)	(29)	(42)
Interest	-	4	3	2	1	-	-	-	(2)
Amortization during the year	-	-	-	(43)	(47)	-	(5)	(4)	(4)
Regulatory assets (liabilities), December 31, 2009	**592**	**328**	**295**	**82**	**86**	**(3)**	**(55)**	**(55)**	**(46)**

[1] Other charges for the year ended December 31, 2008 include regulatory balances that were charged to operations based on the OEB's decision in 2008 that these amounts would not be refunded or charged to ratepayers.

Future Income Taxes

Effective January 1, 2009, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. In addition, OPG is required to recognize 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. OPG recorded $592 million in the account for the year ended December 31, 2009.

Tax Loss Variance Account

The Tax Loss Variance Account authorized by the OEB in May 2009 and effective April 1, 2008 pertains to the treatment of tax losses and their use for mitigation. In accordance with the OEB's decision on OPG's motion to review and vary the OEB's 2008 payment amounts decision, this account records the difference between the amount of mitigation included in the approved payment amounts and the revenue requirement reduction available from tax loss carry forwards recalculated to reflect the OEB's 2009 decision. As such, during the year ended December 31, 2009, OPG recorded a regulatory asset of $295 million, including $3 million of interest, related to the Tax Loss Variance Account and a corresponding $292 million increase to revenue. The increase to revenue of $292 million included an amount of $125 million related to the period from April 1, 2008 to December 31, 2008.

Bruce Lease Net Revenues Variance Account

As per the requirements of the regulation pursuant to the *Ontario Energy Board Act, 1998*, 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. As at December 31, 2009, the variance account balance was $328 million. Amortization of the balance is expected to begin following OPG's next application. The regulatory asset includes $256 million of revenue variance related to the Bruce lease agreement ("Bruce Lease"), including the impact of the derivative embedded in the Bruce Lease (refer to Note 13), and a $214 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 $131 million. The account also includes variances for accretion expense related to Nuclear Liabilities associated with the Bruce generating stations.

Pickering A Return to Service Deferral Account

Effective January 1, 2005, in accordance with the regulation pursuant to the *Ontario Energy Board Act, 1998*, 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, 2009, the balance in the deferral account was $82 million (2008 – $123 million), including interest of $45 million and net of accumulated amortization of $234 million. OPG commenced amortization of the deferral account in accordance with the terms of the regulation when Unit 1 of the Pickering A nuclear generating station was returned to service in November 2005. Amortization of $43 million was recorded in 2009 (2008 – $66 million). 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

Effective April 1, 2005, the regulation pursuant to the *Ontario Energy Board Act, 1998* required 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 ("Nuclear Liabilities"). 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 (the "2006 Approved Reference Plan"). Therefore, commencing January 1, 2007 and up to March 31, 2008, OPG recorded a regulatory asset associated with this increase in the Nuclear Liabilities arising from the approved reference plan. The balance of the regulatory asset was $86 million as at December 31, 2009 (2008 – $132 million). The OEB authorized the recovery of the balance in this account as at December 31, 2007 over a 33-month period ending December 31, 2010. In 2009, OPG recorded amortization of $47 million (2008 – $36 million).

Nuclear Generation Development Costs

In accordance with the regulation pursuant to the *Ontario Energy Board Act, 1998*, OPG recorded regulatory assets related to non-capital costs for nuclear generation development initiatives up to March 31, 2008. Specifically, the costs recorded up to March 31, 2008 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 capacity 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. Effective April 1, 2008, the OEB's decision established variance accounts for new nuclear generation development and capacity refurbishment costs for deviations from the forecast costs approved by the OEB in setting regulated prices.

OPG deferred costs, including interest, of $16 million related to new nuclear generation development initiatives as at March 31, 2008, including $4 million of costs deferred during the three months ended March 31, 2008. OPG reported a regulatory asset, including interest, of $16 million related to the potential refurbishment of existing stations as at March 31, 2008, all of which was recognized prior to January 1, 2008. 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, effective retrospectively to April 1, 2008, the amortization of these deferred costs is recorded by OPG 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 by OPG 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. OPG recorded lower operations, maintenance and administration ("OM&A") expenses of $29 million for new nuclear generation development costs and additional OM&A expenses of $3 million for capacity refurbishment costs during the year ended December 31, 2009. In 2008, OPG recorded additional 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.

Hydroelectric Water Conditions Variance

The OEB's decision authorized the continuation of a previously existing variance account effective April 1, 2008 for the difference in hydroelectric electricity production due to differences between forecast and actual water conditions. Forecast water conditions refer to those approved by the OEB in setting regulated prices. Prior to April 1, 2008, variances were determined by reference to the forecast water conditions previously provided to the Province for the purposes of establishing regulated prices.

For the years ended December 31, 2009 and 2008, OPG recorded decreases in revenue of $29 million and $25 million, respectively, reflecting actual water conditions 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.

The OEB's decision authorized the recovery of the balance in this variance account as at December 31, 2007 over a 21-month period ended December 31, 2009. Accordingly, effective retrospectively to April 1, 2008, the amortization of this balance is recorded by OPG on a straight-line basis over this period.

Other Regulatory Assets and Liabilities

As at December 31, 2009, other regulatory assets included $8 million related to the under-recovery of nuclear variance and deferral account balances and $5 million related to the Interim Period Shortfall Variance Account for the period April 1, 2008 to November 30, 2008. These under-recoveries are recorded in the respective variance accounts established by the OEB's decision and result from the collection of approved nuclear balances and retroactive revenue based on actual production, which varies from the forecast production approved by the OEB.

As at December 31, 2008, other regulatory assets included $5 million related to the under-recovery of approved regulatory balances over the period from April 1, 2008 to December 31, 2008, and the balance of the variance account related to transmission outages and transmission restrictions.

As at December 31, 2009, other regulatory liabilities included $21 million in the Nuclear Fuel Cost Variance Account, $21 million in the Income and Other Taxes Variance Account and $17 million in the Ancillary Services Net Revenue Variance Account. The Nuclear Fuel Cost Variance Account was established by the OEB's decision, effective April 1, 2008 for the difference between forecast and actual nuclear fuel costs per unit of production. Forecast ancillary services net revenue and nuclear fuel costs per unit of production refer to those approved by the OEB in setting regulated prices. The continuation of the previously existing Ancillary Services Net Revenue Variance Account was authorized by the OEB's decision, effective April 1, 2008, for the difference between forecast and actual ancillary services net revenue. The balance of the Income and Other Taxes Variance Account, authorized by the OEB's decision effective from April 1, 2008, results from the resolution of the 1999 audit and its impact on the income tax expense of OPG for the period from April 1, 2008 to December 31, 2009.

As at December 31, 2008, other regulatory liabilities of $5 million consists of $4 million in the Ancillary Services Net Revenue Variance Account and $1 million in the Nuclear Fuel Cost Variance Account. Prior to April 1, 2008, variances recorded in the Ancillary Services Net Revenue Variance Account were determined by reference to the forecast revenue previously provided to the Province for the purposes of establishing regulated prices. The balance in the Income and Other Taxes Variance Account was nil as at December 31, 2008.

Summary of Rate Regulated Accounting

The following table summarizes the income statement and other comprehensive income impacts of recognizing regulatory assets and liabilities:

Years Ended December 31	**2009**			**2008**		
(millions of dollars)	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**
Revenue	**5,613**	**(491)**	**5,122**	6,082	(4)	6,078
Fuel expense	**991**	**(19)**	**972**	1,191	(3)	1,188
Operations, maintenance and administration	**2,882**	**(43)**	**2,839**	2,967	(52)	2,915
Depreciation and amortization	**760**	**(106)**	**654**	743	(102)	641
(Earnings) losses on nuclear fixed asset removal and nuclear waste management funds	**(683)**	**(119)**	**(802)**	93	333	426
Accretion on fixed asset removal and nuclear waste management liabilities	**634**	**(3)**	**631**	581	28	609
Property and capital taxes	**86**	**(3)**	**83**	80	1	81
Net interest expense	**185**	**6**	**191**	165	11	176
Income tax expense[1]	**145**	**76**	**221**	183	(95)	88
Other comprehensive income (loss)	**25**	**(10)**	**15**	(66)	-	(66)

[1] Effective January 1, 2009, OPG is required to recognize future income taxes and a corresponding regulatory asset or liability associated with its rate regulated operations in accordance with amendments to Section 3465 (Notes 3 and 11). The impact of the regulatory asset or liability is reflected above for the year ended December 31, 2009. Prior to January 1, 2009, OPG followed the taxes payable method of accounting for income taxes and therefore did not recognize these regulatory assets or liabilities. Accordingly, the impact of recognizing regulatory assets and liabilities for the year ended December 31, 2008 shown above does not include the future income tax for the regulated operations and the associated regulatory asset or liability.

8. Long-Term Debt

Long-term debt consists of the following:

(millions of dollars)	**2009**	**2008**
Notes payable to the Ontario Electricity Financial Corporation	**3,675**	3,660
UMH Energy Partnership debt	**197**	-
Share of non-recourse limited partnership debt	**174**	180
	4,046	3,840
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	**970**	350
Share of limited partnership debt	**8**	7
	978	357
Long-term debt	**3,068**	3,483

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, 2009 for notes payable to the OEFC are as follows:

		Principal Outstanding *(millions of dollars)*		
Year of Maturity	**Interest Rate**	**Senior Notes**	**Subordinated Notes**	**Total**
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
2019	5.44%	365	-	365
		2,925	750	3,675

Debt financing for the Niagara Tunnel, the PEC and the Lac Seul hydroelectric generating station projects is provided by the OEFC. As at December 31, 2009, 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, 2008	340	305	20
New borrowing	150	85	30
Debt financing, as at December 31, 2009	**490**	**390**	**50**

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, 2009, OPG issued $490 million against this facility, which included new borrowing of $150 million under the facility in 2009. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility, consistent with the revised cost estimate of $1.6 billion, and the revised schedule.

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, 2009, OPG issued $50 million against the Lac Seul project credit facility and $390 million against the PEC credit facility, which included new borrowing of $30 million under the Lac Seul facility and $85 million under the PEC facility in 2009.

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 at December 31, 2009, OPG borrowed $500 million under its general corporate facility and refinanced $500 million senior notes under the $950 million credit facility, which included new refinancing of $100 million in 2009 at an interest rate of 5.65 percent.

In addition, project financing was completed for the Upper Mattagami and Hound Chute project in May 2009. Senior notes totalling $200 million were issued by the UMH Energy Partnership, a general partnership between OPG and UMH Energy Inc., a wholly owned subsidiary of OPG. Transaction costs that are directly attributable to the issuance of the senior notes are included in the amortized cost of the notes. The senior notes have an effective interest rate of 7.86 percent and will mature in 2041. These notes are secured by the assets of the Upper Mattagami and Hound Chute project. These notes are recourse to OPG during the construction period, and non-recourse thereafter. The undiscounted contractual maturities are as follows:

(millions of dollars)	**Principal**
2010	-
2011	1
2012	3
2013	3
2014	3
2015 and thereafter	190

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 $251 million as at December 31, 2009 (2008 – $275 million). The minimum principal repayments of the non-recourse limited partnership debt for the next five calendar years range from $9 million to $11 million annually. OPG's share of the non-recourse limited partnership debt included a note payable of $123 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 2009 was $252 million (2008 – $242 million), of which $237 million (2008 – $227 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. During the first quarter of 2009, OPG renewed and extended the maturity date of the 364-day term tranche to May 19, 2010. The renewal became effective in the second quarter of 2009. The five-year term tranche was not extended, and therefore has four years remaining, with a maturity date of 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, 2009, no commercial paper was outstanding (2008 – nil), 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 and Hound Chute project. As at December 31, 2009, there was no borrowing under this credit facility.

OPG also maintains $25 million (2008 – $25 million) in short-term uncommitted overdraft facilities and $275 million (2008 – $276 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. As at December 31, 2009, there was a total of $231 million of Letters of Credit issued (2008 – $243 million), which included $210 million for the supplementary pension plans (2008 – $212 million) and $7 million related to the construction and operation of the PEC (2008 – $16 million).

In addition, as at December 31, 2009, the NWMO issued a $1 million Letter of Credit for its supplementary pension plan.

The following table summarizes the net interest expense for the year ended December 31, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Interest on long-term debt	**240**	234
Interest on short-term debt	**15**	15
Interest income	**(5)**	(13)
Capitalized interest	**(57)**	(56)
Interest applied to regulatory assets and liabilities	**(8)**	(13)
Other	**-**	(2)
Net interest expense	**185**	165

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, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Liability for nuclear used fuel management	**6,525**	6,213
Liability for nuclear decommissioning and low and intermediate level waste management	**5,186**	5,020
Liability for non-nuclear fixed asset removal	**148**	151
Fixed asset removal and nuclear waste management liabilities	**11,859**	11,384

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31, 2009 and 2008, are as follows:

(millions of dollars)	**2009**	**2008**
Liabilities, beginning of year	**11,384**	10,957
Increase in liabilities due to accretion	**631**	608
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	**42**	47
Liabilities settled by expenditures on waste management	**(189)**	(195)
Decrease in the liabilities for non-nuclear fixed asset removal	**(9)**	(33)
Liabilities, end of year	**11,859**	11,384

The cash and cash equivalents balance as at December 31, 2009 includes $11 million of cash and cash equivalents that are for the use of nuclear waste management activities.

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 thermal 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 thermal 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 *Ontario Energy Board Act, 1998*. 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, as at December 31, 2009 nuclear and thermal plant closures are projected to occur over the next four to 27 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 $25 billion in 2009 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.

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 requires that Canada's nuclear fuel waste owners form a nuclear waste management organization and that each waste owner establishes 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 2018. 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 thermal 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 $92 million liability for active sites, OPG also has an asset retirement obligation liability of $56 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 accordance with the ONFA and the NFWA. 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, 2009 and 2008, the Decommissioning Fund was in an underfunded position. OPG bears the risk and liability for cost estimate increases and fund earnings in the Decommissioning Fund.

The Used Fuel Fund was established 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 $10.5 billion in December 31, 2009 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 2009 under the ONFA was $339 million, including a contribution to The Ontario NFWA Trust (the "Trust") of $153 million. Included in the funding was a $31 million contribution on December 31, 2009 related to future bundles over the 2.23 million threshold. Based on the current ONFA Reference Plan, OPG is required to contribute annual amounts to the Used Fuel Fund, ranging from $94 million to $264 million annually over the years 2010 to 2014 (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 required OPG to make annual contributions of $100 million to the Trust until such time the NWMO proposed funding formula to address the future financial costs of implementing the Adapted Phase Management approach was approved by the Minister of Natural Resources. In 2009, this funding formula was approved, requiring OPG to make a 2008 contribution true-up of $25 million in addition to a contribution amount of $128 million for 2009. The contribution for 2010 is $136 million and the proposed contribution for 2011 is $149 million. The Trust forms part of the Used Fuel Fund, and contributions to the Trust, as required by the NFWA, are applied towards OPG's 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 Provincial Guarantee, taken together with the Used Fuel Fund and the 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 of the Provincial Guarantee provided by the Province. In 2009 and 2008, OPG paid the annual guarantee fee of $3.8 million based on a Provincial Guarantee amount of $760 million.

In December 2009, the CNSC approved the increase of the Provincial Guarantee amount to $1,545 million to be effective in 2010. The value of this Provincial Guarantee will be in effect through to the end of 2012, when the next reference plan for the CNSC is required to be submitted. The increase was primarily a result of the market value losses experienced by the Nuclear Funds in 2008.

In accordance with Section 3855, 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 annual 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.

The Decommissioning Fund's asset value on a fair value basis was $4,876 million as at December 31, 2009, which was less than the liability per the 2006 Approved Reference Plan. At December 31, 2008, the Decommissioning Fund's asset value on a fair value basis was $4,325 million, which was less than the liability per the 2006 Approved Reference Plan. 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. Since OPG is responsible for the risks associated with liability cost increases and investment returns in the Decommissioning Fund, future contributions to the

Decommissioning Fund may be required should the fund be in an underfunded position at the time of the next liability reference plan review.

The investments in the Decommissioning Fund include a diversified portfolio of equities and fixed income securities that are invested across 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 for funding related to the first 2.23 million used fuel bundles ("committed return"). 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. The due to or due from the Province represents the amount OPG would pay to or receive from the Province if the committed return were to be settled as of the balance sheet date. As part of its regular contributions to the Used Fuel Fund, OPG was required to allocate $31 million of its December 31, 2009 contribution towards its liability associated with future fuel bundles that exceed the 2.23 million threshold. As prescribed under the ONFA, earnings related to OPG's contributions for incremental fuel bundles do not grow at the Province's guaranteed rate of return, but rather earn the return of the Used Fuel Fund based on changes in the market value of the assets.

As at December 31, 2009, the Used Fuel Fund asset value on a fair value basis was $5,370 million. The Used Fuel Fund value included a payable to the Province of $33 million related to the committed return adjustment. As at December 31, 2008, the Used Fuel Fund asset value on a fair value basis was $4,884 million, including a receivable from the Province of $460 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, 2009 and 2008 consist of the following:

	Fair Value	
(millions of dollars)	**2009**	**2008**
Decommissioning Fund	**4,876**	4,325
Used Fuel Fund[1]	**5,403**	4,424
Due (to) from Province – Used Fuel Fund	**(33)**	460
	5,370	4,884
	10,246	9,209

1 The Ontario NFWA Trust represented $1,693 million as at December 31, 2009 (2008 – $1,386 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 the Decommissioning Fund, as at December 31, 2009 and 2008, are as follows:

	Fair Value	
(millions of dollars)	**2009**	**2008**
Cash and cash equivalents and short-term investments	**463**	455
Pooled funds	**1,497**	1,412
Marketable equity securities	**4,699**	3,795
Fixed income securities	**3,596**	3,090
Net receivables/payables	**30**	7
Administrative expense payable	**(6)**	(10)
	10,279	8,749
Due (to) from Province – Used Fuel Fund	**(33)**	460
	10,246	9,209

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2009 and 2008 mature according to the following schedule:

	Fair Value	
(millions of dollars)	**2009**	**2008**
1 – 5 years	**1,276**	1,142
5 – 10 years	**857**	777
More than 10 years	**1,463**	1,171
Total maturities of debt securities	**3,596**	3,090
Average yield	**3.7%**	4.3%

The change in the Nuclear Funds for the years ended December 31, 2009 and 2008, is as follows:

	Fair Value	
(millions of dollars)	**2009**	**2008**
Decommissioning Fund, beginning of year	**4,325**	5,072
Increase (decrease) in fund due to return on investments	**631**	(681)
Decrease in fund due to reimbursement of expenditures	**(80)**	(69)
Decrease in Due to Province	**-**	3
Decommissioning Fund, end of year	**4,876**	4,325
Used Fuel Fund, beginning of year	**4,884**	4,191
Increase in fund due to contributions made	**339**	454
Increase (decrease) in fund due to return on investments	**664**	(719)
Decrease in fund due to reimbursement of expenditures	**(24)**	(13)
(Decrease) increase in Due to/from Province	**(493)**	971
Used Fuel Fund, end of year	**5,370**	4,884

The earnings from the Nuclear Funds during 2009 were partially reduced 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 in the fourth quarter of 2008. The earnings on the Nuclear Funds for 2009 and 2008 are as follows:

(millions of dollars)	**2009**	**2008**
Decommissioning Fund	**631**	(678)
Used Fuel Fund	**171**	252
Bruce Lease Net Revenues Variance Account *(Note 7)*	**(119)**	333
Total earnings (losses)	**683**	(93)

11. Income taxes

From April 1, 2005 to December 31, 2008, OPG followed the liability method of tax accounting for its unregulated operations and the taxes payable method for the rate regulated segments of its business. Under the liability method, future income 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. 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 through future regulated prices charged to customers. Accordingly, OPG did not record a future income tax expense of $151 million during 2008 which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method.

As discussed in Note 3, *Changes in Accounting Policies and Estimates*, effective January 1, 2009, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. Accordingly, on January 1, 2009, OPG recorded a future income tax liability of $340 million, being the cumulative future income tax liability on January 1, 2009 related to differences between the accounting and tax bases of assets and liabilities, measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse, and recorded a corresponding regulatory asset. OPG also recorded an additional future income tax liability and a corresponding regulatory asset of $126 million for future income taxes resulting from regulatory assets that were recorded due to amendments to Section 3465. Effective January 1, 2009, OPG follows the liability method of tax accounting for all its business segments and records a corresponding regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

In addition to the transitional adjustment related to the amendments to Section 3465, for the year ended December 31, 2009, OPG recorded an increase to the future income tax liability of $126 million which is expected to be recovered through future regulated prices and recorded a corresponding increase to the regulatory asset for future income taxes. As a result, the future income tax expense for the year ended December 31, 2009 was not impacted. The increase in the future income tax liability for the year ended December 31, 2009 included $14 million related to the increase to the regulatory asset for future income taxes.

The following table summarizes the future income tax liabilities recorded as a result of the changes to Section 3465:

(millions of dollars)	
Transition – January 1, 2009:	
Future income tax liabilities on temporary differences related to regulated operations	**340**
Future income tax liabilities resulting from the regulatory asset for future income taxes	**126**
	466
Changes during the year:	
Increase in future income tax liabilities on temporary differences related to regulated operations	**112**
Increase in future income tax liabilities resulting from the regulatory asset for future income taxes	**14**
Balance at December 31, 2009	**592**

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

(millions of dollars)	**2009**	**2008**
Income before income taxes	**768**	271
Combined Canadian federal and provincial statutory income tax rates, including surtax	**33.0%**	33.5%
Statutory income tax rates applied to accounting income	**253**	91
Increase (decrease) in income taxes resulting from:		
Income tax component of the Bruce Lease Net Revenues Variance Account	**36**	95
Lower future tax rate on temporary differences	**(16)**	(33)
Non-taxable income items	**1**	(15)
Unrecorded future income tax related to regulated operations	**-**	151
Change in income tax positions	**(6)**	(106)
Changes in future tax rate	**3**	-
Regulatory asset	**(126)**	-
	(108)	92
Income tax expense	**145**	183
Effective rate of income taxes	**18.9%**	67.5%

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 commenced 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 Lease Net Revenues 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 approved an Income and Other Taxes 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 which have an impact on the income taxes payable after April 1, 2008. The amount of the variances, resulting from the changes, will be determined based on the forecasts approved by the OEB for those years. OPG recorded $21 million in the account for the year ended December 31, 2009. 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)	**2009**	2008
Current income tax expense (recovery):		
Current payable	**57**	169
Change to income tax position	**(6)**	86
	51	255
Future income tax expense (recovery):		
Change in temporary differences	**181**	25
Change to income tax position	**-**	(192)
Changes in future income tax rate	**3**	-
Income tax component of the Bruce Lease Net Revenues Variance Account	**36**	95
Regulatory asset	**(126)**	-
	94	(72)
Income tax expense	**145**	183

The income tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2009 and 2008 are presented in the table below:

(millions of dollars)	**2009**	**2008**
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**2,968**	30
Other liabilities and assets	**656**	163
Future recoverable Ontario minimum tax	**12**	-
	3,636	193
Future income tax liabilities:		
Fixed assets	**(1,078)**	(56)
Nuclear fixed asset removal and nuclear waste management funds	**(2,567)**	-
Other liabilities and assets	**(573)**	(69)
	(4,218)	(125)
Net future income tax (liabilities) assets	**(582)**	68
Represented by:		
Current portion – asset	**51**	6
Long-term portion – (liability) asset	**(633)**	62
	(582)	68

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. For 2009, OPG applied the liability method for the regulated business, hence, the following table is not applicable to the 2009 year:

(millions of dollars)	**2008**
As stated:	
Future income tax expense	(72)
Future income tax: Other comprehensive income – for the year	(6)
Liability method[1]:	
Future income tax expense	(50)
Future income tax: Other comprehensive income – for the year	(19)

[1] OPG accounted for certain lease revenues relating to the regulated businesses for the three months ended March 31, 2008 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. The amounts of future income taxes not recorded in 2008 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 Section 3465. For 2009, OPG applied the liability method for the regulated business, hence, the following table is not applicable to the 2009 year.

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

[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 Lease Net Revenues 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 2009 was $192 million (2008 – $49 million).

12. PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS

The pension and OPEB obligations, and the pension fund assets, are measured as at December 31, 2009. 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	
	2009	**2008**	**2009**	**2008**
Weighted Average Assumptions – Benefit Obligation at Year End				
Rate used to discount future benefits	**6.80%**	7.50%	**6.69%**	7.46%
Salary schedule escalation rate	**3.00%**	3.00%	**-**	-
Rate of cost of living increase to pensions	**2.00%**	2.00%	**-**	-
Initial health care trend rate	**-**	-	**6.61%**	6.58%
Ultimate health care trend rate	**-**	-	**4.70%**	4.69%
Year ultimate rate reached	**-**	-	**2030**	2018
Rate of increase in disability benefits	**-**	-	**2.00%**	2.00%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2009	**2008**	**2009**	**2008**
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	**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	**-**	-	**4.70%**	4.68%
Year ultimate rate reached	**-**	-	**2018**	2014
Rate of increase in disability benefits	**-**	-	**2.00%**	2.25%
Average remaining service life for employees (years)	**12**	11	**11**	11

(millions of dollars)	Registered Pension Plans 2009	Registered Pension Plans 2008	Supplementary Pension Plans 2009	Supplementary Pension Plans 2008	Other Post Employment Benefits 2009	Other Post Employment Benefits 2008
Changes in Plan Assets						
Fair value of plan assets at beginning of year	**7,254**	8,924	**-**	-	**-**	-
Contributions by employer	**271**	253	**7**	10	**74**	71
Contributions by employees	**86**	75	**-**	-	**-**	-
Actual return on plan assets net of expenses	**1,051**	(1,566)	**-**	-	**-**	-
Benefit payments	**(446)**	(432)	**(7)**	(10)	**(74)**	(71)
Fair value of plan assets at end of year	**8,216**	7,254	**-**	-	**-**	-
Changes in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	**7,440**	9,603	**142**	162	**1,591**	2,064
Employer current service costs	**120**	217	**5**	6	**40**	59
Contributions by employees	**86**	75	**-**	-	**-**	-
Interest on projected benefit obligation	**554**	540	**11**	9	**118**	116
Benefit payments	**(446)**	(432)	**(7)**	(10)	**(74)**	(71)
Past service costs	**-**	-	**-**	-	**8**	-
Net actuarial (gain) loss	**856**	(2,563)	**28**	(25)	**227**	(577)
Projected benefit obligation at end of year	**8,610**	7,440	**179**	142	**1,910**	1,591
Funded Status – Deficit at end of year	**(394)**	(186)	**(179)**	(142)	**(1,910)**	(1,591)

Pension fund assets are allocated among three principal investment categories. Furthermore, equity investments are diversified across Canadian, U.S. and non-North American stocks. There is also a small real estate portfolio that is less than one percent of pension fund assets.

	2009	2008
Registered pension plan fund asset investment categories		
Equities	**62%**	60%
Fixed income	**34%**	37%
Cash and short-term investments	**4%**	3%
Total	**100%**	100%

Based on the most recently filed actuarial valuation of the OPG registered pension plan, 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.

Based on the filed initial actuarial valuation of the NWMO registered pension plan, as at January 1, 2009, there was a surplus on a going-concern basis of $2 million and a deficiency on a wind-up basis of $4 million. The next filed funding valuation must have an effective date no later than January 1, 2010.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $211 million (2008 – $212 million).

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Reconciliation of Funded Status to Accrued Benefit Asset (Liability)						
Funded status – deficit at end of year	**(394)**	(186)	**(179)**	(142)	**(1,910)**	(1,591)
Unamortized net actuarial loss (gain)	**1,365**	937	**25**	(3)	**157**	(70)
Unamortized past service costs	**28**	46	**1**	2	**19**	16
Accrued benefit asset (liability) at end of year	**999**	797	**(153)**	(143)	**(1,734)**	(1,645)
Short-term portion	**-**	-	**(7)**	(6)	**(84)**	(79)
Long-term portion	**999**	797	**(146)**	(137)	**(1,650)**	(1,566)

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Components of Cost Recognized						
Current service costs	**120**	217	**5**	6	**40**	59
Interest on projected benefit obligation	**554**	540	**11**	9	**118**	116
Expected return on plan assets net of expenses	**(623)**	(623)	**-**	-	**-**	-
Amortization of past service costs	**18**	18	**1**	1	**5**	4
Amortization of net actuarial loss	**-**	35	**-**	-	**-**	31
Cost recognized	**69**	187	**17**	16	**163**	210

(millions of dollars)	Registered Pension Plans 2009	Registered Pension Plans 2008	Supplementary Pension Plans 2009	Supplementary Pension Plans 2008	Other Post Employment Benefits 2009	Other Post Employment Benefits 2008
Components of Cost Incurred and Recognized						
Current service costs	**120**	217	**5**	6	**40**	59
Interest on projected benefit obligation	**554**	540	**11**	9	**118**	116
Actual return on plan assets net of expenses	**(1,051)**	1,566	**-**	-	**-**	-
Past service costs	**-**	-	**-**	-	**8**	-
Net actuarial loss (gain)	**856**	(2,563)	**28**	(25)	**227**	(577)
Cost incurred in year	**479**	(240)	**44**	(10)	**393**	(402)
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	**428**	(2,189)	**-**	-	**-**	-
Past service costs	**18**	18	**1**	1	**(3)**	4
Net actuarial (gain) loss	**(856)**	2,598	**(28)**	25	**(227)**	608
Cost recognized	**69**	187	**17**	16	**163**	**210**

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 2009 OPEB cost recognized of $24 million (2008 – $33 million) or a decrease in the service and interest components of the 2009 OPEB cost recognized of $19 million (2008 – $24 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, 2009 of $270 million (2008 – $213 million) or a decrease in the projected OPEB obligation at December 31, 2009 of $217 million (2008 – $170 million).

13. FINANCIAL INSTRUMENTS

OPG's risk management governance structure is designed to effectively identify, measure, monitor, and report on key risk management activities across the Company. Risk management activities are coordinated by a centralized Corporate Risk Management group led by the Chief Risk Officer ("CRO"). Risks that would prevent business units from achieving business plan objectives are identified at the business unit level. Senior management sets risk limits for the financing, procurement, and trading activities of the Company and ensures that effective risk management policies and processes are in place to ensure compliance with such limits in order to maintain an appropriate balance between risk and return. OPG's risk management process aims to continually evaluate the effectiveness of risk mitigation activities for identified key risks. The findings from this evaluation process are reported quarterly to the Audit/Risk Committee of the Board by the CRO.

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, 2009:

Financial Instruments [1] *(millions of dollars)*	**Designated Category**	**Fair Value**
Cash and cash equivalents	Held-to-maturity	**71**
Long-term investments [2]	Held-for-trading	**36**
Nuclear fixed asset removal and nuclear waste management funds	Held-for-trading	**10,246**
Long-term debt (including current portion)	Other than Held-for-trading	**(4,021)**
Derivative Embedded in the Bruce Lease agreement	Held-for-trading	**(118)**
Other commodity derivative instruments included in current and long-term accounts receivable [3]	Held-for-trading	**7**
Other commodity derivative instruments included in current and long-term accounts payable [3]	Held-for-trading	**(6)**

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 $30 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, 2009:

			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	32	66	3	40

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 of the securitized receivables retained at December 31, 2009 was $186 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, 2009 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 approximately $50 million at December 31, 2009. 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 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.

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 fuels; and the influence of USD denominated commodity prices on Ontario electricity spot market prices. OPG enters into foreign exchange spot and/or forward 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.

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 and other contractual arrangements for a significant portion of OPG's business. 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, 2009, 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	+/- 0.16	-	n/a
Interest rate [1]	+/- 46 basis points	-	+50/-60
Electricity price – Hedge [2]		n/a	+/-5
Electricity price – Trading [2]		+/-4	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. On December 31, 2009, OPG made its first contribution of $31 million towards incremental fuel bundles in excess of the 2.23 million threshold prescribed in the ONFA. As prescribed under the ONFA, earnings related to OPG's contributions for incremental fuel bundles will be exposed to equity price risk. OPG is 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, 2009, 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 2009**
S&P/TSX Capped Composite Index	**12**
S&P 500	**4**
MSCI EAFE Index	**4**
MSCI World Index	**6**

Risk Associated with Leases and Partnership Arrangements

OPG has leased its Bruce nuclear generating stations to Bruce Power and is also a party to a number of partnerships which operate generating stations such as Brighton Beach and the PEC. Each of these generating stations are subject to numerous operational, financial, regulatory, and environmental risk factors. Although OPG may not be involved in the day to day operations of these stations, counterparty claims, defaults, or other risk factors could materially adversely affect the Company.

In addition, under the Bruce Lease, lease revenue is reduced in each calendar year where the annual arithmetic average of the Hourly Ontario Electricity Price ("Average HOEP") falls below $30/MWh and certain other conditions are met. The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative according to CICA Section 3855, *Financial Instruments – Recognition and Measurement*. Derivatives are measured at fair value and changes in fair value are recognized in the statement of income. As a result of the significant reduction in the Average HOEP, the fair value of the derivative has increased to $118 million for 2009. The exposure will continue until the Bruce units that are subject to this mechanism are no longer in operation, specific units are refurbished, or when the lease agreement is terminated. This exposure is mitigated as part of the OEB regulatory process, since the revenue from the lease of the Bruce generating stations is included in the determination of regulated prices.

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 to 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.

(millions of dollars except where noted)	Notional Quantity	Terms	Fair Value	Notional Quantity	Terms	Fair Value
	December 31, 2009			December 31, 2008		
Electricity derivative instruments	**0.4TWh**	**1 year**	**16**	0.9 TWh	1 year	20
Foreign exchange derivative instruments	**-**	**-**	**-**	USD $35	July/09	6
Floating-to-fixed interest rate hedges	**38**	**1-10 years**	**(4)**	40	1-11yrs	(8)
Forward start interest rate hedges	**490**	**1-13 years**	**3**	272	1-12yrs	(50)

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 was USD $0.95 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 $7 million and $14 million related to derivative instruments qualifying for hedge accounting were recognized in net income during the years ended December 31, 2009 and 2008, respectively. These amounts were previously recorded in other comprehensive income. Existing net gains of $16 million deferred in accumulated other comprehensive income at December 31, 2009 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.

Derivative Instruments Not Qualifying for Hedge Accounting

The carrying amount (fair value) of commodity 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, 2009		December 31, 2008	
Commodity derivative instruments				
Assets	**3.6 TWh**	**7**	6.9 TWh	49
Liabilities	**1.3 TWh**	**(6)**	2.2 TWh	(19)
		1		30
Market liquidity reserve		**(1)**		(4)
Total		**-**		26

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 increased trading revenue by $3 million during the year ended December 31, 2009 (2008 – decrease in trading revenue by $2 million).

In addition, under the Bruce Lease, lease revenue is reduced in each calendar year where the annual arithmetic Average HOEP falls below $30/MWh and if certain other conditions are met. The conditional reduction to revenue included in the lease agreement is treated as a derivative according to CICA Section 3855, *Financial Instruments – Recognition and Measurement*. OPG reported a liability of $118 million in 2009, which reflected the fair value of a derivative embedded in the Bruce Lease. The reduction to revenue was offset by the impact of the Bruce Lease Net Revenues Variance Account.

Fair Value Hierarchy

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The level within which the financial asset or liability is classified is determined based on the attribute of significance to the inputs to the fair value measurement. The fair value hierarchy has the following levels:

Level 1: Valuation of inputs is based on unadjusted quoted market prices observed in active markets for identical assets or liabilities

Level 2: Valuation is based on inputs other than quoted prices under level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Valuation is based on inputs for the asset or liability that are not based on observable market data

The following table presents financial assets and liabilities measured at fair value in accordance with the fair value hierarchy:

(*millions of dollars*)	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset-Backed Commercial Paper	-	-	36	36
Decommissioning Fund	2,302	2,574	-	4,876
Used Fuel Fund	-	5,370	-	5,370
Forward start interest rate hedges	-	3	-	3
Commodity derivative instruments	-	14	-	14
Investments in OPGV	13	-	17	30
Floating-to-fixed interest rate hedges	-	(4)	-	(4)
Derivative embedded in the Bruce Lease	-	-	(118)	(118)
Total assets and liabilities	**2,315**	**7,957**	**(65)**	**10,207**

During the year ended December 31, 2009, there were no transfers between level 1 and level 2, and no transfers into and out of level 3 fair value measurements.

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 instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by OPG is the current bid price. These instruments are included in level 1 and are comprised primarily of electricity contracts, equity investments, and fund investments.

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 fund investments. 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. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific valuation techniques were used to value these instruments. Significant level 3 inputs include recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

The following table presents the changes in OPG's assets measured at fair value based on Level 3 for the year ended December 31, 2009.

(millions of dollars)	**Investments in OPGV**	**Asset-Back Commercial Paper**	**Derivative Embedded in the Bruce Lease**
Opening balance	24	35	-
Total gains (losses) included in net income[1]	(9)	1	(118)
Purchases	2	-	-
Closing balance	**17**	**36**	**(118)**

[1] Excluding the impact of rate regulated accounting

Sensitivity Analysis

The valuation of the derivative embedded in the Bruce lease required assumptions related to future electricity prices. The effect of changing inputs to reasonably possible alternative assumptions is as follows:

(millions of dollars)	**Long-term Accounts Payable**	**Net Income[1]**
Favourable change in assumptions related to electricity prices	(51)	51
Unfavourable change in assumptions related to electricity prices	52	(52)

[1] Excluding the impact of rate regulated accounting

The volatilities of OPG's investments in OPGV and ABCP that were classified as level 3 were not considered significant. As such, a sensitivity analysis on these investments resulted in a negligible change in the fair value.

Liquidity Risk

OPG's derivative and non-derivative liabilities include current accounts payable, floating-to-fixed interest rate hedges, and long-term debt. The contractual maturity of long-term debt is disclosed in Notes 8 and 16.

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.

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, 2009 and 2008:

(millions of dollars)	**2009**	**2008**
Long-term debt due within one year	**978**	357
Long-term debt	**3,068**	3,483
Letters of Credit[1]	**231**	243
Total debt	**4,277**	4,083
Total shareholder's equity	**7,477**	6,829
Total capitalization	**11,754**	10,912
Total debt to total capitalization	**36%**	37%

[1]The NWMO Letter of Credit of $1 million has not been included above.

There were no changes in the Company's approach to capital management during the year ended December 31, 2009.

15. Common Shares

As at December 31, 2009 and 2008, 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 was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited ("British Energy").

The British Energy claim against OPG pertains to corrosion in the Bruce Unit 8 Steam Generators, in particular erosion of the support plates through which the boiler tubes pass. The claim amount includes $65 million due to an extended outage to repair some of the alleged damage. The balance of the amount claimed is based on an increased probability the steam generators will have to be replaced or the unit taken out of service prematurely. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001.

British Energy is involved in arbitration with the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the current owners when they purchased British Energy's interest in Bruce Power L.P. (the "Arbitration"). If British Energy is successful in defending against the Arbitration claim, they will not have suffered any damages to attempt to recoup from OPG. This Arbitration was scheduled to be heard between November 30 and December 18, 2009 but was adjourned with dates to now be set in 2010. The arbitrator may take some time to come to a decision following the conclusion of the Arbitration.

British Energy previously indicated that they did not require OPG or Bruce Power L.P. to actively defend the court action until the conclusion of the Arbitration. Although the Arbitration has not been heard, British Energy has now requested that OPG file a Statement of Defence. OPG and Bruce Power L.P. advised British Energy that if British Energy wishes the court action to proceed prior to the conclusion of the Arbitration, the defendants would bring a motion for a Stay of proceedings, a Dismissal of the current action or, in the alternative, a motion to extend the time for service of the Statement of Defence until the conclusion of the arbitration. Subsequently, British Energy noted the defendants in default for not filing the Defence. The above noted motion was scheduled to be heard March 5, 2010 but has been adjourned to a date yet to be determined. The motion will also seek to set aside the noting in default.

In September 2008, a certain First Nation has 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. OPG continues to assess the merits of the litigation and does not expect the litigation will result in any material impact on OPG's financial position.

A Notice of Arbitration was served upon OPG and OEFC by a First Nation. The arbitration concerns whether OPG breached an Agreement to use its "best efforts" to engage the Province in discussion with the First Nation concerning the sharing of benefits related to hydroelectric development. The arbitration hearing has concluded and the parties are waiting for the decision of the Arbitrator. The arbitration is not expected to have any material impact on the Company's financial position.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. OPG has been brought into certain actions by a First Nation against other parties as a third party defendant. The claims by some of these First Nations against OPG total $70 million and the other claims 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.

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, 2009, the remaining provision was $40 million (2008 – $41 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, 2009, are as follows:

(millions of dollars)	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**
Contractual obligations:							
Fuel supply agreements	503	281	186	126	62	101	1,259
Contributions under the ONFA	264	250	240	157	94	758	1,763
Long-term debt repayment	978	384	412	12	13	2,250	4,049
Interest on long-term debt	207	159	131	117	117	639	1,370
Unconditional purchase obligations	22	22	22	23	23	51	163
Operating lease obligations	25	25	26	28	27	-	131
Operating licence	34	33	36	36	36	-	175
Pension contributions [1]	268	-	-	-	-	-	268
Other	38	32	40	33	32	65	240
	2,339	1,186	1,093	532	404	3,864	9,418
Significant commercial commitments:							
Niagara Tunnel	186	231	123	23	13	-	576
Other hydroelectric projects	67	10	-	-	-	-	77
Total	2,592	1,427	1,216	555	417	3,864	10,071

[1] The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuation of OPG's registered pension plan 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. Contributions to the NWMO registered pension plan are not included since an actuarial valuation is required as at January 1, 2010.

Niagara Tunnel

In June 2009, following the recommendations of a dispute review board, OPG and the contractor signed an amended design-build contract with a revised target cost and schedule. The target cost and schedule took into account the difficult rock conditions encountered and the concurrent tunnel excavation and liner installation work required to expedite completion of the tunnel. The amended contract includes incentives and disincentives related to achieving the target cost and schedule. OPG's Board of Directors approved a revised project cost estimate of $1.6 billion and a revised scheduled completion date of December 2013. Some uncertainty with respect to the cost and schedule for both the tunnel excavation and liner installation will continue. As of December 31, 2009, the Tunnel Boring Machine ("TBM") has progressed 5,481 metres, which is 54 percent of the tunnel length.

The capital project expenditures for the year ended December 31, 2009 were $214 million and the life-to-date capital expenditures were $649 million. The project is debt financed through the OEFC. OPG is in the process of pursuing an amendment to the Niagara Tunnel project credit facility with the OEFC, consistent with the revised cost estimate of $1.6 billion and the revised schedule.

Upper Mattagami and Hound Chute

Construction activities to replace three existing hydroelectric generating stations on the Upper Mattagami River and the Hound Chute generating station on the Montreal River continued during 2009. As part of the redevelopment, the Hound Chute generating station was removed from service. The redeveloped station will have a capacity of 10 MW, as compared to 4 MW at the original station.

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. During 2009, fabrication of supplied parts and systems proceeded as planned and certain major Water-to-Wire equipment was delivered. The generating stations are expected to be in-service by April 2011.

Project financing was completed in May 2009, and senior notes totalling $200 million were issued. Life-to-date expenditures as of December 31, 2009 were $196 million. Total project costs are expected to be $300 million.

Lower Mattagami

OPG continues to proceed with project development activities on the planned Lower Mattagami development to increase the capacity of four stations from 483 MW to 933 MW. In January 2010, a design-build contract was finalized which will allow engineering and other preparations to continue in parallel with securing final regulatory approvals and negotiating a HESA with the OPA.

OPG has engaged in consultation discussions with Aboriginal communities regarding the project. A comprehensive agreement has been negotiated with the local First Nation that resolves grievances attributed to the construction and subsequent operation and maintenance of OPG facilities in the area. The new agreement will also provide the First Nation with an ability to purchase up to a 25 percent equity interest in the project. Discussions with other Aboriginal groups are ongoing.

The Federal Environmental Assessment ("EA") Comprehensive Study Report was issued for public comment in October 2009, and the public consultation process was completed at the end of 2009. The EA was submitted to the Federal Minister.

Other Commitments

In addition to the previously disclosed 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, 2012 and December 31, 2010, respectively. As at December 31, 2009, OPG had approximately 12,100 regular employees and approximately 89 percent of its regular labour force is covered by the collective bargaining agreements.

Contractual and commercial commitments as noted 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.

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, was subject to a revenue limit for the period April 1, 2005 to April 30, 2009. 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 were 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. The revenue limit was 4.7¢/kWh for the period May 1, 2007 to April 30, 2008, and increased to 4.8¢/kWh effective May 1, 2008. During this period, volumes sold under a Pilot Auction administered by the OPA were subject to a revenue limit that was 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits were returned to the IESO for the benefit of consumers. The revenue limit rebate ended on April 30, 2009.

The changes in the revenue limit rebate liability for 2009 and 2008 are as follows:

(millions of dollars)	**2009**	**2008**
Liability, beginning of year	**85**	100
Increase to provision during the year	**27**	277
Payments made during the year	**(112)**	(292)
Liability, end of year	**-**	85

18. OTHER (GAINS) AND LOSSES

(millions of dollars)	**2009**	**2008**
Change in estimated cost required to decommission thermal generating stations	**(9)**	(21)
ABCP valuation adjustment *(Note 4)*	**(1)**	14
Other	**-**	(2)
	(10)	(9)

During the fourth quarter of 2009, the Company re-estimated the costs to complete the remaining work to remediate the Lakeview coal-fired generating station site. As a result, OPG recorded a recovery of $9 million in other gains and losses to reflect a change in the estimated costs.

19. BUSINESS SEGMENTS

OPG has five reportable business segments. The business segments are Regulated – Nuclear Generation, Regulated – Nuclear Waste Management, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Thermal.

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 Bruce Lease agreement, lease revenue is reduced in each calendar year where the annual arithmetic Average HOEP falls below $30/MWh and certain other conditions are met. As a result of the Average HOEP for 2009 being less than $30/MWh, the Bruce Lease revenue for 2009 was reduced by $69 million. The reduction of lease revenue is offset by the impact of the Bruce Lease Net Revenues Variance Account described in Note 7 to these consolidated financial statements. The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative according to CICA Section 3855, *Financial Instruments – Recognition and Measurement*. Derivatives are measured at fair value and changes in fair value are recognized in the statement of income. As a result of the significant reduction in the arithmetic Average HOEP, the fair value of the derivative has increased to $118 million for 2009. The increase in the fair value of this derivative was recognized as a reduction to revenue, offset by the impact of the Bruce Lease Net Revenues Variance Account.

During 2009, OPG recorded lease revenue related to the Bruce generating stations of $160 million (2008 – $258 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 was revised. This results 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 Lease Net Revenues 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, 2009 was $1,073 million (2008 – $1,134 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 earnings (losses) from the Nuclear Funds is 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.

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. Ancillary revenues related to these stations are 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. 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, automatic generation control, and other services.

Unregulated – Thermal Segment

The Unregulated – Thermal business segment, which was previously named the Unregulated – Fossil-Fuelled segment, operates in Ontario, generating and selling electricity from its thermal generating stations, which are not subject to rate regulation. Ancillary revenues are earned through offering available generating capacity as operating reserve, and the supply of other ancillary services including voltage control and reactive support, automatic generation control, and 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, which is co-owned with TransCanada Energy Ltd. 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 segments include an inter-segment service fee for the use of certain property, plant and equipment, and intangibles held within 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, 2009, the service fee was $27 million for Regulated – Nuclear Generation, $3 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric and $9 million for Unregulated – Thermal, with a corresponding reduction in OM&A expenses of $43 million for the Other category. 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, $9 million for Unregulated – Thermal, with a corresponding reduction in OM&A expenses of $45 million for the Other category.

Segment Income (Loss) for the Year Ended December 31, 2009	**Regulated**			**Unregulated**				
(millions of dollars)	**Nuclear Generation**	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Elimination**	**Total**
Revenue	**3,179**	**44**	**782**	**615**	**918**	**143**	**(41)**	**5,640**
Revenue limit rebate	**-**	**-**	**-**	**(10)**	**(17)**	**-**	**-**	**(27)**
	3,179	**44**	**782**	**605**	**901**	**143**	**(41)**	**5,613**
Fuel expense	**210**	**-**	**264**	**104**	**413**	**-**	**-**	**991**
Gross margin	**2,969**	**44**	**518**	**501**	**488**	**143**	**(41)**	**4,622**
Operations, maintenance and administration	**2,057**	**48**	**106**	**210**	**492**	**10**	**(41)**	**2,882**
Depreciation and amortization	**481**	**-**	**75**	**73**	**79**	**52**	**-**	**760**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**627**	**-**	**-**	**7**	**-**	**-**	**634**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(683)**	**-**	**-**	**-**	**-**	**-**	**(683)**
Property and capital taxes	**41**	**-**	**10**	**9**	**18**	**8**	**-**	**86**
Other (gains) and losses	**-**	**-**	**-**	**-**	**(9)**	**(1)**	**-**	**(10)**
Income (loss) before interest and income taxes	**390**	**52**	**327**	**209**	**(99)**	**74**	**-**	**953**

Segment Income (Loss) for the Year Ended December 31, 2008 *(millions of dollars)*	Regulated			Unregulated				
	Nuclear Generation	Nuclear Waste Manage -ment	Hydro-electric	Hydro-electric	Thermal	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
Other (gains) and losses	-	-	-	-	(23)	14	-	(9)
Income (loss) before interest and income taxes	235	(670)	310	508	(25)	78	-	436

Selected Consolidated Balance Sheet Information as at December 31, 2009 *(millions of dollars)*	Regulated Nuclear Generation	Regulated Nuclear Waste Management	Regulated Hydroelectric	Unregulated Hydroelectric	Unregulated Thermal	Other	Total
Segment fixed assets in service, net	**3,661**	**-**	**3,791**	**2,968**	**384**	**808**	**11,612**
Segment construction in progress	**217**	**-**	**663**	**308**	**32**	**4**	**1,224**
Segment property, plant and equipment, net	**3,878**	**-**	**4,454**	**3,276**	**416**	**812**	**12,836**
Segment intangible assets in service, net	**22**	**-**	**-**	**2**	**-**	**15**	**39**
Segment development in progress	**8**	**-**	**-**	**1**	**1**	**3**	**13**
Segment intangible assets, net	**30**	**-**	**-**	**3**	**1**	**18**	**52**
Segment materials and supplies inventory, net:							
Short-term	**70**	**-**	**-**	**-**	**60**	**2**	**132**
Long-term	**386**	**-**	**-**	**1**	**1**	**-**	**388**
						-	
Segment fuel inventory	**333**	**-**	**-**	**-**	**504**	**-**	**837**
Fixed asset removal and nuclear waste management liabilities	**-**	**(11,711)**	**-**	**-**	**(146)**	**(2)**	**(11,859)**
Nuclear fixed asset removal and nuclear waste management funds	**-**	**10,246**	**-**	**-**	**-**	**-**	**10,246**

Selected Consolidated Balance Sheet Information As at December 31, 2008 *(millions of dollars)*	**Regulated**			**Unregulated**			
	Nuclear Generation	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Total**
Segment fixed assets in service, net	3,822	-	3,823	2,970	396	456	11,467
Segment construction in progress	234	-	444	192	30	363	1,263
Segment property, plant and equipment, net	4,056	-	4,267	3,162	426	819	12,730
Segment intangible assets in service, net	23	-	-	1	-	24	48
Segment development in progress	3	-	-	-	1	5	9
Segment intangible assets, net	26	-	-	1	1	29	57
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 Cash Flow Information *(millions of dollars)*	**Regulated**			**Unregulated**			
	Nuclear Generation	**Nuclear Waste Manage -ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Total**
Year ended December 31, 2009 Investment in fixed and intangible assets	**200**	**-**	**254**	**239**	**32**	**27**	**752**
Year ended December 31, 2008 Investment in fixed and intangible assets	194	-	161	150	63	93	661

20. Related Party Transactions

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

These transactions are summarized below:

	Revenue	Expenses	Revenue	Expenses
(millions of dollars)	2009		2008	
Hydro One				
Electricity sales	**20**	**-**	35	-
Services	**-**	**13**	-	7
Province of Ontario				
GRC, water rentals and land tax	**-**	**146**	-	151
Guarantee fee	**-**	**4**	-	4
Used Fuel Fund rate of return guarantee	**-**	**493**	-	(971)
Decommissioning Fund excess funding	**-**	**-**	-	(3)
OEFC				
GRC and proxy property tax	**-**	**224**	-	215
Interest expense on long-term notes	**-**	**210**	-	215
Capital tax	**-**	**31**	-	36
Income taxes	**-**	**221**	-	88
Contingency support agreement	**412**	**-**	-	-
Infrastructure Ontario				
Reimbursement of expenses incurred during the procurement of new nuclear units	**-**	**21**	**-**	-
IESO				
Electricity sales	**4,434**	**31**	5,330	127
Revenue limit rebate	**(27)**	**-**	(277)	-
Ancillary services	**153**	**-**	155	-
Other	**6**	**-**	**-**	-
	4,998	**1,394**	5,243	(131)

As at December 31, 2009, accounts receivable included $2 million (2008 – nil) due from Hydro One and $189 million (2008 – $207 million) due from the IESO. Accounts payable and accrued charges at December 31, 2009 included $3 million (2008 – $1 million) due to Hydro One and $21 million (2008 – nil) due to Infrastructure Ontario.

21. JOINT VENTURES

Significant joint ventures include Brighton Beach and the 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)	**2009**	**2008**
Proportionate joint venture operations		
Revenue	**76**	41
Expenses	**(49)**	(31)
Net income	**27**	10
Proportionate joint venture cash flows		
Operating activities	**34**	33
Investing activities	**(17)**	(76)
Financing activities	**(25)**	50
Share of changes in cash	**(8)**	7
Proportionate joint venture balance sheets		
Current assets	**31**	31
Long-term assets	**583**	585
Current liabilities	**(14)**	(18)
Long-term liabilities	**(172)**	(183)
Share of net assets	**428**	415

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 $30 million (2008 – $39 million) and the amount was included as long-term investments on the consolidated balance sheets.

As a result of the application of this policy, the Company's net income and other assets for 2009 decreased by $11 million (2008 – $6 million). The net realized gains for OPGV were $7 million in 2009 (2008 – $3 million).

The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2009 were $11 million and $24 million, respectively. The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2008 were $17 million and $19 million, respectively.

23. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2009, research and development expenses of $112 million (2008 – $112 million) were charged to operations.

24. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**2009**	**2008**
Accounts receivable	**105**	(171)
Prepaid expenses	**(15)**	3
Fuel inventory	**(101)**	(132)
Materials and supplies	**-**	(7)
Revenue limit rebate payable	**27**	277
Accounts payable and accrued charges	**(103)**	65
Income and capital taxes (recoverable) payable	**(149)**	38
	(236)	73

25. NON-CONTROLLING INTEREST

OPG has entered into a partnership agreement with the Lac Seul First Nation ("LSFN") regarding the 12.5 MW Lac Seul generating station. In July 2009, OPG transferred ownership of the station to the partnership. OPG has a 75 percent ownership interest in the partnership, while the LSFN has a 25 percent interest.

OPG consolidates the results of the Lac Seul LP and the non-controlling interest represents the LSFN's 25 percent ownership interest in the partnership.

26. SUBSEQUENT EVENT

Liabilities for Fixed Asset Removal and Nuclear Waste Management, and Depreciation Expense

In February 2010, OPG announced its decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station. Accordingly, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended to 2051. The approval and the extension of service life also impacted the assumptions for OPG's liabilities for fixed asset removal and nuclear waste management primarily due to cost increases related to additional used fuel bundles, partially offset by a decrease in the liability for decommissioning, resulting from the change in the service life assumptions. The net increase in the liabilities is estimated to be approximately $300 million using a discount rate of 4.8 percent. The increase in liabilities will be reflected in the fixed asset balance in 2010. As a result of these changes, OPG's depreciation expense is expected to decrease by $136 million on an annual basis beginning in 2010.

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 the Corporation's 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.

Andrew (Andy) Poprawa, CA, C.Dir.
President & CEO

James Maxwell
Chief Administrative and Financial Officer

Toronto, Canada
January 22, 2010

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, 2009 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, 2009 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
January 22, 2010

Deposit Insurance Corporation of Ontario

Consolidated Statement of Financial Position

December 31, 2009, with comparative figures for 2008 (in thousands of dollars)

	2009	2008
Assets		
Cash (note 2)	**$ 8,986**	$ 6,125
Investments (note 3)	**85,885**	117,939
Loans (net of allowance of $34,477 (2008 - $5,603)) (note 4)	**18,231**	5,622
Premiums receivable	**3,714**	3,433
Interest and other receivables	**203**	496
Deposit insurance advances recoverable	**517**	160
Capital assets (net of accumulated amortization of $3,171 (2008 - $3,237))	**1,617**	875
Total Assets	**$ 119,153**	$134,650
Liabilities		
Payables and accruals	**$ 4,127**	$ 3,644
Member shares and deposits of institutions in liquidation (note 5)	**4,176**	1,276
Deferred premium income	**3,776**	3,465
Accrual for deposit insurance losses (note 6)	**28,773**	30,589
Total Liabilities	**40,852**	38,974
Equity		
Deposit Insurance Reserve Fund	**78,285**	95,638
Accumulated other comprehensive income	**16**	38
Total Equity	**78,301**	95,676
Total Liabilities and Equity	**$ 119,153**	$134,650

Lease Commitments (note 7)

Contingencies (note 13)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Ken Talbot

Director

R.E. Litton

Director

Deposit Insurance Corporation of Ontario

Consolidated Statement of Operations and Changes in the Deposit Insurance Reserve Fund

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

	2009	2008
Income		
Premium income	$ 19,947	$ 18,229
Other income	2,039	4,927
	21,986	23,156
Operating expenses - DICO:		
Salaries and benefits	4,519	4,028
Operating expenses	2,526	2,331
Recovery of operating expenses	(104)	(59)
	6,941	6,300
Operating and interest expenses - institutions in liquidation	4,453	2,131
	11,394	8,431
Excess of income over operating expenses	10,592	14,725
Provision for insurance losses (note 6)	27,945	24,395
Excess of total expenses over income	(17,353)	(9,670)
Deposit Insurance Reserve Fund, beginning of year	95,638	105,308
Deposit Insurance Reserve Fund, end of year	$ 78,285	$ 95,638

See accompanying notes to consolidated financial statements.

Deposit Insurance Corporation of Ontario

Consolidated Statement of Comprehensive Income (Loss)

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

	2009	2008
Excess of total expenses over income	**$ (17,353)**	$(9,670)
Other comprehensive income:		
Unrealized losses on available-for-sale investments arising during the year	**(22)**	(181)
Comprehensive income (loss)	**$ (17,375)**	$(9,851)

Statement of Accumulated Other Comprehensive Income
Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Accumulated other comprehensive income, beginning of year (note 3)	**$ 38**	$ 219
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income	**(38)**	(219)
Net unrealized gains on available-for-sale investments arising during the year	**16**	38
Net change during the year	**(22)**	(181)
Accumulated other comprehensive income, end of year	**$ 16**	$ 38

See accompanying notes to consolidated financial statements.

Deposit Insurance Corporation of Ontario

Consolidated Statement of Cash Flows

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

	2009	2008
Cash received from (applied to)		
Operations:		
Excess of total expenses over income	$ (17,353)	$ (9,670)
Items charged to operations not affecting cash		
Provision for losses	27,945	24,395
Loss on disposal of capital assets	99	1
Unrealized losses on available-for-sale investments arising during the year	(22)	(181)
Amortization	205	195
Provision for bad debts	(352)	-
Net adjustment with new/close out institutions during the year	(28)	(17)
	10,494	14,723
Changes in:		
Loans	(12,609)	1,493
Premiums receivable	(281)	(468)
Interest and other receivables	293	135
Payables and accruals	483	405
Membership shares and deposits of institutions in liquidation	2,900	(12,048)
Deferred premium income	311	386
	(8,903)	(10,097)
Total changes due to new institutions during the current year	(25,098)	242
Net advances by deposit insurer	41,824	9,980
Net deposit insurance advances	(46,844)	(9,968)
Total net deposit insurance recoveries/(advances) (note 6)	(30,118)	254
	(28,527)	4,880
Investing activities:		
Purchase of investments held at year end	(85,885)	(117,939)
Proceeds on sale of investments	117,939	110,011
Purchase of capital assets	(668)	(203)
Proceeds on sale of capital assets	2	-
	31,388	(8,131)
Increase (decrease) in cash position during the year	2,861	(3,251)
Cash position, beginning of year	6,125	9,376
Cash position, end of year	$ 8,986	$ 6,125
Supplementary cash flow information:		
Loan guarantee fee paid during the year	$ 2	$ 7
Interest received during the year	$ 1,677	$ 4,521

Cash position is defined as cash and short-term investments less any borrowings.

See accompanying notes to consolidated financial statements.

Deposit Insurance Corporation of Ontario

Notes to Consolidated Financial Statements

Year ended December 31, 2009

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 Ontario credit unions and caisses populaires;
- promote and contribute to the stability of the sector;
- provide insurance while minimizing exposure to loss;
- collect and publish statistics; and
- perform the duties specified in the Act and as directed by the Minister.

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 premium rates are set out in the regulation to the Act. The Corporation reviews the adequacy of the premium rate annually and advises the government accordingly.

Effective October 1, 2009, the government proclaimed amendments to the Act which had the effect of transferring a number of statutory responsibilities from the Financial Services Commission of Ontario (FSCO) to DICO. In addition, some administrative and governance responsibilities have been transferred from the regulatory agencies (FSCO and DICO) to credit unions and caisses populaires.

Effective January 1, 2009, the Minister of Finance approved a $250 million line of credit with the Ontario Financing Authority which expires on December 31, 2013. Under the revolving credit facility arrangement, interest cost on any outstanding debt obligation is charged at an annual rate equal to the Province's cost of funds for borrowings with a three month term, determined by the OFA at the time of the borrowing, plus an additional 0.40 percent per annum.

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:

i) Prior year changes in accounting policies
Effective January 1, 2008, the Corporation adopted three new disclosure standards that were issued by the Canadian Institute of Chartered Accountants CICA. They include Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments - Presentation.

ii) Current year changes in accounting policies
The Corporation adopted an amendment in a standard issued by the (CICA): Section 3862 Financial Instruments – Disclosures. This requires the corporation to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs making the measurements.

The fair value hierarchy is defined in levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

(C) Variable Interest Entities:

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, 2009 and 2008.

(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 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.

(J) Goodwill and Intangible assets:

In February 2008, Canada's Accounting Standard's Board (AcSB) issued CICA Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 establishes revised standards for the recognition, measurement, presentation, and disclosure of goodwill and intangible assets. The new Section also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. This Section applies to any company's fiscal year beginning on or after October 6, 2008. DICO's application of this policy only began to be incurred commencing July 2009, thus retrospective application was not necessary.

(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) has confirmed January 1, 2011 as the date IFRS will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises. DICO will be required to prepare its 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. DICO is currently assessing the potential impact of the transition to IFRS on its consolidated financial statements, disclosures, and broader financial reporting systems and controls. Final findings and conclusions of the overall impact will be determined during 2010.

2. Cash

	December 31, 2009	December 31, 2008
	Amount (thousands)	Amount (thousands)
Cash	**$1,313**	$1,721
Cash of institutions in liquidation	**$7,673**	$4,404
Total	**$8,986**	$6,125

3. Investments

The Corporation's investments are financial instruments, 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.

Investments have terms to maturity of 90 days or greater on the date of purchase. As of December 31, 2009, they have a weighted-average yield of 0.28% (2008: 2.09%). 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, 2009			December 31, 2008		
	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount (thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Treasury bills – Canada	$ 61,300	0.17%	91	$ 76,686	0.88%	92
Bankers' acceptances	11,197	0.56%	66	20,847	1.55%	14
Fixed income-Canada Housing Trust 1 CDA MTG BD Ser 12 Fltg	13,388	0.40%	258	20,406	3.76%	257
Total	$ 85,885	0.28%	114	$ 117,939	2.09%	107

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 237/09 of the *Credit Unions and Caisses Populaires Act, 1994*.

Fair value hierarchy:

The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. All of the Corporation's financial instruments were valued using quoted market prices (Level 1) and were classified as "Available-for-sale".

4. Loans (net of allowance)

Loans (net of allowance) of $18,231,000 (2008 - $5,622,000) 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 majority of the aggregate allowance of $34,477,000 (2008 - $5,603,000) 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. A total of 6 new institutions were placed in liquidation during 2009. 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 judgments 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 $4,176,000 (2008 - $1,276,000) are comprised of $3,515,000 (2008 - $806,000) in member shares and preferred shares and $661,000 (2008 - $470,000) 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".

	2009	2008
	(thousands)	
Accrual for deposit insurance losses, beginning of year	**$ (30,589)**	$ (5,826)
Increase in accrual for current year's deposit insurance losses	**(13,022)**	(25,075)
Increase in accrual for prior year's deposit insurance losses	**(14,923)**	680
Total net provision for insurance losses for the year	**(27,945)**	(24,395)
Increase in deposit insurance advances recoverable	**(357)**	(114)
Less: Accrual for deposit insurance losses, end of year	**(28,773)**	(30,589)
Net deposit insurance (advances)/recoveries	**$ (30,118)**	$ 254

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 $5,000,000 (2008 - $2,500,000) 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 8 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 $256,000 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 $19,857,000. They expire as follows:

Originating Taxation Year	Expiring Taxation Year	Amount *(thousands)*
2003	2010	4,124
2004	2014	3,790
2005	2015	2,833
2006	2026	1,102
2007	2027	258
2008	2028	1,846
2009	2029	5,904
		$19,857

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 2009 was $354,000 (2008 - $333,000).

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, 2009, as actuarially determined, is $1,523,000 (2008 - $1,438,000). The annual benefit cost, including current service cost, interest and amortization of gains and losses was $128,000 (2008 - $194,000). 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% (2008 - 6.75%), rate of compensation increase of 3.5% (2008 - 3.5%) and initial weighted average trend rate in health and dental costs of 6.1% (2008 - 6.1%), grading down to 5% per annum by 2029. The Corporation measures its accrued benefit obligations as at December 31st.

RECONCILIATION OF ACCRUED BENEFIT OBLIGATION TO THE ACCRUED BENEFIT LIABILITY	FISCAL YEAR ENDING December 31, 2009 (thousands)	FISCAL YEAR ENDING December 31, 2008 (thousands)
Accrued benefit obligation	**$ 1,645**	$ 1,513
Employer contributions during year	**-**	-
Unamortized net actuarial loss	**(122)**	(75)
Accrued benefit liability	**$ 1,523**	$ 1,438

CHANGE IN BENEFIT OBLIGATIONS	FISCAL YEAR ENDING December 31, 2009 (thousands)	FISCAL YEAR ENDING December 31, 2008 (thousands)
Accrued benefit obligation, beginning of the year	**$1,513**	$ 1,901
Current service cost	**25**	55
Interest cost	**102**	106
Actuarial loss (gain)	**47**	(510)
Benefit payments	**(42)**	(39)
Accrued benefit obligation, end of year	**$1,645**	$ 1,513

During the year, the Corporation implemented a human resources retention plan for key management personnel for the purpose of ensuring effective transition and succession planning. Total accrued retention benefits were $209,000 at December 31, 2009.

11. Directors' expense

During the year the directors received an aggregate remuneration of $126,000 (2008 - $100,000). Total directors' expenses were $61,000 (2008 - $55,000). 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.

The increase in directors' expenses and remuneration related to an increase in the number of directors as the Government filled vacancies, a program of stakeholder outreach by the Board and an increased number of meetings.

12. Compensation:

The following information about remuneration paid to DICO employees is provided based on the same criteria under which credit unions disclose the remuneration of officers and employees under the *Credit Unions and Caisses Populaires Act, 1994*.

Employee	Position held	Compensation	Taxable Benefits
Brydges, Barry	Vice President, Insurance & Risk Management	$177,248	$ 8,938
Foster, C.W.D.	Vice President, Asset Management & Recoveries	$179,114	$11,556
Maxwell, James	Chief Administrative & Financial Officer	$149,344	$16,349
Poprawa, Andrew	President and CEO	$229,561	$ 8,905

13. 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 2009 there were no actions brought against the Corporation by third parties. Accordingly, no provisions have been made in these financial statements.

14. 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, by the terms of the line of credit agreement with the Ontario Financing Authority 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 a line 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 terms of the line of credit require DICO to liquidate its DIRF investments before it can borrow above $20 million. 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. 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 $620,000 (2008: $866,000).

Capital management

The Board's policy is to enhance the financial soundness of the credit union and caisse populaire sector. As of December 31, 2009, the Corporation has a deposit insurance reserve fund of $78 million which represents 38 basis points (on a consolidated basis) of the sector's insured deposits.

15. Fair Value Disclosure

The fair value of financial assets and liabilities which include cash and short-term 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.

16. Comparative figures

Certain comparative figures for 2008 have been reclassified to conform with the financial statement presentation adopted for 2009.

Financial Services Commission of Ontario

Commission des services financiers de l'Ontario

Ontario

Motor Vehicle Accident Claims Fund

Management 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 Managements 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

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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, 2010 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.

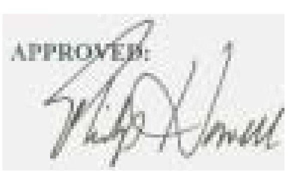
In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
June 22, 2010

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF FINANCIAL POSITION

	As at March 31, 2010 $	As at March 31, 2009 $
ASSETS		
CURRENT		
Funds on Deposit	39,322,517	34,055,714
Accounts Receivable - License Fees	3,984,348	2,918,082
Accounts Receivable - Debtors	44,291,094	42,745,311
Less: Allowance for Doubtful Accounts	27,224,802	27,178,770
	17,066,292	15,566,541
LONG TERM		
Fixed Assets (Note 3a)	555,216	551,387
Less: Accumulated Amortization	434,881	319,941
	120,335	231,446
Unpaid Claims Recoverable (Note 4)	2,637,628	3,783,886
Total Assets	63,131,120	56,555,669
LIABILITIES & FUND DEFICIT		
Accounts Payable and Accrued Expenses	1,324,909	2,011,241
Employee Future Benefits Obligation (Note 3h)	541,499	530,861
Deferred Revenue	67,536,791	65,538,122
Unpaid Claims and Adjustment Expenses (Note 4)	170,309,109	179,453,805
	239,712,308	247,534,029
Fund Deficit	(176,581,188)	(190,978,360)
	(176,581,188)	(190,978,360)
Total Liabilities & Fund Deficit	63,131,120	56,555,669



Philip Howell
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, 2010 $	Year ended March 31, 2009 $
REVENUE		
Fee on Issue or Renewal of Driver's Licences	28,645,345	27,257,155
Change in Deferred Revenue	(1,998,669)	(3,661,346)
Fees Earned	26,646,676	23,595,809
Prior Year Recoveries	5,926,631	1,695,941
Other Revenue	6,885	1,845
Total Revenue	32,580,192	25,293,595
EXPENSES		
Change in Net Unpaid Claims and Adjustment Expenses	(7,998,438)	(2,959,219)
Accident Benefits Claims Payments	16,116,738	15,393,719
Administrative Expenses		
Salaries and Wages	1,610,635	1,565,960
Employees' Benefits	229,513	247,462
Transportation and Communication	32,935	31,537
Services:		
Claims (Solicitors' Fees, etc.)	1,955,078	2,172,402
Accident Benefit Claims Expense	1,681,029	1,698,325
Other Services	1,611,082	1,119,884
Bad Debts Expense	2,809,379	5,646,545
Supplies and Equipment	20,129	26,747
Amortization Expense	114,940	114,940
Total Expenses	18,183,020	25,058,302
Excess of Revenue over Expenses	14,397,172	235,293
Fund Deficit, Beginning of Year	(190,978,360)	(191,213,653)
Fund Deficit, End of Year	(176,581,188)	(190,978,360)

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF CASH FLOWS

	Year ended March 31, 2010 $	Year ended March 31, 2009 $
OPERATING ACTIVITIES		
Cash Inflows		
Fee on Issue or Renewal of Driver's Licences	27,579,079	27,261,760
Repayment by Debtors	1,228,828	1,307,072
Prior Year Recoveries	5,926,631	1,699,478
Other Revenue	6,885	1,845
Cash Outflows		
Statutory Payments	(22,107,241)	(21,160,316)
Payments to Employees	(1,821,370)	(1,778,010)
Administrative Expenses	(5,542,180)	(4,955,009)
Net Cash Inflow from Operating Activities	5,270,632	2,376,820
INVESTING ACTIVITIES		
Cash Outflows		
Acquisition of Computer Equipment	(3,829)	-
Net Cash Outflow from Investing Activities	(3,829)	-
Net Increase in Funds on Deposit with Minister of Finance	5,266,803	2,376,820
Funds on Deposit with Minister of Finance, Beginning of Year	34,055,714	31,678,894
Funds on Deposit with Minister of Finance, End of Year	39,322,517	34,055,714

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2010

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, 2010

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.

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	**2010**			2009
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Leasehold Improvements	**$500,000**	**$400,000**	**$100,000**	$200,000
Computer Equipment	**32,156**	**20,602**	**11,554**	17,168
Furniture & Fixtures	**16,416**	**9,850**	**6,566**	9,849
Office Equipment	**6,644**	**4,429**	**2,215**	4,429
	$555,216	**$434,881**	**$120,335**	$231,446

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Drivers' Licence Fees and Deferred Revenue

The Fund earns a fee of $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 $3.2 million (2009 - $4.0 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, 2010

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, 2010. 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) i) 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, 2010

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.

	2010	Increase (Decrease)	2009
Employee Future Benefits Obligation	$541,499	$10,638	$530,861

ii) 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, 2010

4. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

a) The Fund's unpaid claims and adjustment expenses consist of the following:

	March 31, 2010		March 31, 2009	
	Gross	**Recoverable**	Gross	Recoverable
	(000's)	**(000's)**	(000's)	(000's)
ACCIDENT BENEFITS				
Statutory accident benefits	**$107,589**	$ -	$115,229	$ -
THIRD PARTY LIABLITY (TPL)				
Property damage	**1,147**	**26**	1,361	50
Bodily injury	**61,573**	**2,611**	62,864	3,734
Total TPL	**62,720**	**2,637**	64,225	3,784
Totals	**$170,309**	**$2,637**	$179,454	$3,784

b) The change in gross provision for claims and adjustment expenses is as follows:

	March 31, 2010	March 31, 2009
	(000's)	(000's)
Unpaid claims and adjustment expenses, beginning of year	**$179,454**	$185,614
Increase (decrease) in provision for losses that occurred in prior years	**(14,670)**	(15,607)
Amounts paid during the year on claims of prior years		
Statutory Payments	**(20,663)**	(18,598)
Claims Expenses	**(6,638)**	(6,435)
Amount paid during the year on claims of the current year		
Statutory Payments	**(992)**	(619)
Claims Expenses	**(319)**	(214)
Provision for losses on claims that occurred in the current year	**34,137**	35,313
Unpaid claims and adjustment expenses, end of year	**$170,309**	$179,454

Motor Vehicle Accident Claims Fund
Notes to the Financial Statements
March 31, 2010

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, 2010 for information purposes.

As at March 31, 2010, the amount paid out of the Fund for accident benefit claims in the form of structured settlements was approximately $23.4 million (2009 - $17.8 million) with applicable reversionary interest of approximately $18.0 million (2009- $13.7 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, 2008 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, 2009 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, 2008 on a funding basis was based on membership data provided by OPB as at December 31, 2008.

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, 2008 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, 2009. The valuation as at December 31, 2009 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, 2008 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

Allan H. Shapira
Fellow, Canadian Institute of Actuaries
February 26, 2010

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 26, 2010

Duncan Webb, CA
Senior Vice President, 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 deficit of Ontario Pension Board ("OPB") as at December 31, 2009 and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in 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 deficit of OPB as at December 31, 2009 and the changes in its net assets available for benefits, accrued pension benefits and deficit for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Toronto, Canada
February 26, 2010

Chartered Accountants
Licensed Public Accountants

Consolidated statement of net assets available for benefits, and accrued pension benefits and deficit

As at December 31 *(in thousands of dollars)*	**2009**	2008
Assets		
Investments (Note 4)	$ 16,041,189	$ 14,828,127
Investment-related receivables (Note 4)	3,599,807	2,516,261
Contributions receivable (Note 5)	54,800	48,731
Capital assets (Note 6)	4,081	4,748
Total assets	19,699,877	17,397,867
Liabilities		
Investment-related liabilities (Note 4)	3,619,237	2,757,855
Accounts payable and accrued charges	23,024	20,722
Income taxes withheld on pension payments	10,491	10,625
Contributions payable	3,915	1,597
Total liabilities	3,656,667	2,790,799
Net assets available for benefits	$ 16,043,210	$ 14,607,068

Accrued pension benefits and deficit		
Accrued pension benefits (Note 7)	$ 17,374,215	$ 17,311,935
Deficit (Note 8)	(1,331,005)	(2,704,867)
Total accrued pension benefits and deficit	$ 16,043,210	$ 14,607,068

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)*	**2009**	2008
Investment operations		
Net investment income (loss) (Note 9)	$ 1,690,540	$ (1,551,919)
Operating expenses – investment operations (Note 11)	(8,502)	(6,051)
Net investment operations	1,682,038	(1,557,970)
Pension operations		
Contributions (Note 10)	527,953	487,534
Transfer from other plans	165,644	206,659
Pension payments	(837,256)	(810,133)
Termination payments and transfers	(77,175)	(70,553)
Operating expenses – pension operations (Note 11)	(25,062)	(27,031)
Net pension operations	(245,896)	(213,524)
Net increase (decrease) in net assets for the year	1,436,142	(1,771,494)
Net assets, at beginning of year	$ 14,607,068	$ 16,378,562
Net assets, at end of year	$ 16,043,210	$ 14,607,068

See accompanying notes

Consolidated statement of changes in accrued pension benefits

For the year ended December 31 *(in thousands of dollars)*	**2009**	2008
Accrued pension benefits, at beginning of year	$ 17,311,935	$ 16,315,393
Increase in accrued pension benefits		
Interest on accrued pension benefits	1,160,028	997,552
Benefits accrued		
Service accrual	475,359	468,871
Transfer of service from other plans	165,644	206,659
Past service buybacks	20,750	15,066
Experience losses	59,898	198,450
Total increase	1,881,679	1,886,598
Decrease in accrued pension benefits		
Benefits paid	914,431	880,686
Change in actuarial assumptions (Note 7)	904,968	9,370
Total decrease	1,819,399	890,056
Net increase in accrued pension benefits	62,280	996,542
Accrued pension benefits, at end of year	$ 17,374,215	$ 17,311,935

Consolidated statement of changes in deficit

For the year ended December 31 *(in thousands of dollars)*	**2009**	2008
Excess (deficit), at beginning of year	$ (2,704,867)	$ 63,169
Net increase (decrease) in net assets available for benefits	1,436,142	(1,771,494)
Net increase in accrued pension benefits	(62,280)	(996,542)
Net increase (decrease)	1,373,862	(2,768,036)
Deficit, at end of year	$ (1,331,005)	$ (2,704,867)

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"). Starting January 2009 contribution rates have increased to 6.4% of the salary on which contributions are made to the CPP and 8.75% on the balance of the salary, increasing to 9.5% effective January 2010. 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) Pooled fund values are supplied by the fund administrators based upon fair value quotations.

(v) Derivative financial instruments consisting of foreign exchange forward contracts are recorded at fair value using year-end market prices.

(vi) 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 (loss) 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

In 2009, OPB adopted amendments to the recommendations of the Canadian Institute of Chartered Accountants ("CICA") contained within CICA Handbook Section 3862 "Financial Instruments – Disclosures". These amendments enhance disclosures about fair value measurement, including the relative reliability of the inputs used in those measurements, as well as liquidity risk. In terms of fair value measurement, the standard establishes a three-level hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The expanded disclosures are contained in Note 4.

Note 4 Investments

As at December 31 *(in thousands of dollars)*	**Fair value**	**2009** **Cost**	Fair value	2008 Cost
Cash and short-term investments				
Canada	$ 466,429	$ 468,125	$ 917,671	$ 917,917
United States and other international	121,845	121,965	77,889	77,429
	588,274	590,090	995,560	995,346
Fixed income				
Special Province of Ontario Debentures	2,265,655	1,888,831	2,686,017	2,182,659
Bonds				
Canada	3,258,728	3,197,948	2,884,486	2,877,508
United States and other international	635,325	627,146	949,348	838,011
	6,159,708	5,713,925	6,519,851	5,898,178
Equities				
Canada	2,168,986	1,694,276	1,611,976	1,603,983
United States	1,455,791	1,427,568	1,939,235	2,200,432
Other international	3,399,191	3,166,713	1,526,732	2,003,015
	7,023,968	6,288,557	5,077,943	5,807,430
Real estate	2,223,201	1,918,795	2,191,469	1,883,707
Participating mortgages	46,038	29,298	43,304	27,906
Total investments	16,041,189	14,540,665	14,828,127	14,612,567
Investment-related receivables				
Pending trades	24,774	24,774	16,415	16,415
Forward exchange contracts	3,575,033	3,596,932	2,499,846	2,467,810
	3,599,807	3,621,706	2,516,261	2,484,225
Investment–related liabilities				
Real estate debt	83,393	79,597	124,104	113,332
Pending trades	18,178	18,178	21,717	21,717
Forward exchange contracts	3,517,666	3,596,932	2,612,034	2,467,810
	3,619,237	3,694,707	2,757,855	2,602,859
Net investments	$16,021,759	$14,467,664	$ 14,586,533	$ 14,493,933

a) Asset mix

Investments are allocated to and maintained in major asset classes within acceptable ranges with target allocation as follows:

	2009 Target	2008 Target
Cash and short-term investments	2%	2%
Bonds	38%	38%
Total interest-bearing instruments	40%	40%
Equity		
Canadian	11%	11%
International	36%	36%
Total equity	47%	47%
Canadian real estate	13%	13%
Total equity and real estate	60%	60%

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 5.31 years at December 31, 2009, a parallel shift in the yield curve of +/-1% would result in an impact on the net investments of $302.1 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:

	2009				2008
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	$ 2,281,794	$ 571,227	$ (1,511,074)	$ 1,341,947	$ 1,730,559
Euro	1,262,506	227,745	(1,079,152)	411,099	398,062
British pound sterling	438,815	6,353	(235,099)	210,069	150,957
Japanese yen	170,640	267	(30,553)	140,354	139,466
Swiss franc	167,156	-	(43,830)	123,326	99,057
Other	984,334	5,679	(23,131)	966,883	51,407
Total foreign	5,305,245	811,271	(2,922,839)	3,193,678	2,569,508
Canadian dollar	10,653,759	2,763,762	(594,827)	12,822,694	12,017,025
	$ 15,959,004	$ 3,575,033	$ (3,517,666)	$ 16,016,372	$ 14,586,533

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 $31.9 million in total for all foreign currencies, as at December 31, 2009.

(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 $70.2 million, as at December 31, 2009.

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, 2009, the Plan's greatest credit exposure is with the Province of Ontario, with Special Debentures valued at $2.266 billion (2008 - $2.686 billion) and bonds and short-term investments valued at $401 million (2008 - $645 million). At December 31, 2009, 87% (2008 - 96%) 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 $514 million (2008 - $539 million) to the Plan.

c) Cash and short-term investments

As at December 31 *(in thousands of dollars)*	**Fair value**	**2009** **Cost**	Fair value	2008 Cost
Canada				
Cash	$ 29,692	$ 29,692	$ 4,071	$ 4,071
Short-term notes and treasury funds	435,036	436,732	910,529	910,775
Term deposits	-	-	1,102	1,102
Accrued interest	1,701	1,701	1,969	1,969
	$ 466,429	$ 468,125	$ 917,671	$ 917,917
United States and other international				
Cash	$ 24,784	$ 24,784	$ 4,921	$ 4,921
Short-term notes and treasury funds	19,599	19,719	24,051	23,591
Term deposits	77,461	77,461	48,907	48,907
Accrued interest	1	1	10	10
	$ 121,845	$ 121,965	$ 77,889	$ 77,429

d) Fixed income and equities

The Special Debentures are recorded at an estimated market value of $2.266 billion (2008 - $2.686 billion) by discounting cash flows based on year-end market yields of comparable bonds. There are currently six Special Debentures maturing over the next five years with a weighted average interest rate of 11.32% (2008 – 11.56%).

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**	**2009** **Cost**	Fair value	2008 Cost
Equities – Canada	$ 41,348	$ 37,139	$ 110,238	$ 165,605
Equities - United States	9,069	8,445	1,291	1,249
Equities - Other International	227,623	260,386	252,695	333,484

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)*	**2009** Fair value	Cost	2008 Fair value	Cost
Real estate properties	$2,225,385	$1,920,979	$ 2,194,793	$ 1,887,031
Other liabilities, net	(2,184)	(2,184)	(3,324)	(3,324)
Total assets	2,223,201	1,918,795	2,191,469	1,883,707
Debt on real estate properties	(83,393)	(79,597)	(124,104)	(113,332)
Net investment in real estate	2,139,808	1,839,198	$ 2,067,365	$ 1,770,375

Debt includes mortgages and other secured debt with various terms to maturity up to 2018 and a weighted average interest rate of 6.42% (2008 - 6.55%), 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)*	
2010	$ 7,646
2011	16,843
2012	2,551
2013	23,095
2014	29,462
2015 and thereafter	3,813

f) Securities lending

At year-end, $283 million (2008 - $835 million) of OPB's securities were on loan to third parties. Pursuant to a securities lending agreement, OPB's custodian arranges the loans and OPB earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with 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, $299 million of securities were held as collateral, providing a 5.4% cushion against market and credit risks.

g) Fair values

CICA Handbook Section 3862 requires disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mutual and pooled funds; hedge funds; Government of Canada, provincial and other government bonds; Canadian corporate bonds; and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes private equity investments and securities that have liquidity restrictions.

The following table presents as at December 31, 2009, the level within the fair value hierarchy for each of the financial assets and liabilities measured at fair value. The table excludes accrued income, other assets, and other liabilities that are valued at their carrying amount, which represents a reasonable approximation of fair value due to their short-term nature.

As at December 31 *(in thousands of dollars)*	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Short-term investments				
Canada	-	306,909	-	306,909
United States and other international	-	97,061	-	97,061
Fixed income				
Special Province of Ontario Debentures	-	2,160,394	-	2,160,394
Bonds				
Canada	-	3,354,329	5,830	3,360,159
United States and other international	-	620,397	381	620,778
Equities				
Canada	2,122,613	255,288	550	2,378,451
United States	1,445,073	-	-	1,445,073
Other international	3,184,120	-	-	3,184,120
Participating mortgages	-	37,596	-	37,596
Forward exchange contracts	-	3,575,033	-	3,575,033
	6,751,806	10,407,007	6,761	17,165,574
Financial liabilities				
Real estate debt	-	(83,393)	-	(83,393)
Forward exchange contracts	-	(3,517,666)	-	(3,517,666)
	-	(3,601,059)	-	(3,601,059)

There were no significant transfers between levels 1, 2, or 3 during the year ended December 31, 2009.

The following table presents a reconciliation of all level 3 assets and liabilities measured at fair value for the year ended December 31, 2009.

(in thousands of dollars)	Fair value as at January 1, 2009	Acquisitions	Change in unrealized gains	Fair value as at December 31, 2009
Financial assets				
Bonds				
Canada	-	5,823	8	5,831
Equities				
Canada	-	550	-	550
United States	-	380	-	380
	-	6,753	8	6,761

Note 5 Contributions receivable

As at December 31 *(in thousands of dollars)*	**2009**	2008
Members	$ 22,361	$ 19,498
Employers	32,439	29,233
Total contributions receivable	$ 54,800	$ 48,731

Note 6 Capital Assets

As at December 31 *(in thousands of dollars)*	**Cost**	**Accumulated depreciation**	**2009 Net book value**	2008 Net book **value**
Computer equipment	$ 2,431	$ 1,607	$ 824	$ 1,178
Furniture and fixtures	2,374	420	1,954	2,137
Leasehold improvements	1,433	130	1,303	1,433
Total capital assets	$ 6,238	$ 2,157	$ 4,081	$ 4,748

Note 7 Accrued pension benefits

a) Accounting basis

The value of accrued pension benefits of $17.374 billion (2008 - $17.312 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), as 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, 2009 are computed by extrapolating data used for the December 31, 2008 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:

	2009		2008
Investment return	6.75%	to December 31, 2018	6.15%
	6.25%	thereafter	
Inflation	2.50%		2.50%
Real rate of return	4.25%	to December 31, 2018	3.65%
	3.75%	thereafter	
Salary increases	3.50%		3.50%
	+promotional scale		+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, 2008 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.

A funding valuation was prepared for management purposes as at December 31, 2008. That valuation disclosed a funding shortfall of $1.999 billion.

The funding valuation is used as a basis for funding and Plan design decisions.

Note 8 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, 2009 was $1.331 billion (2008 - $2.705 billion)

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			2009					2008
(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]
Cash and short-term investments								
Canada	$ 13,099	$ (4,237)	$ (1,451)	$ 7,411	$ 32,429	$ 10,579	$ (227)	$ 42,781
United States and other international	181	(15,729)	168,975	153,427	1,987	3,355	(137,785)	(132,443)
	13,280	(19,966)	167,524	160,838	34,416	13,934	(138,012)	(89,662)
Fixed income								
Special Province of Ontario Debentures	220,133	-	(126,534)	93,599	255,056	-	(40,284)	214,772
Bonds								
Canada	140,869	31,648	53,802	226,319	142,415	(16,314)	6,134	132,235
United States and other international	30,656	38,260	(103,157)	(34,241)	38,845	3,650	128,783	171,278
	391,658	69,908	(175,889)	285,677	436,316	(12,664)	94,633	518,285
Equities								
Canada	55,255	7,549	466,717	529,521	43,789	8,789	(772,859)	(720,281)
United States	46,065	(235,544)	289,421	99,942	56,526	(358,917)	(189,748)	(492,139)
Other international	69,192	(280,225)	708,761	497,728	66,192	(187,684)	(591,146)	(712,638)
	170,512	(508,220)	1,464,899	1,127,191	166,507	(537,812)	(1,553,753)	(1,925,058)
Real estate	154,594	-	(6,522)	148,072	150,249	-	(177,001)	(26,752)
Participating mortgages	2,734	-	-	2,734	1,332	-	(543)	789
Total investment income (loss)	$732,778	$ (458,278)	$1,450,012	$1,724,512	$ 788,820	$ (536,542)	$ (1,774,676)	$ (1,522,398)
Investment fees				(33,972)				(29,521)
Net investment income (loss)				$1,690,540				$ (1,551,919)

[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)	**2009**	2008
Cash and short-term investments		
Canada		
Cash	**$ 1,385**	$ 2,984
Short-term notes and treasury funds	**11,669**	27,944
Term deposits	**45**	1,501
	$ 13,099	$ 32,429

United States and other international		
Cash	**$ 19**	$ 127
Short-term notes and treasury funds	**(6)**	323
Term deposits	**168**	1,537
	$ 181	$ 1,987

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds. There were no pooled bond funds in 2009 (2008 pooled bond fund interest - $14.164 million).

b) Dividend income

Canadian dividend income includes $1.357 million (2008 - $817 thousand) from pooled equity funds. United States dividend income includes $186 thousand (2008 - $59 thousand) from pooled equity funds. Other international dividend income includes $5.316 million (2008 - $7.223 million) from pooled equity funds.

c) Real estate

The following is selected information from OPB's real estate operations for income-producing properties:

For the year ended December 31

(in thousands of dollars)	**2009**	2008
Revenue		
Rental	**$ 267,277**	$ 259,622
Other income	**6,579**	6,123
	273,856	265,745
Expenses		
Operating expenses	**98,889**	94,609
General, administrative and other	**14,836**	14,249
	113,725	108,858
Operating income, before interest	**160,131**	156,887
Interest expense	**6,552**	7,838
Net operating income	**153,579**	149,049
Unrealized gain (loss)		
Appraisal adjustment	**(24,217)**	(169,018)
Fair value adjustment on debt	**6,977**	(7,983)
	(17,240)	(177,001)
Transaction costs	**(153)**	(375)
Net income (loss)	**$136,186**	$ (28,327)

d) Investment fees

For the year ended December 31

(in thousands of dollars)	**2009**	2008
Portfolio fund management	$ 20,684	$ 17,428
Transaction costs	9,564	7,787
Custody	2,058	1,714
Real estate	1,666	2,408
Consulting	-	184
	$ 33,972	$ 29,521

Transaction costs include commissions and fees on trades. Additional transaction costs included in real estate expense total $294 thousand (2008 - $782 thousand).

Note 10 Contributions

For the year ended December 31
(in thousands of dollars)

	2009	2008
Members		
Current service	$ 234,654	$ 208,436
Prior service	15,877	11,729
	250,531	220,165
Employers		
Current service		
Regular contributions	234,706	208,263
PSSBA transfer	(14,641)	(10,764)
For members receiving Long Term Income Protection benefits	7,528	6,424
Prior service	4,873	3,337
	232,466	207,260
Sponsor Payments		
Special Payments	3,756	3,757
Additional current service	41,200	56,352
	44,956	60,109
Total contributions	$ 527,953	$ 487,534

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, as sponsor of the Plan, contributed $3.756 million (2008 - $3.757 million) in Special Payments in 2009 towards the funding shortfall identified in the filed funding valuation as at December 31, 2007. In 2009, the Province made $41.200 million (2008 - $56.352 million) in additional employer current service contributions.

Note 11 Operating expenses

Pension operations

For the year ended December 31
(in thousands of dollars)

	2009	2008
Staffing costs	$ 13,540	$ 13,438
Staff development and support	645	954
Office premises and operations	3,101	3,160
Information technology and project management	4,875	5,637
Professional services	1,273	2,164
Communication	512	619
Depreciation	718	701
Board remuneration	102	113
Audit	296	245
	$ 25,062	$ 27,031

Investment operations

For the year ended December 31 *(in thousands of dollars)*	**2009**	2008
Staffing costs	$ 4,674	$ 3,319
Staff development and support	129	184
Office premises and operations	1,664	605
Information technology and project management	645	672
Professional services	899	783
Communication	128	149
Depreciation	216	114
Board remuneration	68	75
Audit	79	150
	$ 8,502	$ 6,051

For the year ended December 31 *(in thousands of dollars)*	**2009**	2008
Audit and related services provided to Ontario Pension Board	$ 86	$ 98
Audit and related services provided to real estate operations	201	185
Total fees	$ 287	$ 283

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 President & CEO and all Senior Vice-Presidents:

For the year ended December 31	**Year**	**Base salary**	**Incentives[1]**	**Taxable benefits & allowances[2]**	**Total**
Mark J. Fuller, President & CEO[3]	2009	$398,631	$ 87,170	$11,381	$497,182
	2008	398,321	121,300	11,403	531,024
	2007	332,648	140,242	11,304	484,194
Linda J. Bowden, Senior Vice-President, Operations	2009	321,772	53,981	10,082	385,835
	2008	314,224	95,854	10,078	420,156
	2007	258,617	85,180	10,009	353,806
R. Paul Edmonds, Senior Vice-President, Corporate Affairs & General Counsel[4]	2009	266,086	44,639	14,547	325,272
	2008	208,775	66,055	11,617	286,447
Peter Shena, Senior Vice-President, Stakeholder Relations and Pension Policy	2009	266,477	44,855	14,547	325,879
	2008	258,995	75,098	13,513	347,606
	2007	201,257	55,548	5,175	261,980
Anne-Marie Thomas, Senior Vice-President, Investments	2009	321,772	53,981	14,618	390,371
	2008	321,586	95,854	15,194	432,634
	2007	297,490	97,960	11,357	406,807
Duncan Webb, Senior Vice-President, Finance[5]	2009	280,575	50,156	13,640	344,371

[1] Incentives earned in 2008 and 2009 are paid in March of the following year.
[2] Includes life insurance, car allowance and parking.
[3] For 2008, the Board of Directors approved an incentive of $141,300 for Mr. Fuller. During 2009, Mr. Fuller, at his own initiative, reduced his 2008 incentive and repaid $20,000, leaving an incentive of $121,300.
[4] Start date of March 17, 2008.
[5] Start date of January 19, 2009.

Compensation for the President & CEO 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 President & CEO; the Senior Vice-President, Operations; the Senior Vice-President, Investments; the Senior Vice-President, Corporate Affairs and General Counsel; and the Senior Vice-President, Stakeholder Relations and Pension Policy 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 2009.

Fixed income maturities

As at December 31 (in thousands of dollars)	Fair value	2009 Current yield %	Fair value	2008 Current yield %
Special Province of Ontario Debentures				
0-1 year	**$ 238,773**	**11.85**	$ 229,608	11.82
1-5 years	**1,921,622**	**8.38-9.84**	1,807,031	8.06-11.10
5-10 years	**-**	**-**	526,290	9.59
Accrued interest	**105,260**		123,088	
	2,265,655		2,686,017	
Bonds				
Canadian:				
0-1 year	**30,508**	**2.70-7.94**	177,257	3.12-7.12
1-5 years	**1,223,800**	**1.00-10.83**	977,997	1.72-8.52
5-10 years	**937,727**	**3.71-15.28**	825,639	2.85-9.03
> 10 years	**1,039,996**	**3.58-7.87**	877,362	2.03-10.50
Accrued interest	**26,697**		26,231	
	3,258,728		2,884,486	
United States and other International				
0-1 year	**2,617**	**4.22-4.43**	894	1.67
1-5 years	**192,239**	**2.78-13.06**	404,346	2.88-5.16
5-10 years	**320,853**	**0.62-12.71**	292,344	3.40-11.32
> 10 years	**104,749**	**4.38-13.29**	232,694	3.97-13.38
Accrued interest	**14,867**		19,070	
	635,325		949,348	
Total fixed income	**$ 6,159,708**		$ 6,519,851	

Investments over $20 million

As at December 31, 2009

(in thousands of dollars)	Maturities	Coupon %		Fair value [1]
Cash and short-term investments				
Canada:				
Province of Ontario			$	89,898
Government of Canada				78,410
Royal Bank of Canada				70,123
Province of New Brunswick				39,428
Canadian Imperial Bank of Commerce				34,016
Toronto-Dominion Bank				32,693
Billets of QCPN				23,398
Bank of Nova Scotia				21,973
Other international:				
Rabobank				39,107
Fixed income				
Special Province of Ontario Debentures	2010 - 2014	10.38 - 13.33	$	2,265,655
Bonds				
Canada:				
Government of Canada	2010 - 2041	1.00 - 10.35	$	871,418
Province of Ontario	2011 - 2037	3.95 - 9.50		318,991
Province of Quebec	2012 - 2038	4.50 - 9.38		169,171
Bank of Nova Scotia	2010 - 2108	3.03 - 7.80		131,992
Toronto-Dominion Bank	2011 - 2108	2.05 - 7.24		119,175
Royal Bank of Canada	2011 - 2053	4.58 - 7.18		110,073
Canadian Imperial Bank of Commerce	2010 - 2108	3.05 - 10.25		93,888
Bank of Montreal	2011 - 2023	4.55 - 6.69		78,304
Wells Fargo Financial Corporation Canada	2011 - 2015	3.97 - 6.05		70,511
Sun Life Financial Inc.	2011 - 2108	4.80 - 7.90		53,455
Manulife Financial Corporation	2012 - 2108	4.90 - 7.41		49,541
Province of British Columbia	2012 - 2037	4.10 - 8.75		47,356
Ontario Hydro	2012 - 2040	3.13 - 7.35		45,649
Greater Toronto Airports Authority	2011 - 2034	4.40 - 7.10		43,055
TransCanada Corp.	2013 - 2039	4.65 - 8.29		41,556
407 International Inc.	2011 - 2040	4.65 - 7.00		36,448
Enbridge Inc.	2016 - 2039	4.49 - 7.22		35,958
Loblaw Companies Limited	2013 - 2036	4.85 - 7.10		32,835
Thomson Reuters	2011 - 2016	5.20 - 6.00		30,866
EnCana Corporation	2012 - 2018	4.30 - 5.80		29,891
GE Capital Canada	2011 - 2037	4.38 - 6.25		28,736
Union Gas	2011 - 2038	4.64 - 6.65		27,237
HSBC	2010 - 2021	4.00 - 7.78		24,574
Province of Manitoba	2012 - 2038	3.05 - 7.75		24,496
Great-West Lifeco Inc.	2018 - 2067	5.69 – 6.67		23,606
Altalink LP	2012 - 2036	5.02 - 5.43		22,746
Province of Saskatchewan	2014 - 2040	4.25 – 6.40		22,625
CU Inc.	2014 - 2039	5.03 - 6.80		22,555
CHS (CAMH) Partnership	2041	7.05		21,750
Canadian Tire Corporation	2015 - 2035	4.95 - 5.65		20,353

United States and other international:			
Government of France	2012 - 2025	3.00 - 6.00	153,744
Government of Ireland	2012 - 2014	3.90 - 4.00	123,728
Kingdom of Belgium	2015	8.00	58,295
Government of United Kingdom	2019 - 2030	4.50 - 4.75	39,370

Investments over $20 million

As at December 31, 2009

(in thousands of dollars)	Maturities	Coupon %	Fair Value [1]
Federal Republic of Germany	2028 - 2034	4.75 - 5.63	29,381
JPMorgan Chase & Co.	2015	3.88	23,474
Morgan Stanley	2012 - 2017	4.50 - 4.90	22,914
Real estate			
OPB Realty Inc. (holding company, 100% owned)			$ 2,183,185
Participating mortgages	2019	5.00	37,596

(in thousands)	Shares/Units [2]	Fair value [2]
Equities		
Canada:		
Royal Bank of Canada	2,453	$ 138,367
Toronto-Dominion Bank	1,908	125,852
Bank of Nova Scotia	2,282	112,304
Talisman Energy Inc.	4,655	91,654
Canadian Natural Resources Limited	1,166	88,625
Canadian National Railway Company	1,136	65,165
Suncor Energy Inc.	1,656	61,627
Manulife Financial Corporation	3,114	60,195
EnCana Corporation	1,616	55,125
Research In Motion Limited	766	54,438
Canadian Imperial Bank of Commerce	787	53,617
Potash Corporation of Saskatchewan, Inc.	440	50,300
SNC-Lavalin Group Inc.	893	48,206
Thomson Reuters Corporation	1,401	47,547
Cenovus Energy Inc.	1,792	47,501
Goldcorp Inc.	1,073	44,387
Jarislowsky Fraser Special Equity Pooled Fund	2,016	41,348
Great-West Lifeco Inc.	1,535	41,266
Rogers Communications Inc.	1,208	39,474
Shoppers Drug Mart Corporation	836	37,942
Power Corporation of Canada	1,223	36,627
Enbridge Inc.	656	31,905
Shaw Communications Inc.	1,396	30,261
Nexen Inc.	1,134	28,609
Teck Resources Ltd.	746	27,484
TransCanada Corp.	723	26,149
Canadian Tire Corporation	451	25,911
Metro Inc.	609	23,879
Kinross Gold Corporation	1,128	21,842
Cresent Point Energy Corp.	542	21,419
Molson Coors Canada Inc.	427	20,297
TELUS	588	20,068

As at December 31, 2009 (in thousands)	Shares/Units [2]	Fair Value [2]
United States:		
Exxon Mobil Corp.	493	35,210
Johnson & Johnson	517	34,942
Amazon.com, Inc.	210	29,677
Pfizer Inc.	1,507	28,745
Procter & Gamble Co.	401	25,488
Microsoft Corp.	729	23,303
Intel Corporation	1,083	23,159
Apple Inc.	104	23,077
AT&T Inc.	769	22,603
Wells Fargo & Co.	795	22,481
Google Inc.	34	21,983
JPMorgan Chase & Co.	497	21,703
Merck & Co., Inc.	548	20,993
Other International:		
Leith Wheeler International Pool Fund	17,064	213,940
Petroleo Brasileiro	2,688	99,796
Samsung	289	78,168
Banco Santander	2,738	47,561
Roche Hldg AG Genusscheine	232	41,394
Vale	1,560	40,602
Taiwan Semiconductor Mfg Co.	3,210	38,501
China Mobile Ltd	3,705	36,487
Vodafone Group	14,818	36,049
Bayer	413	34,939
BNP Paribas	410	34,438
E.ON AG	722	31,606
Gazprom Oao	1,171	30,657
Koninklijke Philips Electronic	947	29,467
Teva Pharmaceutical	451	26,554
BP Plc	2,587	26,281
BHP Billiton Plc	758	25,606
Mitsubishi Corp.	3,721	25,509
Rio Tinto	443	25,428
Oil Co Lukoil	424	24,954
Standard Chartered	928	24,739
Novartis	429	24,569
Infosys Technologies	411	23,808
Total SA	341	23,100
Zurich Financial Services	100	23,034
HSBC Hldgs	1,895	22,745
Atlas Copco AB	1,456	22,504
Nestle	440	22,393
Telefonica	759	22,290
Eni	819	21,921
Itau Unibanco Holding	919	21,724
Intesa Sanpaolo	4,693	21,583
Sanofi-Aventis	253	20,978
Lyxor Intl Asset Management	1,298	20,767
Reckitt Benckiser Group Plc	364	20,701
Petrochina	16,204	20,418
Tenaris	452	20,188
Swire Pacific	1,588	20,182

[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, 2009 *(in thousands of square feet)*	Location	Area
Retail		
Hillside Centre	Victoria	429
Brentwood Town Centre	Burnaby	539
Lougheed Town Centre	Burnaby	658
Aberdeen Village Centre	Kamloops	104
Christy's Corner	Edmonton	111
Marlborough Mall	Calgary	534
Portland Place	Calgary	149
Gaetz Avenue Crossing	Red Deer	177
St. Vital Centre	Winnipeg	929
Pen Centre	St. Catharines	1,037
Pickering Town Centre	Pickering	895
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	183
		7,314
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	2,887
Burnside Industrial Park	Halifax	498
Wright Place	Halifax	107
		3,492
Total properties		**11,473**

Financial Services Commission of Ontario

Deputy Superintendent
Pension Division

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Commission des services financiers de l'Ontario

Surintendant adjoint
Division des régimes de retraite

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Ontario

June 24, 2010

Pension Benefits 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 Benefits 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 Benefits 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 & Risk 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, 2010 and the statements of operations and fund surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission's pension benefits guarantee fund as at March 31, 2010 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 4, 2010

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FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Balance Sheet
As at March 31, 2010

	2010 ($ '000)	2009 ($ '000)
ASSETS		
Current		
Cash	1	35
Accounts receivable	40,444	49,162
Investments (Note 4)	628,348	146,004
	668,793	195,201
LIABILITIES AND FUND SURPLUS		
Current		
Accounts payable and accrued liabilities	3,456	4,573
Current portion of loan payable	11,000	11,000
Claims payable	410,751	83,516
	425,207	99,089
Loans payable (Note 5)	140,243	143,463
	565,450	242,552
Fund surplus / (deficit)	103,343	(47,351)
	668,793	195,201

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 Surplus
For the year ended March 31, 2010

	2010 ($ '000)	2009 ($ '000)
Revenue		
Provincial grant (Note 6)	500,000	
Premium revenue	43,217	40,452
Pension plan recoveries (Note 7)	12,033	80,730
Investment income (Note 4)	556	2,792
	555,806	123,974
Expenses		
Claims	391,771	58,716
Amortization of loan discount (Note 5 (a))	7,780	7,934
Pension management fees (Note 8)	5,137	1,783
Interest on loans (Note 5 (b))	1,558	
Administration fee (Note 9)	506	391
Investment management fees (Note 9)	69	41
Unrealized (gain) loss on investments (Note 4)	(180)	242
	406,641	69,107
Recoveries of pension management fees (Note 8)	(1,529)	
Excess of revenue over expenses	150,694	54,867
Fund surplus / (deficit), beginning of year	(47,351)	(102,218)
Fund surplus / (deficit), end of year	103,343	(47,351)

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, 2010

	2010 ($ '000)	2009 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess of revenue over expenses	150,694	54,867
Items not affecting cash:		
Unrealized (gain) loss on investments (Note 4)	(180)	242
Amortization of loan discount (Note 5)	7,780	7,934
Non-cash recovery		(586)
Loss on disposal of investments (Note 4)	351	135
	158,645	62,592
Changes in non cash working capital		
Accounts receivable	8,718	(2,561)
Accounts payable and accrued liabilities	(1,117)	1,179
Claims payable	327,235	(32,936)
	493,481	28,274
Cash flows from investing activities		
Purchases of investments	(4,040,087)	(2,713,913)
Proceeds from sale of investments	3,557,572	2,696,574
	(482,515)	(17,339)
Cash flows from financing activities		
Proceeds on Loans	130,000	
Loan repayments	(141,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	(34)	(65)
Cash position, beginning of year	35	100
Cash position, end of year	1	35

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2010

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 or grants 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 including any loans or grants 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, 2010

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 and surplus.

- 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.

- The non-interest bearing 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. Liabilities are also recognized when there is a high probability a company will not emerge from creditor protection and the pension plan will be wound up on a specified date and the claim can be reasonably estimated. Claims payable are based on information provided by appointed pension plan administrators or estimates provided from external consultants. 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 Deputy Superintendent of Pensions and Senior Manager, Operations.

The actual claims are reviewed and verified by FSCO's Chief Actuary and approved by FSCO's Deputy Superintendent of Pensions before any funds are paid out of the Fund.

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.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2010

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 Fund Management Committee, developed a Statement of 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, 2010

4. INVESTMENTS (cont'd)

Investments consist of:

	2010 ($'000)		2009 ($'000)	
	Market Value	Cost	Market Value	Cost
Short term deposits	566,893	566,907	139,812	139,812
Government and corporate bonds	61,050	61,100	5,850	5,850
Master asset vehicle notes	405	405		
Pooled funds			342	586
	628,348	628,412	146,004	146,248

Investment income includes interest earned from interest bearing securities and realized losses from the sale of securities. The realized loss on the sale of securities amounted to $351 thousand (2009 – realized loss of $135 thousand). Unrealized changes in the market value of investments are reflected separately on the statement of operations and fund surplus.

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 0.229% to 0.435% (2009 – 0.4% to 0.6%), and government and corporate bonds have average yields of 0.381% for the current year (2009 – 1.6%). At March 31, 2010, a 1% move in interest rates could impact the market value by approximately $1,500 thousand. Short term deposits represent instruments in highly liquid investments that are readily converted into known amounts of cash.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2010

4. INVESTMENTS (cont'd)

Master Asset Vehicle corporate notes:

During the year the Pooled Funds investments in Asset Backed Commercial Paper (ABCP), received in fiscal 2009 as part of a pension plan settlement in respect of a claim previously paid out, were exchanged for Master Asset Vehicle (MAV) corporate notes. The MAV have a face value of $405 thousand with maturities ranging from October 2016 to July 2056. There is limited market activity for the notes. Management's best estimate of the net recoverable amount as at March 31, 2009 is $405 thousand.

5. LOANS PAYABLE

(a) Non-interest Bearing Loan
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, 2010 as follows:

	2010 ($'000)	2009 ($'000)
Face Value	264,000	275,000
Less: Discount	(112,757)	(120,537)
Fair Value	151,243	154,463
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	140,243	143,463
Balance	151,243	154,463

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2010

5. LOANS 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 subsequent five fiscal years is as follows:

Fiscal Year	($'000)
2011	7,618
2012	7,447
2013	7,269
2014	7,081
2015	6,883

(b) Interest Bearing Loans
During the year the Lieutenant Governor authorized the Minister of Finance to make two interest bearing loans from the Consolidated Revenue Fund under terms determined by the Ontario Financing Authority. Both loans were repaid with accrued interest totaling $1,558 thousand on March 31, 2010.

On August 28th, 2009 a $30 million loan with an interest rate of 4.48% was received by the Fund to pay claims for which an allocation application has been received on or before July 31, 2009. The loan was repayable in ten equal annual principal payments commencing December 1st, 2012.

On January 27th, 2010 a $100 million loan with an interest rate of 4.44% was received by the Fund to pay claims for which the Superintendent has appointed an administrator on or before October 31, 2009. The loan was repayable in twenty semi-annual installments of blended principal and interest commencing December 1st, 2012.

6. PROVINCIAL GRANT

On March 25, 2010 the Provincial Legislature approved an appropriation pursuant to subsection 82(5) of the *Pension Benefits Act* to enable the Minister of Finance to make a $500 million grant to the Fund for the purpose of repaying the two loans received during the year and accrued interest and holding the remaining funds in the Fund and expending the funds for any purpose authorized under the *Pension Benefits Act* for the Fund.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2010

7. PENSION PLAN RECOVERIES

Following distribution of claims and submission of a final wind up report any remaining funds are recovered by the Fund. During fiscal 2010, $12,033 thousand (2009 - $80,730 thousand) in recoveries were made by the Fund.

8. RECOVERIES OF PENSION MANAGEMENT FEES

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 2010, $5,137 thousand was paid to such experts related to negotiations involving three companies (2009 - $1,783 thousand involving three companies). The Fund was reimbursed $1,029 thousand from the Ministry of Economic Development and Trade, a related party, and $500 thousand from a pension plan sponsor for actuarial consulting services received during the year.

9. RELATED PARTY TRANSACTIONS

For fiscal 2010, an administration fee of $506 thousand (2009 - $391 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.

Investment Management fees of $69 thousand include fees of $63 thousand (2009 - $35 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.

Other related party transactions during the year have been disclosed in notes 5, 6 and 8.

10. SUBSEQUENT EVENT

Recoveries in the range of $10 - $20 million dollars are expected in 2010.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2010

11. ACCOUNTING PRONOUNCEMENTS

Not -for -Profit Accounting Standards

The Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB) are assessing the strategic direction of financial reporting standards for not-for-profit organizations (NFPOs) in Canada.

The Boards are proposing that NFPOs in the public and private sectors should continue to use the current NFP CICA Handbook section 4400 series of standards, but use different financial reporting foundations. The PSAB proposes that government NFPO's follow the CICA Public Sector Accounting Handbook. The AcSB proposes private sector NFPO's be given a choice to follow the new private enterprise standards, IFRS or public sector accounting standards. Two exposure drafts are currently out for comment, with responses required in July, 2010.Government NFPOs would be required to transition to the new standards for fiscal periods beginning on or after January 1, 2012.

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, 2010. 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, 2010 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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Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
May 4, 2010

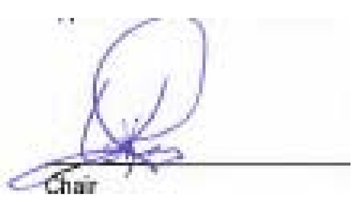
Provincial Judges Pension Fund

Statement of Changes in Fund Balance
For the Year Ended March 31, 2010

	2010 ($ 000)	2009 ($ 000)
Deposits		
Contributions		
Participants	4,485	4,782
Province of Ontario (Note 4)	30,340	29,314
Interest earned	39,747	37,332
	74,572	71,428
Payments		
Pension payments and survivor allowances	26,827	27,687
Refund of contributions	—	183
	26,827	27,870
Net increase in the Fund	47,745	43,558
Fund Balance with the Minister of Finance		
Beginning of year	551,484	507,926
End of year	599,229	551,484

See accompanying notes to financial statements.

Approved on behalf of the Board:



Chair

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2010

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, 2010

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 (7.18% on the April 1, 2009 balance and 7.35% on the April 1, 2008 balance);
- on the monthly excess of contributions over payments during the year at 4.92%, 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, 2010

4. Liability for Future Benefits

The Provincial Judges Remuneration Commission (Commission) was established under Regulation 407/93 under the *Courts of Justice Act* to conduct an independent process to determine the salary, benefits and pensions for all provincial judges. The Commission's salary and benefits recommendations are binding; pension recommendations are non-binding. The most recent report of the Commission was the combined Sixth and Seventh Triennial Provincial Judges Report covering the period from April 1, 2004 to March 31, 2010 and came into force on April 25, 2008.

The Province is responsible for the unfunded liability of the Provincial Judges Pension Fund and funds this liability in amounts recommended by periodic actuarial valuations of the Plan. The Province's fiscal 2010 contribution of $30,340,000 (2009 – $29,314,000) is based on the most recent actuarial funding valuation as of March 31, 2008, which updated the 2006 valuation and reflected the cost of the recommendations of the combined Sixth and Seventh Triennial Provincial Judges Report. The 2008 valuation recommends that the Province contribute 44.3% (2006 – 36.6%) of the payroll of sitting judges until the next valuation. On that basis, the present value of required future government contributions is $268,554,000 (2006 – $236,207,000).

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	Sharon Yetter
Public Guardian and Trustee	Chief Financial Officer

May 13, 2010

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, 2010 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, 2010, 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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Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
May 13, 2010

The Public Guardian and Trustee for the Province of Ontario

Balance Sheet
(in thousands of dollars)

March 31, 2010

	Estates and Trusts		Administration Fund	
	2010	2009	**2010**	2009
Assets				
Cash and cash equivalents	$ **20,904**	$ 8,751	$ **665**	$ 154
Accounts receivable	**3,588**	3,872	**1,994**	2,294
Bonds and other debt issues	**47,688**	44,865	**-**	-
Fixed income funds (Schedule A)	**1,077,844**	1,017,644	**4,925**	10,253
Diversified fund (Schedule B)	**55,413**	48,804	**57,723**	47,769
Canadian income and dividend fund (Schedule C)	**53,527**	42,132	**17,678**	14,128
Stocks and other securities	**20,626**	16,981	**-**	-
Real estate	**90,698**	90,448	**-**	-
Other assets	**16,277**	15,623	**-**	-
	1,386,565	1,289,120	**82,985**	74,598
Client Management Information System	**-**	-	**9,306**	11,633
	$ **1,386,565**	$ 1,289,120	$ **92,291**	$ 86,231
Liabilities and Fund Balances				
Accounts payable and accrued liabilities	**43,146**	31,802	**9,899**	4,653
Fund balances	**1,343,419**	1,257,318	**82,392**	81,578
	$ **1,386,565**	$ 1,289,120	$ **92,291**	$ 86,231

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	2010	2009
Revenue (loss)		
Pension	$ **72,504**	$ 69,641
Social benefits	**68,012**	64,389
Investment (Schedule E)	**46,357**	44,835
Other	**24,931**	28,196
Net unrealized investment appreciation/(depreciation)	**19,647**	(20,666)
	231,451	186,395
Expenses		
Accommodation	**93,120**	90,290
Allowances	**34,484**	28,980
Public Guardian and Trustee fees (Schedule D)	**23,232**	22,394
Taxes	**10,502**	8,979
Living	**9,964**	11,317
Other	**8,533**	7,563
Real estate	**7,034**	5,832
Medical	**4,951**	4,863
Funeral	**4,476**	5,337
Utilities	**3,441**	3,054
Insurance	**1,293**	1,102
	201,030	189,711
Excess (deficiency) of revenue over expenses	$ **30,421**	$ (3,316)

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	2010	2009
Revenue		
Investments - fixed income funds (Schedule A)	$ (1,539)	$ 1,499
Investments - diversified fund (Schedule B)	9,508	(7,980)
Investments - Canadian income and dividend fund (Schedule C)	3,304	(1,857)
	11,273	(8,338)
Fees collected (net) (Schedule D)	21,731	21,224
	33,004	12,886
Expenses		
Salaries and wages	27,834	26,568
Services (Note 3)	4,353	3,052
Employee benefits (Note 3)	3,686	3,348
Amortization of Client Management Information System	2,327	-
Transportation and communication	1,009	1,271
Supplies and equipment	514	673
	39,723	34,912
Amount recovered from the Ministry of the Attorney General (Note 3)	(7,974)	(13,546)
	31,749	21,366
Claims	441	273
	32,190	21,639
Excess (deficiency) of revenue over expenses	$ 814	$ (8,753)

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, 2010

	Client Trusts	Minors	Litigants	Deceased Estates (note 1)	Cemetery Trusts	Forfeited Corporate Assets (note 1)	Corporate Trusts (note 1)	Land Titles	Total 2010	Total 2009
Balance, beginning of year	$ 481,928	368,508	239,019	137,980	19,645	6,740	3,083	415	$ 1,257,318	$ 1,224,916
Excess (deficiency) of revenue over expenses	(1,816)	21,284	7,609	1,860	1,302	57	-	125	30,421	(3,316)
Net client capital contribution (distribution)	26,783	(6,773)	35,664	5,832	372	(5,930)	(3,055)	2,787	55,680	35,718
Balance, end of the year	$ 506,895	383,019	282,292	145,672	21,319	867	28	3,327	$ 1,343,419	$ 1,257,318

Statement of Changes in Fund Balances - Administration Fund
(in thousands of dollars)

For the period ended March 31, 2010

	Special Projects Fund	Client Management Information System	Assurance Fund	Litigation Reserve Fund	Allowance for Doubtful Accounts Fund	Capacity Assessment Fund	Unappro-priated Fund	Total 2010	Total 2009
Balance, beginning of year	$ 14,647	$ 0	$ 14,300	$ 3,000	$ 100	$ 100	$ 49,431	$ 81,578	$ 90,331
Excess (deficiency) of revenue over expenses	0	(2,327)	(348)	(42)	-	(51)	3,582	814	(8,753)
Interfund transfers	(14,647)	11,633	348	42	-	51	2,573	-	-
Balance, end of the year	$ 0	$ 9,306	$ 14,300	$ 3,000	$ 100	$ 100	$ 55,586	$ 82,392	$ 81,578

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 2010	Estates and Trusts 2009	Administration Fund 2010	Administration Fund 2009
Cash was provided by (used in)				
Operating activities				
Excess/(deficiency) of revenue over expenses	$ 30,421	$ (3,316)	$ 814	$ (8,753)
Adjustments for non-cash items and changes in working capital items				
Amortization of Client Management Information System			2,327	-
Unrealized (appreciation)/depreciation of investments	(19,647)	20,666	(10,935)	11,842
Accounts receivable	284	2,232	300	(360)
Other assets	(654)	(1,128)	-	-
Accounts payable	11,344	7,198	5,246	(2,347)
	21,748	25,652	(2,248)	382
Investing activities				
Net (acquisition)/redemption of				
Bond and other debt issues	(2,823)	8,547	-	-
Fixed income fund investments	(60,200)	(51,267)	5,328	5,385
Stocks and other securities	(747)	6,858	-	-
Diversified fund investments	1,514	(3,194)	(1,869)	(1,940)
Canadian income and dividend fund	(2,769)	(11,382)	(700)	(707)
Real estate	(250)	(13,871)	-	-
Client Management Information System		-	-	(3,088)
Net client capital contribution	55,680	35,718	-	-
	(9,595)	(28,591)	2,759	(350)
Increase/(decrease) in cash and cash equivalents	12,153	(2,939)	511	32
Cash and cash equivalents, beginning of the year	8,751	11,690	154	122
Cash and cash equivalents, end of the year	$ 20,904	$ 8,751	$ 665	$ 154

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, 2010

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. The Special Projects Fund was wound up during the year, with $11,633,000 in development costs being allocated to the Client Management Information System and the remaining balance transferred to the Unappropriated fund.

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 $347,522 (2009 - $135,888).

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, 2010

During the year, legal costs incurred on behalf of clients of $42,185 (2009 –$116,644) 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 $50,929 (2009 - $19,989) 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, 2010

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.

Client Management Information System

Costs of a special project for the development and implementation of a new client management information system incurred from 2002 to 2009 have been capitalized. These costs are being amortized using straight line method over a period of five years which is management's best estimate of the useful life of the system. Amortization commenced in the 2009-10 fiscal year, which is the first year the system was 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, 2010 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, 2010

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, 2010

1. 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 (CRF) of the Province. Such property transfers to the CRF 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 Deceased Estates escheats amounting to $1,526,095 (2009 - $1,244,126) were transferred to the Consolidated Revenue Fund.

Under the *Business Corporations Act* and the *Escheats Act*, the Public Guardian and Trustee may take possession of assets of dissolved corporations which has become forfeited to the Crown. Such property transfers to the CRF are included in client capital distributions in arriving at the amount shown as the net client capital contribution (distribution) for Forfeited Corporate Assets and Corporate Trusts in the Statement of Changes in Fund Balances – Estate and Trusts.

Pursuant to section 16.4 of the *Financial Administration Act*, $9,138,591 (2009 - $nil) was transferred to the CRF during the year.

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 (MAG).
- MGS provides payroll and payment processing for The Public Guardian and Trustee.

MAG provides partial funding for the operations of the Public Guardian and Trustee, which is reflected in the financial statements. During the year $7,974,212 (2009 - $13,545,528) was recovered from MAG net of both a $3,015,000 (2009 - $nil) repayment of funds not required for the development of the Client Management Information System and a $4,167,000 (2009 - $nil) payment from the general revenues of the Administration Fund. The $4,167,000 payment is the first of three equal annual payments requested by MAG.

The Public Guardian and Trustee for the Province of Ontario
Notes to Financial Statements

March 31, 2010

4. Change in Accounting Policies

Amendments to Accounting Standards that Apply Only to Not-For-Profit Organizations:

Effective April 1, 2009, the Entity adopted the Canadian Institute of Chartered Accountants ("CICA") amendments to the 4400 Sections of the CICA Handbook. These amendments clarify the requirement for revenue and expenses to be presented on a gross basis when the not-for-profit organization is acting as principal and require a statement of cash flow. Adoption of these recommendations did not have a significant impact on the financial statements for the year ended March 31, 2010.

Amendments to Section 1000 Financial Statement Concepts

Effective April 1, 2009 the Entity adopted the Canadian Institute of Chartered Accountants ("CICA") amendments to section 1000 of the CICA Handbook. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching of revenue and expense items. Adoption of these recommendations had no effect on the financial statements for the year ended March 31, 2010

5. 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 $795,000 (2009 - $833,104) and miscellaneous securities and documents having a face value of $3,955,640 (2009 - $3,763,143). 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.

6. 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. These objectives have not changed during the year.

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, 2010

7. 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, 2010

8. Client Management Information System

March 31 (in thousands of dollars)			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Client Management Information System	$ 11,633	$ 2,327	$ 9,306	$ 11,633

The Client Management Information System was under development in 2009. During the year the system became operational, and the Public Guardian and Trustee recorded amortization expense relative to the Client Management Information System of $2,326,580.

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.

10. Comparative Figures

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2010.

The Public Guardian and Trustee for the Province of Ontario

Schedule A - Fixed Income Funds

(in thousands of dollars)

March 31		2010	2009
INVESTMENTS			
Cash		$ 7,112	$ 109
Accrued interest		11,842	12,335
Short term investments		253,400	379,835
		272,354	392,279
Mid term investments			
Corporate Bonds	(i)	60,855	89,391
Federal Government	(ii)	33,696	31,053
Provincial Governments	(iii)	344,802	111,151
Financial Institutions	(iv)	371,062	404,023
		810,415	635,618
		$ 1,082,769	$ 1,027,897
Allocated as follows			
Estates and Trusts		$ 1,077,844	$ 1,017,644
Administration		4,925	10,253
		$ 1,082,769	$ 1,027,897
INCOME			
Allocated as follows			
Estates and Trusts		$ 38,829	$ 40,002
Administration		(1,539)	1,499
		$ 37,290	$ 41,501

Short term investments at March 31, 2010 bear interest at annual rates ranging from 3.65% to 7.15% (2009 - from 1.53% to 6.50%), with maturity dates ranging from 1 day to 321 days (2009 - from 1 day to 303 days)

Mid term investments at March 31, 2010	Interest Rates	Carrying Value	Fair Value
(i) Corporate Bonds			
1 - 3 years	4.65 - 6.40%	$ 41,984	$ 43,857
3 years +	5.00 - 6.00%	18,871	19,642
		60,855	63,499
(ii) Federal Government			
1 - 3 years	4.80%	2,652	2,647
3 years +	2.70 - 3.60%	31,044	31,462
		33,696	34,109
(iii) Provincial Governments			
1 - 3 years	4.40 - 5.90%	78,307	79,439
3 years +	3.25 - 5.50%	266,495	266,582
		344,802	346,021
(iv) Financial Institutions			
1 - 3 years	4.35 - 6.87%	152,269	157,921
3 years +	3.30 - 6.24%	218,793	226,291
		371,062	384,212
		$ 810,415	$ 827,841

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, 2009 to March 31, 2010, the prescribed rate for the Canadian Funds ranged from 3.65% to 4.00% (2009 ranged from 4.00 to 4.25%), and for the U.S. Funds ranged from 0.30% to 2.00% (2009 - ranged from 2.00% to 3.00%).

The Public Guardian and Trustee for the Province of Ontario

Schedule B - Diversified Fund

(in thousands of dollars)

March 31		2010		2009
INVESTMENTS				
Cash	$	**430**	$	198
Net other liabilities		**266**		564
Short term notes		**249**		1,318
		945		2,080
Bonds		**43,401**		41,119
Canadian equity		**43,522**		32,574
Foreign equity		**25,268**		20,800
	$	**113,136**	$	96,573
Allocated as follows				
Estates and Trusts	$	**55,413**	$	48,804
Administration Fund		**57,723**		47,769
	$	**113,136**	$	96,573
INCOME				
Estates and Trusts				
Investment earnings	$	**1,859**	$	1,987
Unrealized appreciation/(depreciation)		**10,344**		(11,586)
Net unrealized foreign exchange (depreciation)/appreciation		**(2,221)**		1,773
Net unrealized appreciation/(depreciation)		**8,123**		(9,813)
	$	**9,982**	$	(7,826)
Administration				
Investment earnings	$	**1,423**	$	1,508
Unrealized appreciation/(depreciation)		**10,398**		(11,224)
Net unrealized foreign exchange (depreciation)/appreciation		**(2,313)**		1,736
Net unrealized appreciation/(depreciation)		**8,085**		(9,488)
	$	**9,508**	$	(7,980)

The Short term Notes and Bonds at March 31, 2010 bear interest at annual rates ranging from 0.625% to 12.20% (2009 - from 0.745% to 12.20%), with maturity dates ranging from 1 day to 98 years (2009 - from 34 days to 99 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		2010		2009
INVESTMENTS				
Cash	**$**	**103**	$	105
Net other assets		**214**		664
Short term notes		**595**		994
		912		1,763
Bonds		**32,738**		30,695
Canadian equity		**37,555**		23,802
	$	**71,205**	$	56,260
Allocated as follows				
Estates and Trusts	**$**	**53,527**	$	42,132
Administration Fund		**17,678**		14,128
	$	**71,205**	$	56,260
INCOME				
Estates and Trusts				
Investment earnings	**$**	**2,129**	$	1,934
Unrealized appreciation/(depreciation)		**8,626**		(6,697)
	$	**10,755**	$	(4,763)
Administration				
Investment earnings	**$**	**454**	$	497
Unrealized appreciation/(depreciation)		**2,850**		(2,354)
	$	**3,304**	$	(1,857)

The Short term Notes and Bonds at March 31, 2010 bear interest at annual rates ranging from 0.289% to 11.00% (2009 - from 0.56% to 11.00%), with maturity dates ranging from 55 days to 98 years (2009 - from 76 days to 27 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		2010		2009
Client trusts	$	**15,197**	$	14,610
Minors		**2,740**		2,775
Deceased estates		**3,088**		2,927
Litigants		**1,563**		1,411
Court-appointed litigation guardian legal services		**305**		146
Cemetery trusts		**176**		170
Charity trusts		**145**		120
Forfeited corporate assets/corporate trusts		**18**		235
Public Guardian and Trustee Fees - Estates and Trusts		**23,232**		22,394
less: Costs of fee services		(1,501)		(1,170)
Fees collected (net) - Administration Fund	$	**21,731**	$	21,224

Schedule E - Estates and Trusts Investment Income

(in thousands of dollars)

For the period ended March 31		2010		2009
Fixed income funds (Schedule A)	$	**38,829**	$	40,002
Diversified fund (Schedule B)		**1,859**		1,987
Canadian income and dividend fund (Schedule C)		**2,129**		1,934
Income from other investments held for clients		**3,540**		912
	$	**46,357**	$	44,835

Workplace Safety and Insurance Board

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 Workplace Safety and Insurance Board's (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 this 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

WSIB's Board of Directors and its 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.

I. David Marshall
President and CEO

Anthea English
Chief Financial Officer

April 7, 2010

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, 2009, 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 the 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 regarding 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, 2009, 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

April 7, 2010

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, 2009, 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

April 7, 2010

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

as of December 31

($ millions)	2009	2008
Assets		
Cash and cash equivalents	$62	$141
Receivables	882	874
Investments (note 3)	14,388	11,987
Property, equipment, and other assets (note 7)	113	123
Intangible assets (note 8)	96	82
	$15,541	**$13,207**
Liabilities		
Payables and accruals	$754	$821
Long-term debt (note 9)	109	91
Loss of Retirement Income Fund (note 6)	1,054	890
Employee benefit plans (note 10)	495	502
Benefit liabilities (note 11)	23,250	22,340
	25,662	**24,644**
Employees' Pension Plan interest in pooled investments (note 3)	1,630	32
Unfunded liability (note 12)		
Accumulated excess of expenses over revenues	(13,106)	(11,917)
Accumulated other comprehensive income	1,355	448
	(11,751)	**(11,469)**
	$15,541	**$13,207**

Commitments and contingencies (note 15)

On behalf of the Board of Directors:

I. David Marshall
President and CEO

Anthea English
Chief Financial Officer

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended December 31

($ millions)	2009	2008
Gross revenue	**$4,227**	**$2,228**
Current operations		
Revenues		
Premiums for the year	$2,533	$2,604
Investments (note 3)	686	(1,340)
Other income	1	2
	3,220	**1,266**
Expenses		
Benefit costs (note 11)	4,736	4,258
Loss of Retirement Income Fund (note 6)	194	(54)
Administrative and other expenses (note 13)	188	214
Legislated obligations and commitments (note 14)	227	226
	5,345	**4,644**
Excess of expenses over revenues from current operations	**(2,125)**	**(3,378)**
Premiums for unfunded liability	1,007	962
Excess of expenses over revenues before Employees' Pension Plan interest in income from pooled investments	**(1,118)**	**(2,416)**
Employees' Pension Plan interest in income from pooled investments (note 3)	(71)	–
Excess of expenses over revenues	**$(1,189)**	**$(2,416)**

CONSOLIDATED STATEMENT OF CHANGES IN UNFUNDED LIABILITY

For the years ended December 31

($ millions)	2009	2008
Accumulated excess of expenses over revenues		
Balance at beginning of year	$(11,917)	$(9,501)
Excess of expenses over revenues	(1,189)	(2,416)
Balance at end of year	**(13,106)**	**(11,917)**
Accumulated other comprehensive income		
Balance at beginning of year	448	1,407
Unrealized gains (losses) on investments net of amounts realized	907	(959)
Balance at end of year	**1,355**	**448**
Unfunded liability at end of year	**$(11,751)**	**$(11,469)**

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)	2009	2008
Excess of expenses over revenues	**$(1,189)**	**$(2,416)**
Other comprehensive income (loss):		
Unrealized net gains (losses) on available-for-sale financial assets arising during the year	986	(2,558)
Realized losses included in income	45	1,599
Unrealized gains (losses) on investments	**1,031**	**(959)**
Employees' Pension Plan interest in income from pooled investments	(124)	–
Unrealized gains (losses) on investments after Employees' Pension Plan interest in income from pooled investments	**907**	**(959)**
Comprehensive loss	**$(282)**	**$(3,375)**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31

($ millions)	2009	2008
Operating cash flows		
Cash received from:		
Premiums for the year	$2,500	$2,655
Premiums for unfunded liability	992	980
Investment income	474	484
	3,966	4,119
Cash paid to:		
Claimants, survivors, and care providers	(3,482)	(3,362)
Loss of Retirement Income Fund	(75)	(75)
Employees and suppliers of administrative goods and services	(584)	(511)
Legislated obligations and commitments	(226)	(245)
	(4,367)	(4,193)
Net cash required by operating activities	**(401)**	**(74)**
Investing cash flows		
Sale of investments	24,130	19,875
Purchase of investments	(23,765)	(19,878)
Acquisitions	(38)	–
Net cash provided (required) by investing activities	**327**	**(3)**
Financing cash flows		
Mortgages	(3)	31
Obligation under capital leases	(2)	(2)
Net cash provided (required) by financing activities	**(5)**	**29**
Decrease in cash and cash equivalents	**(79)**	**(48)**
Cash and cash equivalents, beginning of year	141	189
Cash and cash equivalents, end of year	**$62**	**$141**

The accompanying notes form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

December 31, 2009

1. Nature of operations

The Workplace Safety and Insurance Board (WSIB) is a statutory corporation created by an act of the Ontario legislature in 1914. The WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997*. The WSIB promotes the prevention of injuries and illnesses in Ontario workplaces and provides insurance benefits to workers who sustain injuries in the course of employment or contract occupational diseases. The WSIB also provides insurance benefits in the cases 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 the WSIB's 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 are consolidated. Investments in entities in which the 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 subsidiaries of the WSIB 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 premiums receivable from stakeholders. The balance is shown net of an allowance for doubtful accounts of $154 million (2008: $213 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 a "trade date" basis. The WSIB has designated all of its investments as available-for-sale except for derivatives.

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. Writedowns 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.

Investment asset pooling

On January 1, 2009, the WSIB and the WSIB's Employees' Pension Plan pooled all equity, bond and real estate investments held in the WSIB's Insurance Fund, the Loss of Retirement Income Fund and the WSIB's pension funds (the "funds") into four separate pooled funds. These pools were established to hold the public equities, fixed income, real estates and other investment assets, respectively. The public equities, fixed income, and other asset pools were established as trusts. The real estate pool was established as a real estate holding company.

The fair value of pension plan assets initially transferred into the pool was $1,412 million.

On the date of transfer, the WSIB owned 89 per cent of the public equities pool, 89 per cent of the fixed-income pool, 93 per cent of the real estate pool, and 100 per cent of the other asset pool. The trusts agreements provide the WSIB with exclusive power and control over the trusts. Due to the WSIB's substantial ownership and control, the WSIB consolidates all four funds.

The Employees' Pension Plan's share of investment assets is in the range of 10 to 11 per cent of each pooled trust and seven per cent of the real estate holding company. These amounts are reflected as the Employees' Pension Plan interest in pooled investments in the financial statements.

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 pickup 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 over which the WSIB does not have 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, that 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 holds currency 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, option, warrants, rights, or other similar instruments. The WSIB may use 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 writedown 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.

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 that 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 Board of Directors approves preliminary and final premium rates. The preliminary rates are recalibrated annually with current economic and actuarial assumptions and are used to solicit feedback from stakeholders in the development of the final premium rates. Premium rates are established to cover all expected claims and operating costs for the upcoming injury year. To stabilize premium rates, there are rules in place to govern the amount of increase and to moderate any excessive changes from year to year. Premium rates include a component that is applied to reduce the unfunded liability. The WSIB may also levy a special premium when it is considered appropriate. In advance of the year, Schedule 1 employers are notified of their final premium rates to be paid for the upcoming injury year. Premium revenue is determined by applying premium rates to Schedule 1 employers' insurable payrolls.

Schedule 2 employers are individually liable to pay all insurance benefits and administration costs with respect to their workers' claims. Reimbursements for claims paid and the cost of administration are included in their premium assessment.

The Schedule 1 premiums are net of bad debts. An allowance for doubtful accounts is recorded in the 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 collectable.

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. These liabilities 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 the 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 regulations 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 13), 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 note 10, and as employee benefit plans in the Consolidated Balance Sheet. The cumulative excess of pension benefit expense over pension fund contributions is reported in the employee benefit plans' liabilities. Liabilities for other post-retirement benefits are also reported in the employee benefit plans' liabilities.

The full amount of the gain or loss from the change in obligation for workplace accident benefits is recognized in the year the gain or loss occurs and is included in other benefit plans (note 10).

Other defined-contribution plan costs are recognized in income for services rendered by employees during the year.

Significant accounting changes

Intangible assets

On January 1, 2009, the WSIB adopted new *CICA Handbook* Section 3064: Goodwill and Intangible Assets. Section 3064 provides guidance for the recognition, measurement, presentation, and disclosure of intangible assets, including internally developed intangible assets.

As a result of the adoption of the new requirement, certain software totalling a net book value of $82 million was reclassified from property, equipment, and other assets to intangible assets.

Business combinations

On January 1, 2009, the WSIB adopted new *CICA Handbook* Section 1582. Section 1582 provides guidance for the accounting and disclosure requirements for a business combination.

Investment in businesses in which the WSIB's ownership is more than 50 per cent is accounted for as business combination. The purchase price is allocated to all identifiable tangible and intangible assets and liabilities in proportion to their fair values on the purchase date.

Any non-controlling interest in the subsidiary is recorded on the date of acquisition. Acquisition cost is expensed when incurred.

Financial instruments disclosures

The WSIB adopted the amendments to *CICA Handbook* Section 3862: Financial Instruments – Disclosures, effective January 1, 2009. Section 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the fund's investments. The hierarchy of inputs is summarized below:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs used are observable inputs other than Level 1 quoted prices, such as prices in an active market for similar assets or liabilities or where observable inputs are used for valuation of an asset or liability (Level 2);
- inputs used for the valuation of an asset or liability that are not based on observable market data (Level 3).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

Future changes in accounting policies – International Financial Reporting Standards (IFRS)

In 2011 the accounting framework under which financial statements in Canada are prepared for all publicly accountable enterprises (PAE) will change to IFRS. Generally accepted accounting principles (GAAP) will cease to apply for PAEs and will be replaced by IFRS. The Canadian Accounting Standards Board concluded that not-for-profit organizations should be able to adopt IFRS or the Public Sector Accounting Handbook (PSAB), depending on the entity's assessment of which standards best meet its reporting obligations to its stakeholders.

The final decision to convert to IFRS or PSAB will depend on the assessment of the appropriateness of the reporting to the WSIB's business. In order to preserve the option of moving to IFRS, the WSIB is engaged in a multi-stage process to permit transition by 2011 if required.

3. Investments and investment revenue

Investments by category are as follows:

($ millions)	2009							2008
	Amortized cost	Carrying value adjustments	Unrealized** Gains	Unrealized** Losses	Carrying value	EPP*	WSIB	WSIB
Held-for-trading:								
Foreign-exchange contracts								
Domestic	$30	$2,964	$ –	$ –	$2,994	$346	$2,648	$(22)
Foreign – U.S.	–	(1,947)	–	–	(1,947)	(226)	(1,721)	(104)
– Global	–	(969)	–	–	(969)	(111)	(858)	112
Total held-for-trading	**30**	**48**	**–**	**–**	**78**	**9**	**69**	**(14)**
Available-for-sale:								
Fixed-income securities								
Bonds	4,809	–	171	(18)	4,962	560	4,402	4,312
Equity securities								
Domestic	1,727	3	516	–	2,246	258	1,988	1,956
Foreign – U.S.	3,333	3	325	–	3,661	423	3,238	2,685
– Global	2,337	15	280	–	2,632	303	2,329	2,340
Real estate***	169	32	138	(27)	312	49	263	268
	7,566	53	1,259	(27)	8,851	1,033	7,818	7,249
Total available-for-sale	**12,375**	**53**	**1,430**	**(45)**	**13,813**	**1,593**	**12,220**	**11,561**
Real estate entities subject to significant influence	437	–	–	–	437	28	409	381
Loss of Retirement Income Fund annuities	60	–	–	–	60	–	60	59
Total investments	**$12,902**	**$101**	**$1,430**	**$(45)**	**$14,388**	**$1,630**	**$12,758**	**$11,987**

*Employees' Pension Plan interest in pooled investments
**Unrealized gains (losses) include a gain of $30 million from Employees' Pension Plan
***Participating debentures in real estate

Included in the above is accrued income of $55 million (2008: $55 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, 2009, the gross notional value of outstanding foreign-currency contracts was $3,852 million (2008: $1,336 million). Outstanding contracts in a favourable position had a fair value of $57 million (2008: $62 million) and those in an unfavourable position had a fair value of negative $9 million (2008: negative $76 million). Unrealized gains on foreign-exchange contracts of $48 million (2008: loss of $14 million) were included in investment income.

The net notional value of foreign-exchange contracts as of December 31, 2009, was $3,056 million (2008: $222 million).

The fair value of the investment portfolio includes $3,377 million (2008: $5,033 million) of securities denominated in foreign currency. The major holdings are as follows: 51 per cent (2008: 51 per cent) in U.S. dollars, 11 per cent (2008: 16 per cent) in euros, 8 per cent (2008: 2 per cent) in Swiss francs, 7 per cent (2008: 11 per cent) in British pounds sterling, 5 per cent (2008: 12 per cent) in Japanese yen, and 18 per cent (2008: 8 per cent) in other currencies.

Bonds by term to maturity as of December 31:

($ millions)	2009					2008
	Term to contractual maturity (years)					
	Up to 1	1 – 5	5 – 10	Over 10	Total	Total
Government bonds						
Fair value	$ –	$1,891	$689	$946	$3,526	$2,980
Yield %*	–	2.2	3.7	4.7	3.1	2.9
Corporate bonds						
Fair value	$8	$604	$377	$447	$1,436	$1,332
Yield %*	0.6	2.9	4.5	5.7	4.1	5.5
Total fair value	**$8**	**$2,495**	**$1,066**	**$1,393**	**$4,962**	**$4,312**
Yield %*	**0.6**	**2.3**	**4.0**	**5.0**	**3.4**	**3.7**

* 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)	2009	2008
Held-for-trading		
Foreign-exchange contracts	$321	$(18)
Available-for-sale		
Bonds	272	230
Amortization	(21)	(14)
Equities	122	(1,547)
Real estate*	27	24
	400	(1,307)
Real estate entities subject to significant influence	(4)	14
Short-term securities	1	5
	718	(1,306)
Investment expenses	(32)	(34)
Net investment revenue	**686**	**(1,340)**
Employees' Pension Plan interest in income from pooled investments	(71)	–
	$615	**$(1,340)**

* Participating debentures in real estate

Revenue from bonds includes $44 million (2008: $21 million) of net realized gains. Revenue from equities includes $90 million (2008: $1,633 million) of realized losses. Real estate includes $1 million (2008: $13 million) of net realized gains. Revenue from foreign-exchange contracts includes $257 million of net realized gains (2008: $15 million of net realized losses).

During 2009, $655 million (2008: $1,007 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, which the WSIB determined were other-than-temporary. The remaining unrealized losses on available-for-sale securities of $45 million (2008: $337 million) are not considered to be other-than-temporarily impaired as at December 31, 2009, 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 that 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, 2009, the fair value of securities on loan was $1,243 million (2008: $1,005 million). The collateral held with respect to these securities was $1,310 million (2008: $1,080 million).

4. Fair value measurements disclosures

The following is a summary of the inputs used as of December 31, 2009, in valuing the WSIB's investments and derivatives carried at fair value:

($ millions)	Value using quoted prices (Level 1)	Value using observable inputs (Level 2)	Value using non-observable inputs (Level 3)	Total
Held-for-trading				
Foreign-exchange contracts	$ –	$78	$ –	$78
Available-for-sale				
Bonds	–	4,958	4	4,962
Equities	7,598	836	105	8,539
Real estate*	–	14	298	312
Other				
Loss of Retirement Income Fund annuities	–	60	–	60
Total	**$7,598**	**$5,946**	**$407**	**$13,951**

* Participating debentures in real estate

For the period ended December 31, 2009, there were no significant transfers between Level 1 and Level 2.

During the period ended December 31, 2009, the reconciliation of investments measured at fair value using non-observable inputs (Level 3) is presented as follows:

($ millions)	Held-for-trading	Available-for-sale	Total
Balances at beginning of year	$ –	$264	$264
Net purchases, sales, issuances, and settlements	–	146	146
Realized gains recorded in net income	–	11	11
Unrealized losses recorded in other comprehensive income	–	(14)	(14)
Balances at end of year	**$ –**	**$407**	**$407**

The total unrealized loss for the period ended December 31, 2009, included in comprehensive income that is still held as of year-end is $14 million.

5. Financial instruments risk management

The WSIB is responsible for investing the funds of the Insurance Fund and the Loss of Retirement Income 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 are 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 compromise between achieving the long-term return objective and enduring short-term variability.

Although neither the Insurance Fund nor the Loss of Retirement Income Fund is a registered pension fund, legislation requires the funds available for investment be invested in those investments that are authorized under the Ontario *Pension Benefits Act*. The 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 fund is established. This risk would be manifest in the failure to achieve a return of at least the actuarial discount rate of 7.0 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 the 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 of the ability of the issuer to meet current and future contractual obligations. The WSIB's 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 of December 31, 2009:

($ millions)	2009				2008	
Bond rating	**Fair value total**	**EPP***	**WSIB**	**%**	**WSIB**	**%**
AAA	$1,852	$209	$1,643	37.3	$2,122	49.2
AA	1,591	180	1,411	32.1	1,050	24.4
A	1,251	141	1,110	25.2	889	20.6
BBB	268	30	238	5.4	251	5.8
Total	**$4,962**	**$560**	**$4,402**	**100**	**$4,312**	**100**

* Employees' Pension Plan interest in pooled investments

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 its security lending program by establishing a pre-approved 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 (1 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 $294 million (2008: 286 million) as of December 31, 2009, 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 through limits on underlying securities. As such, not more than 5 per cent of the market value of the Insurance Fund is invested in the securities of a single non-government issuer.

The WSIB's fixed-income investments are derived from indexed portfolios and none of the non-government index constituents is more than 3 per cent of the index.

The following table highlights the fair value of fixed-income securities by sector as of December 31, 2009:

($ millions)	2009				2008	
	Fair value total	EPP*	WSIB	%	WSIB	%
Fixed-income sector						
Asset-backed securities	$60	$7	$53	1.2	$91	2.1
Communications and publishing	51	6	45	1.0	29	0.7
Consumer products and merchandising	31	3	28	0.7	36	0.8
Federal government and agency	1,443	163	1,280	29.1	1,780	41.3
Financial services	770	87	683	15.5	733	17.0
Industrial products	3	–	3	0.1	3	0.1
Natural resources	21	2	19	0.4	36	0.8
Other corporate	184	21	163	3.7	223	5.2
Provincials and municipal	2,093	236	1,857	42.2	1,114	25.8
Real estate	26	3	23	0.5	14	0.3
Utilities and telecommunications	280	32	248	5.6	253	5.9
Total	**$4,962**	**$560**	**$4,402**	**100**	**$4,312**	**100**

* Employees' Pension Plan interest in pooled investments

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 91.4 per cent of its insurance assets in readily marketable, publicly traded equities and fixed-income securities. The remaining insurance assets are invested in quality real estate investments (5.4 per cent) in commercial properties in major markets that provide steady cash flows and in hedge funds (3.2 per cent).

The following outlines the carrying values of financial assets by contractual maturity or expected cash flow:

($ millions)	2009								2008
	1 yr	2 – 5 yrs	6 – 10 yrs	>10 yrs	No fixed maturity	Total	EPP*	WSIB	WSIB
Assets:									
Cash and cash equivalents	$62	$ –	$ –	$ –	$ –	$62	$ –	$62	$141
Receivables	882	–	–	–	–	882	–	882	874
Foreign-exchange contracts	78	–	–	–	–	78	9	69	(14)
Bonds	48	2,468	1,061	1,385	–	4,962	560	4,402	4,312
Equities	109	–	–	–	8,430	8,539	984	7,555	6,982
Real estate	–	–	–	–	749	749	77	672	648
Loss of Retirement Income Fund annuities	–	–	–	–	60	60	–	60	59
Total	**$1,179**	**$2,468**	**$1,061**	**$1,385**	**$9,239**	**$15,332**	**$1,630**	**$13,702**	**$13,002**

* Employees' Pension Plan interest in pooled investments

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 to the Canadian dollar. The WSIB uses foreign-exchange contracts as an additional source of investment 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's inception. The fair value of these financial instruments would change in response to changes in the underlying variables affecting the contracts, such as changes in the foreign-exchange rates of the currencies involved in the contracts.

Below is a sensitivity analysis of the effect of a fluctuation in the Canadian dollar of +/-1 per cent against the five major currencies that represents 82 per

cent (2008: 92 per cent) of the WSIB's equities portfolio's foreign-currency exposure (actual market fluctuations could differ significantly from the sensitivity analysis presented):

($ millions)

Currency	**WSIB**	**EPP***	**Total fair value exposure**	**+/-1%**
U.S. dollar	$1,516	$197	$1,713	$17
Euro	341	45	386	4
Swiss franc	235	30	265	3
British pound sterling	211	27	238	2
Japanese yen	152	20	172	2
Total	**$2,455**	**$319**	**$2,774**	**$28**

* Employees' Pension Plan interest in pooled investments

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 asset 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 +/-1 per cent would result in an impact on the fair value of the bond portfolio of approximately $290 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 by factors affecting all instruments traded in the market.

The WSIB mitigates price risk by the 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	WSIB	EPP*	Total fair value exposure	Effect on net assets
S&P /TSX	$2,003	$260	$2,263	$226
S&P 500 Index	2,890	378	3,268	327
MSCI EAFE	2,662	346	3,008	301
Total	**$7,555**	**$984**	**$8,539**	**$854**

* Employees' Pension Plan interest in pooled investments

6. Loss of Retirement Income Fund

The carrying value of the Loss of Retirement Income investments as of December 31 is as follows:

($ millions)	2009	2008
Cash and cash equivalents	$12	$11
Bonds	385	373
Equities	597	447
Investment fund	**994**	**831**
Annuities	60	59
	$1,054	**$890**

The WSIB has purchased annuities from various annuity providers to administer the settlement of Loss of Retirement Income benefits to eligible claimants. The related financial assets and corresponding liabilities 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, 2009, none of the annuity providers was in default and no provision for credit risk was required.

The change in Loss of Retirement Income investment is as follows:

($ millions)	2009	2008
Funds set aside under the *Act*[1]	$87[2]	$82[2]
Investment income	115	(129)
Benefit costs paid	(39)	(40)
Increase in net assets	163	(87)
Net assets, beginning of year	831	918
Net assets, end of year	**$994**	**$831**

[1] *Workplace Safety and Insurance Act, 1997*
[2] Includes $8 million (2008: $7 million) of injured worker optional contributions

Loss of Retirement Income Fund's expenses are made up as follows:

($ millions)	2009	2008
Funds set aside under the *Act*[1]	$87	$82
less: Injured worker optional contributions	(8)	(7)
Increase (decrease) in investment obligation	115	(129)
Total expenses	**$194**	**$(54)**

[1] *Workplace Safety and Insurance Act, 1997*

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, by workers who have received loss-of-earnings benefits for 12 continuous months, the WSIB sets aside 5 per cent of their loss-of-earnings benefits for their retirement fund. Injured workers may choose to contribute a further 5 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.

7. Property, equipment and other assets

($ millions)	2009		2008
	Cost	Net carrying value	Net carrying value
Land, under a capital lease	$29	$29	$29
Buildings and leasehold improvements	202	78	85
Office equipment	114	3	2
Computer equipment	72	3	5
	417	113	121
Other assets	–	–	2
	$417	**$113**	**$123**

Amortization expense in 2009 was $14 million (2008: $13 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 value 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 $78 million (2008: $85 million) represent the WSIB's 75 per cent share of the co-ownership.

8. Intangible assets

Intangible assets include the following:

($ millions)	2009			2008
	Cost	Accumulated amortization	Net carrying value	Net carrying value
Computer software	$97	$64	$33	$5
Computer software under development	63	–	63	77
	$160	**$64**	**$96**	**$82**

During the twelve-month period ended December 31, 2009, computer software under development decreased by $14 million (2008: increased by $33 million). Computer software is amortized on a straight-line basis over periods of three to five years, with no residual value.

Amortization expense is as follows:

($ millions)	2009	2008
Computer software	$7.5	$0.9

9. Long-term debt

($ millions)	2009	2008
Mortgages payable	$97	$99
Obligation under capital leases	25	28
	122	127
Current portion	(13)	(36)
	$109	**$91**

Mortgages payable

To fund part of the development and construction of the building at 200 Front Street West, Toronto (note 7), 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, 2009, was $66 million (2008: $67 million).

Two of the real estate subsidiaries acquired in 2008 have mortgage balances. The original terms of both mortgages expired during 2009 and the mortgages were extended under new terms. The interest rates on these mortgages are 6.18 per cent on a loan balance of $23 million and 4.14 per cent on a loan balance of $8 million. These loans mature in 2014 and 2010, respectively.

The fair value of the mortgages payable as of December 31, 2009, was $97 million (2008: $105 million) with a book value of $97 million (2008: $99 million). Mortgage interest expense of $7 million was included in occupancy cost (note 13) and $2 million was included in investment income (2008: $7 million and $1 million).

Future mortgage payments are as follows:

($ millions)	
2010	$18
2011	10
2012	10
2013	10
2014	29
	77
Thereafter	61
	138
Interest portion	(41)
	$97

Obligation under capital leases

The obligation under capital leases consists of the following:

($ millions)	2009	2008
Simcoe Place land lease	$22	$23
Computer equipment leases	3	5
	$25	**$28**

The Simcoe Place land lease represents the balance of the lease obligation for the land at 200 Front Street West, Toronto (note 7), on which the WSIB's head office building is located. The WSIB, through its wholly owned subsidiary, 799549 Ontario Inc., makes annual lease payments of $4 million under 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 it is expected that the option will be exercised.

There are six capital leases for computer equipment, with initial terms between three and four years. Five are expiring on December 31, 2010, and one on November 30, 2012.

The fair value of the lease obligations at December 31, 2009, was $41 million (2008: $43 million). Interest on the lease obligation for the year was $4 million (2008: $4 million). Interest on the Simcoe Place land lease obligation for the year of $4 million (2008: $4 million) was included in occupancy cost.

Future minimum lease payments and the balance of the lease obligation on December 31, 2009, are as follows:

($ millions)	
2010	$7
2011	4
2012	4
2013	4
2014	4
	23
Thereafter	54
	77
Interest portion	(52)
	$25

10. Employee benefit plans

The WSIB has several benefit plans for eligible current and retired employees. The cost of employee benefit plans is recognized in the reporting period in which employees have provided service.

Pension and other benefit plans

The WSIB has two pension plans for its employees and the 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 the best five consecutive years' average earnings in the last 10 years. The WSIB Employees' 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 benefit plans 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 plans' assets and the benefit obligation is as of December 31, 2009. The most recent and next actuarial valuations for funding purposes are as of December 31, 2007, and 2010, 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	
	2009	2008	2009	2008	2009	2008	2009	2008
Accrued benefit obligation:								
Beginning of year	**$ 1,488.7**	**$ 1,663.0**	**$ 13.0**	**$ 14.5**	**$ 409.7**	**$ 486.5**	**$ 1,911.4**	**$2,164.0**
Current service cost	32.7	46.2	0.1	0.3	11.5	14.5	44.3	61.0
Interest cost	106.3	98.4	0.9	0.8	28.8	28.2	136.0	127.4
Benefits paid	(53.4)	(52.0)	(0.5)	(0.5)	(17.7)	(16.5)	(71.6)	(69.0)
Contributions by employee	23.5	22.3	0.3	0.2	–	–	23.8	22.5
Past service benefit cost	–	5.6	–	–	–	–	–	5.6
Actuarial (gain) loss	305.4	(294.8)	3.9	(2.3)	80.5	(103.0)	389.8	(400.1)
End of year	**1,903.2**	**1,488.7**	**17.7**	**13.0**	**512.8**	**409.7**	**2,433.7**	**1,911.4**
Plan assets:								
Fair value at beginning of year	**1,444.0**	**1,702.1**	**2.6**	**2.6**	**–**	**–**	**1,446.6**	**1,704.7**
Actual return on plan assets	190.2	(264.8)	–	–	–	–	190.2	(264.8)
Contributions by employer	38.9	36.4	0.3	0.3	17.7	16.5	56.9	53.2
Contributions by employee	23.5	22.3	0.3	0.2	–	–	23.8	22.5
Benefits paid	(53.4)	(52.0)	(0.5)	(0.5)	(17.7)	(16.5)	(71.6)	(69.0)
Fair value at end of year	**1,643.2**	**1,444.0**	**2.7**	**2.6**	**–**	**–**	**1,645.9**	**1,446.6**
Funded status:								
Funded status (plan deficit)	(260.0)	(44.7)	(15.0)	(10.4)	(512.8)	(409.7)	(787.8)	(464.8)
Unamortized net actuarial (gain) loss	288.6	54.7	3.3	(0.6)	28.8	(54.3)	320.7	(0.2)
Unamortized past service costs	15.6	17.6	(0.1)	–	4.2	4.9	19.7	22.5
Unamortized transitional obligation	(47.2)	(59.0)	–	–	–	–	(47.2)	(59.0)
Accrued benefit liability	**(3.0)**	**(31.4)**	**(11.8)**	**(11.0)**	**(479.8)**	**(459.1)**	**(494.6)**	**(501.5)**
Accrued benefit obligation, end of year	1,903.2	1,488.7	17.7	13.0	512.8	409.7	2,433.7	1,911.4
Fair value of plan assets, end of year	1,643.2	1,444.0	2.7	2.6	–	–	1,645.9	1,446.6
Funded status (plan deficit)	**(260.0)**	**(44.7)**	**(15.0)**	**(10.4)**	**(512.8)**	**(409.7)**	**(787.8)**	**(464.8)**
Net benefit plan expense:								
Current service cost	32.7	46.2	0.1	0.3	11.5	14.5	44.3	61.0
Interest cost	106.3	98.4	0.9	0.8	28.8	28.2	136.0	127.4
Expected return on plan assets	(117.8)	(118.1)	–	–	–	–	(117.8)	(118.1)
Amortization of past service costs	2.0	1.9	–	–	0.6	0.6	2.6	2.5
Amortization of transitional obligation	(11.8)	(11.8)	–	–	–	–	(11.8)	(11.8)
Amortization of net actuarial (gain) loss	(0.8)	–	–	–	(2.6)	1.5	(3.4)	1.5
Net benefit plan expense	**$ 10.6**	**$ 16.6**	**$ 1.0**	**$ 1.1**	**$ 38.3**	**$ 44.8**	**$ 49.9**	**$ 62.5**

($ millions)	Employees' Pension Plan				Employees' Supplementary Pension Plan	
	2009		2008		2009	2008
	($)	(%)	($)	(%)	($)	($)
Plan assets by major category						
Equity securities	$937.5	57.0	$828.8	57.4	$ –	$ –
Debt securities	581.5	35.4	544.6	37.7	–	–
Real estate	53.6	3.3	50.6	3.5	–	–
Accrued investment income	–	–	6.0	0.4	–	–
Other	70.6	4.3	14.0	1.0	2.7	2.6
Total	**$1,643.2**	**100**	**$1,444.0**	**100**	**$2.7**	**$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	
	2009	2008	2009	2008	2009	2008
Discount rate – plan expenses	7.00%	5.75%	7.00%	5.75%	7.00%	5.75%
Discount rate – accrued benefit obligations	5.75%	7.00%	5.75%	7.00%	5.75%	7.00%
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	13.5	13

Health-care cost trend rates as of December 31:

	2009	2008
Medical cost		
General inflation rate		
Initial rate	10.0%*	10.0%*
Ultimate rate	4.0%	4.0%
Year ultimate rate reached	2016	2015
Dental costs		
General inflation rate	4.0%	4.0%

*Grading downward 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.

($ millions)	Discount rate (%)	Impact of 1% increase ($)	Impact of 1% decrease ($)	Rate of compensation increase (%)	Impact of 0.25% increase ($)	Impact of 0.25% decrease ($)	Expected rate of return on plan assets (%)	Impact of 1% increase ($)	Impact of 1% decrease ($)
Employees' Pension Plan									
Benefit liability*	5.75	(271.4)	345.6	3.50	19.4	(19.0)	7.00	N/A	N/A
Benefit expense**	7.00	(10.8)	13.6	3.50	2.2	(2.1)	7.00	(16.8)	16.8
Employees' Supplementary Pension Plan									
Benefit liability*	5.75	(2.1)	2.6	3.50	0.5	(0.4)	3.50	N/A	N/A
Benefit expense**	7.00	(0.1)	0.1	3.50	0.1	(0.1)	3.50	–	–
Unfunded pensions									
Benefit liability*	5.75	(0.3)	0.3	3.50	–	–	–	N/A	N/A
Benefit expense**	7.00	–	–	3.50	–	–	–	–	–
Total change									
Benefit liability*	**5.75**	**(273.8)**	**348.5**	**3.50**	**19.9**	**(19.4)**	**7.00**	**N/A**	**N/A**
Benefit expense**	**7.00**	**(10.9)**	**13.7**	**3.50**	**2.3**	**(2.2)**	**7.00**	**(16.8)**	**16.8**

*Accrued benefit obligation as of December 31, 2009 **2009 Pension Expense

11. 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 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, 2009, and are based on the level and nature of entitlement and the 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 which is 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 and expected development. 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:

	2009	2008
Inflation rate	2.5%	2.5%
Discount rate	7.0%	7.0%
Rate of indexation of benefits		
Fully indexed	2.5%	2.5%
Partially indexed	0.5%	0.3%
Wage escalation rate	3.5%	3.5%
Health-care costs escalation rate	6.5%	6.5%

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 per cent to 7.5 per cent and a rate of inflation in the range of 2.0 per cent to 3.0 per cent would be considered appropriate.

As a result of the review, a long-term rate of inflation of 2.5 per cent per annum was assumed for fully indexed disability payments. For partially indexed payments, the indexation assumption was set equal to 0.5 per cent per annum. This is an increase from the previous assumption of 0.3 per cent and recognizes the potential continued extension of indexation to partially disabled injured workers set by regulation under the *Workplace Safety and Insurance Act*.

Mortality estimates are based on the WSIB's injured-worker mortality experience from 1996 to 2000, adjusted for mortality improvements to 2009; for survivors of deceased workers, estimates are based on the 1995 – 1997 Ontario Life Tables adjusted for mortality improvements to 2009.

Loss-of-earnings termination rates are based on the WSIB's injured-workers termination experience up to and including 2007, simulated to 2009, and adjusted to reflect future expectations of terminations consistent with the WSIB's *Road to Zero* strategy.

Provisions have been made for the effect of future increases in the covered earnings ceiling and in the minimum and maximum limits affecting income benefits.

Long-term economic and actuarial assumptions and methods are reviewed annually 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 $894 million (2008: $859 million) for future costs of administering existing claims. Administrative and other expenses have been adjusted by $338 million (2008: $313 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 illustrated as follows:

- The actuarial assumption most sensitive to change is the assumed discount rate of 7.0 per cent per annum. The approximate impact of a 1.0 per cent decrease in the discount rate would increase benefit liabilities by approximately $1,555 million (2008: $1,516 million).
- A 1.0 per cent increase in benefit indexation rate would increase benefit liabilities by approximately $1,280 million (2008: $1,237 million).
- The calculation of the benefit liabilities was based on the WSIB's injured-worker mortality experience. A flat reduction of 1.0 per cent in these mortality rates would increase benefit liabilities by approximately $23 million (2008: $21 million).
- A 1.0 per cent increase in the number of lost-time injuries in the current year would increase the benefit liabilities by approximately $12 million (2008: $11 million).
- Health-care benefit liabilities are calculated assuming a future rate of escalation of health-care costs of 6.5 per cent per annum. A 1.0 per cent increase in the escalation factors used for future health-care costs would increase benefit liabilities by approximately $255 million (2008: $247 million).
- Calculation of the benefit liabilities for the loss-of-earnings benefit uses the WSIB's injured-worker claim termination experience. A flat reduction of 1.0 per cent in termination rates would increase benefit liabilities by approximately $43 million (2008: $46 million).

Benefit liabilities and benefit costs paid in 2009 were as follows:

($ millions)	2009								2008
		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	$6,873	$46	$482	$9,107	$3,194	$1,779	$859	**$22,340**	**$21,760**
Benefit costs	2,019	162	186	987	683	326	373	**4,736**	**4,258**
Benefit costs paid during the year									
Schedule 1	(1,004)	(159)	(164)	(1,171)	(513)	(167)	(338)	**(3,516)**	**(3,377)**
Schedule 2	(112)	(7)	(4)	(103)	(66)	(18)	–	**(310)**	**(301)**
	(1,116)	(166)	(168)	(1,274)	(579)	(185)	(338)	**(3,826)**	**(3,678)**
Change in benefit liabilities	903	(4)	18	(287)	104	141	35	**910**	**580**
Benefit liabilities, end of year	$7,776	$42	$500	$8,820	$3,298	$1,920	$894	**$23,250**	**$22,340**

12. Reconciliation of the change in the unfunded liability

The change in the unfunded liability is affected by a number of factors. These include an interest charge on the unfunded liability, premiums applied to reduce the unfunded liability, experience gains and losses, changes in legislation, and changes in actuarial assumptions.

The interest charge on the unfunded liability recognizes that there are no assets supporting a portion of the liabilities, resulting in a shortfall in investment income 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 affects the change in the unfunded liability.

($ millions)	2009	2008
Unfunded liability, beginning of year	$11,469	$8,094
Add (deduct):		
Interest charge on unfunded liability	785	661
Premiums allocated to reduction of unfunded liability	(1,007)	(962)
Experience (gains)/losses resulting from:		
Indexation of benefits more (less) than expected	(221)	–
(Higher)/lower than expected investment return	(653)	3,087
Prior and current years' claims experience	432	883
Changes in assumptions:		
Reduction in long-term inflation	–	(438)
Increase in claim durations	564	102
Other changes	–	17
Changes in benefit cost assumptions:		
Health-care benefits	–	(25)
External agency rehabilitation payments	–	43
Other changes	–	(33)
Other changes:		
Reductions in personal income tax rates	130	40
Impact of legislation enacted in 2007:		
Increase in liabilities resulting from Bill 187	134	–
Increase in liabilities resulting from Bill 221	118	–
Unfunded liability, end of year	**$11,751**	**$11,469**

Bill 187 increased indexing for partially indexed benefits, and provides for claims after lock-in to be reassessed. Bill 221 improves coverage for volunteer firefighters with occupational cancers and work-related heart attacks.

13. Administrative and other expenses

Administrative and other expenses consist of the following:

($ millions)	2009	2008
Salaries and fringe benefits	$326	$314
Equipment and maintenance	37	37
Occupancy	42	40
Communication	12	17
Supplies and services	7	6
Travel and vehicle maintenance	5	5
New systems development and integration	4	6
Other	16	20
	449	445
Amortization expense	21	13
Staff benefit plans	56	69
	526	527
Claim administration costs (note 11)	(338)	(313)
	$188	**$214**

14. Related party transactions

Legislated obligations and commitments

Under the *Workplace Safety and Insurance Act, 1997*, and as directed by the lieutenant governor through orders in council, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the *Occupational Health and Safety Act*. The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal (WSIAT) and the offices of the Worker and Employer Advisor. These reimbursements and funding amounts are determined and approved by the minister of labour. The WSIB is also committed to providing funding for the Institute for Work & Health and the Safe Workplace Associations, clinics, and training centres.

The total amount of funding provided under these legislated obligations and commitments in 2009 was $227 million (2008: $226 million).

Investments

Included in investments are marketable fixed-income securities issued by the Ontario provincial government and related corporations valued at $858 million (2008: $394 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 according to terms and conditions similar to those that apply to transactions with unrelated parties. Account balances resulting from these transactions are not significant.

15. Commitments and contingencies

Contractual obligations

At December 31, 2009, the WSIB was committed under non-cancellable contractual obligations, consisting of software licences, equipment, and property leases, requiring future minimum payments of approximately $24 million per year over the next five years, and $16 million in aggregate thereafter.

Investment commitments

As of December 31, 2009, the WSIB had entered into commitments to acquire real estate investments totalling $91 million.

On January 12, 2010, the WSIB entered into a commitment to invest $100 million in infrastructure investments by the end of the third quarter, 2010.

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 the WSIB's 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 2009 and 2008.

16. 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)	2009	2008
WSIB assets*	$13,911	$13,175
WSIB liabilities	$25,662	$24,644
Funding ratio	54.2%	53.5%

* It is the net amount of total assets less the $1,630 million (2008: $32) for Employees' Pension Plan interest in pooled investments

17. Comparative

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

Ten-year summary of the statements of operations and unfunded liability

($ millions)	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Revenues										
Premiums for current year	$2,533	$2,604	$ 2,499	$2,385	$2,256	$ 2,124	$2,068	$1,997	$1,866	$1,760
Investments	686	(1,340)	812	1,298	819	470	456	246	765	1,128
Other income	1	2	2	3	3	49	–	–	–	–
	3,220	**1,266**	**3,313**	**3,686**	**3,078**	**2,643**	**2,524**	**2,243**	**2,631**	**2,888**
Expenses										
Benefit costs paid	3,826	3,678	3,476	3,285	3,197	3,101	2,996	2,883	2,755	2,558
Net increase/(decrease) in benefit liabilities	910	580	1,460	1,050	840	950	495	692	270	125
Loss of Retirement Income Fund	194	(54)	70	64	66	60	56	52	50	46
	4,930	**4,204**	**5,006**	**4,399**	**4,103**	**4,111**	**3,547**	**3,627**	**3,075**	**2,729**
Administrative and other expenses	188	214	243	221	203	204	210	240	236	247
Legislated obligations	227	226	218	208	200	188	172	160	162	156
	5,345	**4,644**	**5,467**	**4,828**	**4,506**	**4,503**	**3,929**	**4,027**	**3,473**	**3,132**
Excess of expenses over revenues from current operations	(2,125)	(3,378)	(2,154)	(1,142)	(1,428)	(1,860)	(1,405)	(1,784)	(842)	(244)
Premiums for unfunded liability	1,007	962	1,024	1,000	934	1,017	861	902	860	971
Transfer of Electrical Utilities from Schedule 2	–	–	–	–	–	–	–	(52)	–	–
	(1,118)	**(2,416)**	**(1,130)**	**(142)**	**(494)**	**(843)**	**(544)**	**(934)**	**18**	**727**
Employees' Pension Plan interest in income from pooled investments	(71)	–	–	–	–	–	–	–	–	–
Excess (deficiency) of revenues over expenses	**(1,189)**	**(2,416)**	**(1,130)**	**(142)**	**(494)**	**(843)**	**(544)**	**(934)**	**18**	**727**
Unfunded liability, beginning of year	(11,469)	(8,094)	(5,997)	(6,510)	(6,420)	(7,135)	(6,591)	(5,657)	(5,675)	(6,402)
Effect of change in accounting policy	–	–	–	–	–	1,088	–	–	–	–
Other comprehensive income	907	(959)	(967)	655	404	470	–	–	–	–
Excess (deficiency) of revenues over expenses	(1,189)	(2,416)	(1,130)	(142)	(494)	(843)	(544)	(934)	18	727
Unfunded liability, end of year	**$(11,751)**	**$(11,469)**	**$(8,094)**	**$(5,997)**	**$(6,510)**	**$(6,420)**	**$(7,135)**	**$(6,591)**	**$(5,657)**	**$(5,675)**

Other statistics

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Schedule 1										
Average premium rate (per $100 of payroll)	$2.26	$ 2.26	$ 2.26	$ 2.26	$ 2.19	$ 2.19	$ 2.19	$ 2.13	$ 2.13	$ 2.29
Total insured payroll ($ millions)	$144,910	$150,535	$146,393	$140,912	$135,865	$130,398	$125,638	$120,252	$113,727	$109,237
Schedule 1 & 2										
Number of new claims by registration year	249,477	312,315	329,161	336,851	352,996	352,474	354,926	361,179	371,067	379,079
Employees at December 31										
Full-time equivalent	4,284	4,467	4,359	4,241	4,317	4,370	4,238	4,350	4,467	4,421

LOSSES DELETED FROM THE ACCOUNTS

(Under the *Financial Administration Act*)

for the year ended March 31, 2010

MINISTRY	2009-10
TRAINING, COLLEGES AND UNIVERSITIES............................	$ 316,735,320.26
REVENUE	82,624,657.88
COMMUNITY AND SOCIAL SERVICES......................................	4,983,080.03
FINANCE - MOTOR VEHICLE ACCCIDENT CLAIMS FUND.......	2,359,574.75
ECONOMIC DEVELOPMENT	2,023,659.00
ENERGY AND INFRASTRUCTURE...	748,086.04
HEALTH AND LONG-TERM CARE..	384,029.25
TRANSPORTATION..	198,360.25
COMMUNITY SAFETY AND CORRECTIONAL SERVICES.........	94,284.33
NATURAL RESOURCES..	71,961.66
TOURISM..	16,114.00
CHILDREN AND YOUTH SERVICES...	6,220.00
EDUCATION..	5,216.40
GOVERNMENT SERVICES...	818.15
TOTAL...	**$ 410,251,382.00**

REVENUE REMISSIONS

Details of Remission granted under the *Financial Administration Act*
for Revenue and Other Debt for the year ended March 31, 2010

Description of the Order-in-Council	**Amount**
OIC 91/2010: Remission of Land Transfer Tax (LTT), penalty and interest was granted to the Bochasanwasi Shree Akshar Purushottam Swaminarayan Sanstha Inc. (BAPS Inc.) in respect to transfer of properties.	$282,358
OIC 221/2010: Remission of Employer Health Tax (EHT) and the related penalties and interest payable was granted to the "Alvito Group" for the years 1999 to 2003 inclusive. The "Alvito Group" was originally assessed based on a CRA decision that it was associated with another group of corporations. In 2008 the Tax Court of Canada reversed the CRA decision.	$20,884

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ISSN 0381-2375 (Print)
ISSN 1913-5556 (Online)