



Ministry *of* Finance

PUBLIC ACCOUNTS *of* **ONTARIO**

2010–2011

**FINANCIAL STATEMENTS OF
GOVERNMENT ORGANIZATIONS (CONT'D),
GOVERNMENT BUSINESS ENTERPRISES,
TRUSTS AND MISCELLANEOUS
STATEMENTS**

Volume 2b



Ontario

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GOVERNMENT ORGANIZATIONS (CONT'D),
GOVERNMENT BUSINESS ENTERPRISES,
TRUSTS AND MISCELLANEOUS
STATEMENTS**

Volume 2b

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

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

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

Ministry of Economic Development and Trade
Ontario Immigrant Investor Corporation

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

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

Ministry of Environment
Ontario Clean Water Agency

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

Ministry of Government Services
Ontario Pension Board

Ministry of Infrastructure
Ontario Infrastructure Projects Corporation
Ontario Realty Corporation
Toronto Waterfront Revitalization Corporation

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

Ministry of Health and Long-Term Care

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

Ministry of Labour

- Workplace Safety and Insurance Board

Ministry of Municipal Affairs and Housing

- Ontario Mortgage and Housing Corporation

Ministry of Natural Resources

- Algonquin Forestry Authority
- Forest Renewal Trust

Ministry of Northern Development and Mines

- Northern Ontario Heritage Fund Corporation
- Ontario Northland Transportation Commission

Ministry of Research and Innovation

- Ontario Capital Growth Corporation

Ministry of Tourism and Culture

- Metropolitan Toronto Convention Centre Corporation
- Niagara Parks Commission
- Ontario Council for Arts
- Ontario Place Corporation
- Ontario Science Centre
- Ontario Tourism Marketing Partnership Corporation
- Ontario Trillium Foundation
- Ottawa Convention Centre
- Royal Ontario Museum

Ministry of Transportation

- Metrolinx

A GUIDE TO PUBLIC ACCOUNTS

1. SCOPE OF THE PUBLIC ACCOUNTS

The 2010-2011 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, 2010 to March 31, 2011. 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 Energy Board

MANAGEMENT'S RESPONSIBILITY

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

The Board maintains systems of internal accounting controls designed to provide reasonable assurance that reliable financial information is available on a timely basis and that the Board assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed and approved by the Board's Management Committee. In addition the financial statements have been audited by the Auditor General of Ontario, whose report follows.



Allan Fogwill
Managing Director, Planning & Business Services
July 27, 2011



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

Independent Auditor's Report

To the Ontario Energy Board

I have audited the accompanying financial statements of the Ontario Energy Board, which comprise the statement of financial position as at March 31, 2011 and the statements of operations and net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Energy Board as at March 31, 2011 and the results of its operations, and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gary Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
July 27, 2011

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Ontario Energy Board

STATEMENT OF FINANCIAL POSITION

As at March 31, 2011

	2011 \$	2010 \$
ASSETS		
Current Assets:		
Cash	3,346,547	12,290,027
Investments (note 2c)	987,010	-
Accounts receivable	557,831	228,125
Regulatory process costs to be assessed	1,424,812	815,719
Deposits and prepaid expenses	243,693	352,766
Total Current Assets	6,559,893	13,686,637
Long-term Assets:		
Investments (note 2c)	3,999,434	-
Capital assets (note 5)	5,685,561	5,692,797
Total Long-term Assets	9,684,995	5,692,797
TOTAL ASSETS	16,244,888	19,379,434
LIABILITIES		
Current Liabilities:		
Deferred revenue (note 3b)	724,888	3,117,597
Accounts payable and accrued liabilities	4,582,286	4,334,567
Total Current Liabilities	5,307,174	7,452,164
Long-term Liabilities:		
Deferred revenue related to capital assets (note 3c)	3,393,371	3,138,642
Deferred rent inducement (note 8)	2,959,115	3,297,287
Pension liability (note 6)	409,793	324,993
Total Long-term Liabilities	6,762,279	6,760,922
TOTAL LIABILITIES	12,069,453	14,213,086
Operating Reserve (note 4)	4,175,435	4,893,848
Net Assets:		
Internally Restricted Net Assets (note 7)	-	272,500
TOTAL LIABILITIES, RESERVE AND NET ASSETS	16,244,888	19,379,434

See accompanying notes to financial statements

On behalf of the Management Committee:


Rosemarie Leclair
Chair

Cynthia Chaplin
Vice-Chair

Ontario Energy Board

STATEMENT OF OPERATIONS AND NET ASSETS

Year Ended March 31, 2011

	2011 \$	2010 \$
REVENUES		
Recovery of Costs:		
General cost recovery (note 3a)	30,974,444	28,296,698
Regulatory process costs	1,598,355	1,218,034
Amortization of deferred revenue related to capital assets	1,449,450	1,955,215
Total Revenues from Recovery of Costs	34,022,249	31,469,947
Other Revenues:		
Licence fees	331,675	365,398
Interest income	121,760	71,287
Miscellaneous income	8,125	7,607
Administrative penalties	-	75,000
Total Other Revenues	461,560	519,292
TOTAL REVENUES	34,483,809	31,989,239
EXPENSES		
Salaries and benefits	23,655,988	23,476,331
Consulting and professional	3,808,315	2,491,021
Premises	2,602,320	2,296,187
Publications, media and publishing	1,192,978	533,551
Information technology	773,684	622,653
Office and administration	639,589	521,937
Meetings, training and travel	633,985	721,584
Amortization	1,449,450	1,955,215
TOTAL EXPENSES	34,756,309	32,618,479
DEFICIENCY OF REVENUES OVER EXPENSES	(272,500)	(629,240)
Net Assets, beginning of period (note 7)	272,500	901,740
NET ASSETS, end of period	-	272,500

See accompanying notes to financial statements

Ontario Energy Board
STATEMENT OF CASH FLOWS
Year Ended March 31, 2011

	2011 \$	2010 \$
Net inflow (outflow) of cash related to the following activities:		
OPERATING		
Assessment billed	30,285,914	31,536,370
Regulatory process costs revenue	1,598,355	1,218,034
Other revenues	461,560	519,292
Expenses	(34,756,309)	(32,618,479)
	(2,410,480)	655,217
Adjustment for Non-cash Expenses:		
Amortization of capital assets paid by Board	1,449,450	1,955,215
Amortization of leasehold improvements paid by landlord	261,965	261,965
	1,711,415	2,217,180
Changes in Non-cash Working Capital:		
Purchase of Investment - Current	(987,010)	-
Accounts receivable	(329,706)	(170,652)
Regulatory process costs to be assessed	(609,093)	207,422
Deposits and prepaid expenses	109,074	(121,393)
Purchase of Investment - Long-term	(3,999,434)	-
Operating Reserve	(718,413)	183,588
Accounts payable and accrued liabilities	247,719	(553,999)
Pension liability	84,800	26,292
Deferred rent inducement	(338,172)	(338,172)
	(6,540,235)	(766,914)
Net Cash from Operating Activities	(7,239,300)	2,105,483
INVESTING		
Capital asset purchases	(1,704,179)	(1,211,395)
Net Cash Used in Investing Activities	(1,704,179)	(1,211,395)
NET CHANGE IN CASH	(8,943,480)	894,088
Cash, beginning of period	12,290,027	11,395,939
Cash, end of period	3,346,547	12,290,027

See accompanying notes to financial statements

Ontario Energy Board
Notes To The Financial Statements
March 31, 2011

1. Nature of the Corporation

The Ontario Energy Board (the "Board") is the regulator of Ontario's natural gas and electricity industries. The Board also provides advice on energy matters referred to it by the Minister of Energy and the Minister of Natural Resources.

Effective August 1, 2003, and pursuant to the *Ontario Energy Board Act, 1998*, (the "OEB Act") the Board was continued as a corporation without share capital empowered to fully recover its costs from natural gas and electricity industry participants. As an agent of Her Majesty in right of Ontario, the Board is exempted from federal and provincial income taxes under the Income Tax Act.

2. Significant Accounting Policies

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

a) Revenue Recognition

Revenues received in the 2010-11 fiscal year that relate to subsequent years are not recognized as revenue and are deferred. Recognition of revenue is matched to the expenses of the Board as follows:

- General cost recovery under S.26 of the OEB Act related to the expenses of the Board is recognized as revenue to the extent that they are in excess of regulatory process costs, amortization of deferred revenue related to capital assets, and other revenues. Revenue assessed in excess of actual cost in 2010-11 is referred to as a true-up (note 3b).
- Revenue from administrative penalties assessed against individual market participants under s. 112.5 of the OEB Act, is recognized in the year assessed provided that collection is reasonably assured. Revenue from administrative penalties is not used to reduce the general cost recovery as per the OEB Cost Assessment Model (note 7).

Ontario Energy Board
Notes To The Financial Statements
March 31, 2011

- Amortization of deferred revenue related to capital assets is recognized as revenue on the same basis that the underlying capital assets are amortized. Revenue related to capital asset expenditures is deferred because they have been billed in advance (note 3c).
- Regulatory process costs are recognized as revenue when related expenses are incurred.

Other revenues are recognized when received and receivable.

b) Capital Assets

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

Office furniture and equipment	5 years
Computer equipment and related software	3 years
Audio visual equipment	3 years
Leasehold improvements	over remainder of lease

c) Financial Instruments

Under Canadian generally accepted accounting principles, 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.

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.

Ontario Energy Board
Notes To The Financial Statements
March 31, 2011

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

- Cash and investment assets 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 Net Assets.
- Accounts receivable and regulatory process costs to be assessed are classified as loans and receivables and are 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 Board's investments consist of two Ontario Government bonds with maturities between June 2013 and March 2014 and effective yields in the range of 1.945% to 2.25%, and one Ontario Government treasury note with maturity March 2012 and effective yield of 1.32%. All are highly liquid and are readily convertible into known amounts of cash.

It is management's opinion that the Board is not exposed to significant interest rate, currency, liquidity or credit risk arising from its financial instruments due to their nature.

d) Use of Estimates

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

Ontario Energy Board
Notes To The Financial Statements
March 31, 2011

e) Employee Pension Plans

The Board'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 Board's annual payments to the fund. Since the Board is not a sponsor of these funds, gains and losses arising from statutory actuarial funding valuations are not assets or obligations of the Board, as the sponsor is responsible for ensuring that the pension funds are financially viable. The Board's expense is limited to the required contributions to the Fund as described in note 6(a).

The Board also manages a supplementary unfunded pension plan for a former Chair as described in note 6(b). The Board accrues its obligations and the related cost under this supplemental unfunded pension plan. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method, prorated on management's best estimate assumptions.

Ontario Energy Board
Notes To The Financial Statements
March 31, 2011

3. Industry Assessments for 2010-11

During the 2010-11 fiscal year, the natural gas and electricity industry participants were assessed estimated costs for the 2010-11 fiscal year based on budgeted amounts. Amounts assessed in excess of actual costs are a true-up and are reported as current deferred revenue. The 2010-11 true-up will be used to reduce the 2011-12 fiscal year assessment. The calculation of the general cost recovery, true-up and deferred revenue are outlined in the following tables.

a) 2010-11 General cost recovery

Salaries and benefits	\$23,655,988
Consulting and professional	\$3,808,315
Premises	\$2,602,320
Publications, media and publishing	\$1,192,978
Information technology	\$773,684
Office and administration	\$639,589
Meetings, training and travel	\$633,985
Amortization	\$1,449,450
Total expenses	\$34,756,309
Regulatory process costs, amortization of deferred revenue related to capital assets, other revenues and use of internally restricted net assets	\$(3,781,865)

General cost recovery at March 31, 2011	\$30,974,444

Ontario Energy Board
Notes To The Financial Statements
 March 31, 2011

b) 2010-11 Current Deferred Revenue (2010-11 True-up)

General cost recovery (note 3a)	\$30,974,444	
2010-11 Capital expenditures paid by the OEB	\$1,704,179	
Total assessment (actual)		\$32,678,623
Total assessment (budget)		\$33,403,511

2010-11 Current Deferred Revenue (2010-11 True-up)	\$724,888

c) 2010-11 Deferred Revenue Related to Capital Assets

Revenues related to capital asset expenditures are deferred because they have been billed in advance with the exclusion of leasehold improvements paid by the landlord, which were not included in the assessments. As part of the leasehold inducements included in the lease agreement, the landlord paid for \$3,540,400 of leasehold improvements on behalf of the Board since the start of the lease on January 1, 2005.

Net book value of capital assets 2010-11 (note 5)	\$ 5,685,561
Net book value of leasehold improvements paid by landlord (note 5)	\$(2,292,190)

2010-11 Deferred revenue related to capital assets	\$ 3,393,371

Ontario Energy Board
Notes To The Financial Statements
March 31, 2011

4. Operating Reserve

As part of its self-financing status, the Board established an operating reserve of the current annual assessment, which is adjusted on an annual basis. The primary objective of maintaining this reserve is to fund the Board's operations in the event of revenue shortfalls or unanticipated expenditures.

The operating reserve can be a maximum of 15%. The operating reserve is to be used for cash flow management and to support working capital requirements. Based on the review of cash flow history the Board reduced the operating reserve to 12.5% in fiscal year 2010-11, and anticipates reducing the operating reserve to 10% in fiscal year 2011-12.

2010-11 Operating reserve

Operating reserve as at March 31, 2010	\$4,893,848
Adjustment to the operating reserve	\$(718,413)
Operating reserve as at March 31, 2011	\$4,175,435

The Board is not subject to any externally imposed reserve requirements.

Ontario Energy Board
Notes To The Financial Statements
March 31, 2011

5. Capital Assets

	Cost	Accumulated amortization	Net book value 2011	Net book value 2010
Office furniture and equipment	\$2,787,729	\$2,365,596	\$422,133	\$346,324
Computer equipment and related software	\$9,138,721	\$7,141,753	\$1,996,968	\$2,064,335
Audio visual equipment	\$870,087	\$845,939	\$24,148	\$36,222
Leasehold improvements paid by OEB	\$1,197,005	\$246,883	\$950,122	\$691,761
Leasehold improvements paid by Landlord	\$3,540,400	\$1,248,210	\$2,292,190	\$2,554,155
Total	\$17,533,942	\$11,848,381	\$5,685,561	\$5,692,797

Ontario Energy Board
Notes To The Financial Statements
March 31, 2011

Employee Future Benefits

a) The Board's contribution to the Public Service Pension Plan for the 2010-11 fiscal year was \$1,388,702 (2010 - \$1,310,165) and is included in salaries and benefits costs on the Statement of Operations and Net Assets.

b) The unfunded supplemental pension plan for a former Chair had an accrued total benefit obligation of \$409,793 (2010 - \$406,227) and an accrued benefit liability with respect to the Board of \$409,793 (2010 - \$324,993). No benefits were paid during the year (2010 - \$0). The significant actuarial assumptions adopted at March 31, 2011 included a discount rate of 4.00% (2010 - 4.25%). The assumed pension commencement age has been changed to immediate retirement as at March 31, 2011. There has also been a change in accounting policy in that the Board has elected to accelerate the recognition of net actuarial gains or losses by fully recognizing losses from prior fiscal years not yet recognized as at March 31, 2010 in the net pension cost, and furthermore, to fully recognize any new actuarial gains or losses each year as they arise. Accordingly, as all unrealized net actuarial gains and losses have been recognized, the total benefit obligation equals the actuarial benefit liability as at March 31, 2011. The Board's expense for this pension plan for the year was \$84,800 (2010 - \$26,292) and is included in salaries and benefits costs.

c) The Board is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Province of Ontario, a related party.

6. Internally Restricted Net Assets

The internally restricted net assets at March 31, 2011 represent revenue from administrative penalties assessed against individual market participants under s. 112.5 of the *Ontario Energy Board Act, 1998*. According to the OEB Cost Assessment Model, revenue from administrative penalties will not be used to reduce payments under the general assessment. Revenue from administrative penalties is internally restricted by the Management Committee to support activities relating to consumer education, outreach and other activities in the public interest.

The changes in internally restricted net assets are as follows:

Balance, beginning of the year	\$272,500
Administrative penalties issued in 2010-11	\$0
Expenses incurred	\$(272,500)
Balance, end of the year	\$0

Ontario Energy Board
Notes To The Financial Statements
March 31, 2011

7. Deferred Rent Inducement and Operating Lease Commitments

The Board entered into a lease commitment for its office space during the 2004-05 fiscal year, which included various lease inducements. Deferred rent inducement represents the benefit of operating lease inducements which are being amortized on a straight-line basis over 15 years, being the term of the lease.

The changes in deferred rent inducements are as follows:

	2011	2010
Balance, beginning of the year	\$ 3,297,287	\$ 3,635,459
Less: Amortization of deferred rent inducement netted against premises expense	\$(338,172)	\$(338,172)
Balance, end of the year	\$2,959,115	\$3,297,287

The minimum annual payments under the operating lease for the remaining 10 years and in aggregate are as follows:

2012	\$2,345,652
2013	\$2,396,313
2014	\$2,441,542
2015	\$2,523,531
2016 and thereafter	\$13,166,431
Total	\$22,873,469

Ontario Energy Board
Notes To The Financial Statements
March 31, 2011

8. Accounting Standards Change

In 2008, the Canadian Accounting Standards Board confirmed that generally accepted accounting principles for publicly accountable enterprises will move to international financial reporting standards (IFRS). 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 Board, the discretion to consider what type of accounting standards to use based on the type of organization and the needs of the users of their financial statements.

The Board has determined it is a Government Not For Profit Organization (GNFPO). Further the Board has chosen to adopt the CICA Public Sector Accounting Handbook with the non-for-profit sections. There will be a minimal impact on the Board's financial statements resulting from the conversion to this standard. The first year of implementation is to be the fiscal year commencing April 1, 2012 to March 31, 2013, with comparative figures in the financial statements for April 1, 2011 to March 31, 2012.

Ontario **Financing** Authority

Responsibility for Financial Reporting

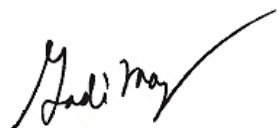
The accompanying Financial Statements of the OFA have been prepared in accordance with Canadian public sector accounting standards and are the responsibility of Management. The preparation of the Financial Statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The Financial Statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 17, 2011.

Management maintains a system of internal controls designed to provide reasonable assurance that 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 & Risk Management Committee of the Board.

The Board, through the Audit & Risk Management Committee, is responsible for ensuring Management fulfils its responsibilities for financial reporting and internal controls. The Audit & Risk Management Committee meets periodically with Management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board.

The Financial Statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the Financial Statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:



Chief Executive Officer



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

Independent Auditor's Report

To the Ontario Financing Authority and to the Minister of Finance

I have audited the accompanying financial statements of the Ontario Financing Authority, which comprises the balance sheet at March 31, 2011, and the statement of net income and retained earnings and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Financing Authority as at March 31, 2011 and the results of its operations, and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

Toronto, Ontario
June 17, 2011

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Ontario Financing Authority

Balance Sheet

As at March 31, 2011

<i>(in thousands of dollars)</i>	2011	2010
ASSETS		
Current assets		
Cash	\$ 3,916	\$ 2,156
Interest receivable – OMIC (Note 2)	1,819	2,029
Due from agencies and related parties (Note 8)	1,913	1,674
Due from the Province of Ontario	1,669	1,763
Current portion of loans receivable	29,630	5,156
Total current assets	38,947	12,778
Fixed assets (Note 3)	2,377	3,053
Loans receivable (Note 2)	44,235	73,865
Total assets	\$ 85,559	\$ 89,696
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Accounts payable	\$ 1,647	\$ 1,722
Interest payable – OMIC (Note 2)	1,819	2,029
Due to the Province of Ontario-Recoveries	1,274	1,254
Current portion of long term debt	29,630	5,156
Total current liabilities	34,370	10,161
Long term debt (Note 2)	44,235	73,865
Deferred revenue (Note 4)	2,400	3,094
Retained earnings	4,554	2,576
Total liabilities and retained earnings	\$ 85,559	\$ 89,696

See accompanying notes to financial statements.

Approved on behalf of the Board:



Peter Wallace
Chair



Gadi Mayman
Chief Executive Officer

Ontario Financing Authority

Statement of Net Income and Retained Earnings

For the year ended March 31, 2011

<i>(in thousands of dollars)</i>	2011	2010
REVENUE		
Cost recovery from the Province of Ontario (Note 5)	\$ 19,995	\$ 19,714
Interest revenue (Note 2)	9,252	8,996
Total revenue	29,247	28,710
EXPENSES		
Salaries, wages and benefits	18,503	18,160
Interest on long term debt (Note 2)	7,263	7,593
Administrative and general	5,466	5,416
Amortization of fixed assets (Note 4)	1,110	1,016
Sub Total	32,342	32,185
Less: cost recovery from Agencies & related parties (Note 8)	(5,073)	(4,877)
Total expenses	27,269	27,308
Net income	1,978	1,402
Retained earnings, beginning of year	2,576	1,174
Retained earnings, end of year	\$ 4,554	\$ 2,576

See accompanying notes to financial statements.

Ontario Financing Authority

Cash Flow Statement

For the year ended March 31, 2011

<i>(in thousands of dollars)</i>	2011	2010
Cash flows from operating activities		
Net income	\$ 1,978	\$ 1,402
Adjustment for amortization of fixed assets	1,110	1,016
Increase in due from agencies & related parties	(239)	(183)
Decrease in due from the Province (net of accounts payable)	19	18
Increase/(decrease) in recoveries due to the Province	20	(28)
Increase/(decrease) in deferred revenue	(694)	245
Cash flows from operating activities	2,194	2,470
Cash flows from investing activities		
Purchase of capital assets	(434)	(1,279)
Cash flows used in investing activities	(434)	(1,279)
Increase in cash	1,760	1,191
Cash, beginning of year	2,156	965
Cash, end of year	\$ 3,916	\$ 2,156

See accompanying notes to financial statements.

Ontario Financing Authority

Notes to Financial Statements

For the year ended March 31, 2011

BACKGROUND

The Ontario Financing Authority (the “OFA”) was established as an agency of the Crown on November 15, 1993 by the *Capital Investment Plan Act, 1993* (the “Act”). In accordance with the Act, the OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario (the “Province”);
- manages the Provincial debt;
- provides financial and centralized cash management services for the Province;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies to borrow and invest money;
- acts at the direction of the Province in lending to certain public bodies;
- invests on behalf of some public bodies.

In addition, the OFA’s objects include:

- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: Because the OFA is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards.

Net Debt Presentation: The statement of changes in net debt is not presented since this information is readily apparent from information provided in these financial statements.

Cash: Cash includes cash on deposit and highly liquid investments with maturities of less than one year. They are recorded at cost, which approximates current market value.

Fixed assets: Fixed assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below.

Furniture and equipment	5 years
Computer hardware	3 years
Leasehold improvements	Term of lease plus one renewal period

Funding received from the Province and the Agencies for the acquisition of fixed assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the fixed assets.

Measurement uncertainty: The preparation of these financial statements requires management to make estimates that are based on the best information available at the time of preparation of the financial statements.

2. LONG-TERM DEBT AND RELATED INTEREST

In accordance with the *Capital Investment Plan Act, 1993*, the Ontario Municipal Improvement Corporation (OMIC) assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) which were used to make loans to municipalities and school boards under similar terms as its debt.

The maturities and average interest rates on both the outstanding loans receivable and outstanding debt are set out below:

(in thousands of dollars)

Maturing in:	Principal Maturing	Average Interest Rate (%)
2012	\$ 29,630	9.97
2013	44,235	9.22
Total outstanding	\$ 73,865	9.58
Less current portion	29,630	
	\$ 44,235	

Interest payable to CPP of \$1.8 million (2010 – \$2.0 million) is equal to the interest receivable from the municipalities and school boards.

The \$9.3 million (2010 – \$9.0 million) interest revenue equals the \$7.3 million (2010 – \$7.6 million) interest expense on the CPP borrowings, plus \$2.0 million (2010 – \$1.4 million) interest rate spread charged on loans to related parties as explained in Note 6 plus interest on the balance of cash.

3. FIXED ASSETS

The net book value (NBV) of fixed assets is as follows:

(in thousands of dollars)

	Cost	Accumulated Amortization	NBV March 31, 2011	NBV March 31, 2010
Furniture and equipment	\$ 1,051	\$ 601	\$ 450	\$ 632
Computer hardware	11,193	10,208	985	1,364
Leasehold improvements	1,720	778	942	1,057
Total	\$ 13,964	\$ 11,587	\$ 2,377	\$ 3,053

4. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province and the Agencies for the acquisition of fixed assets and the amount of lease inducement to be amortized to operations over the remaining two-year term of the lease.

(in thousands of dollars)

	Fixed Assets	Lease Inducement	Total
Balance, beginning of year	\$ 3,053	\$ 41	\$ 3,094
Additions	434	—	434
Amortization	(1,110)	(18)	(1,128)
Balance, end of year	\$ 2,377	\$ 23	\$ 2,400

The \$1.1 million amortization of deferred fixed assets revenue is included in the cost recovery from the Province of Ontario on the Statement of Net Income and Retained Earnings, while the \$18,000 amortization of deferred lease inducement is netted against administrative and general expense.

5. DEBT AND INVESTMENT MANAGEMENT FOR THE PROVINCE

The OFA manages debt amounting to \$236.3 billion as at March 31, 2011 and investments amounting to \$30.9 billion as at March 31, 2011 on behalf of the Province, including the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the *Ontario Nuclear Funds Agreement*. The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to set aside funds necessary to dispose of nuclear waste and used fuel and to decommission nuclear power stations. The agreement came into force on July 24, 2003.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2011 was \$20 million (March 2010 – \$19.7 million).

6. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in these financial statements.

Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating \$14.5 billion expiring from 2027 to 2037. Principal repayments received from public bodies by the OFA are forwarded to the Province. The interest rates charged to public bodies will generally be slightly higher than the rate charged on the advances from the Province to fund the loans ("the spread").

The OFA will generally retain the spread in order to recover the administrative costs of managing these loans. In some cases the rate charged to the borrower will be similar to the rate that would be charged on the loan by a commercial lender which would reflect the relative risk associated with the loan.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements consisting of a number of promissory notes for terms not exceeding one year. The promissory notes are later converted to term debt and repayment terms are finalized. As of March 31, 2011, the principal amounts receivable by the OFA on behalf of the Province represent debentures and short term loans. In addition to the outstanding loans below, interest accrued on these loans amounted to \$72.9 million (2010 – \$53.4 million).

These are related party transactions, with the exception of those with the Corporation of the City of Windsor and the Federal Agencies-Auto Sector.

(in thousands of dollars)

	March 31, 2011	March 31, 2010
Centennial Centre of Science and Technology	\$ 3,000	\$ 3,500
Colleges of Applied Art and Technology	81,967	70,677
Corporation of the City of Windsor	17,184	18,386
Federal Agencies-Auto Sector	1,086,074	1,451,359
Infrastructure Ontario	123,000	100,000
Niagara Parks Commission	6,271	6,500
Ontario Lottery and Gaming Corporation	149,515	187,840
Ontario Northland Transportation Commission	27,241	30,646
Ontario Power Authority	30,059	90,000
Royal Ontario Museum	42,200	48,840
School Boards	4,029,781	2,622,292
Total	\$ 5,596,292	\$ 4,630,040

Loans to Public Bodies:

The Centennial Centre of Science and Technology is a Crown agency of the Province under the Centennial Centre of Science and Technology Act, 1990. The \$3.0 million (2010 – \$3.5 million) loan was made to fund the construction of the Agents of Change project, bears interest at 4.35% and matures in March 2017.

Colleges of Applied Arts and Technology have been loaned \$82 million (2010 – \$71 million) for various campus projects including new and expanded student residences, computer equipment, parking facilities, and an energy saving capital project. These loans bear interest ranging from 1.36 per cent to 5.49 per cent and mature from 2011 to 2040.

The Corporation of the City of Windsor is a municipality within the meaning of the Municipal Act. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility consisting of a provincial division courthouse and city police headquarters. This is a 20 year loan bearing interest at 6.41 per cent and maturing in March 2021. The outstanding balance is \$17.2 million (2010 – \$18.4 million).

The Province advanced a total of \$4,577 million in 2009 (and received \$196 million in special interest notes) to assist in providing funding to the Canadian auto sector. In July, 2009, loans of \$3,187 million were exchanged for equity, and by the end of March, 2011, loans of \$134 million in 2010 and \$365 million in 2011 were repaid, leaving \$1,086 million in loans outstanding (2010 – \$1,451 million) bearing floating interest rates ranging from 5 to 7 per cent.

Subsequent to the year-end, a loan of \$561 million was repaid, leaving \$525 million in loans outstanding of which \$455 million matured on June 29, 2009 and \$70 million matured on July 10, 2010. Further information will be received regarding the overdue loans.

Infrastructure Ontario (IO) has been provided a 10-year Revolving Credit Facility to a maximum amount of \$200 million. IO has drawn a total of \$123 million (2010 – \$100 million) bearing interest at rates ranging from 1.98 to 4.00 per cent.

The Niagara Parks Commission, a Crown agency of the Province, operating under Niagara Parks Act 1990, has been provided a loan of \$6.3 million (2010 – \$6.5 million) to finance additional capital costs incurred for the redevelopment of phase I of Table Rock House in Queen Victoria Park, Niagara Falls. This is a 17-year loan, bears interest at 5.07 per cent and matures in April 2027.

The Ontario Lottery and Gaming Corporation (OLG) is a Crown agency of the Province under the Ontario Lottery and Gaming Corporation Act, 1999, and has been provided loans totaling \$150 million (2010 – \$188 million) to fund several projects and bears interest at rates ranging from 1.41 to 3.22 per cent.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the Ontario Northland Transportation Commission Act, 1990. ONTC's total borrowing is comprised of loans and two operating lines of credit aggregating to \$27.2 million (2010 – \$30.6 million). Loans of \$14.9 million mature from 2014 to 2031 and bear interest ranging from 4.9 to 6.29 per cent. The operating lines of credit totaling \$12.3 million bear floating interest rates ranging from 1.01 to 1.36 per cent.

The Ontario Power Authority was provided a maximum \$975 million credit facility to fund the Regulated Price Plan variance account. The credit facility expires on December 31, 2013. The Authority has drawn a total of \$30 million (2010 – \$90 million) bearing interest at 1.21 per cent

The Royal Ontario Museum (ROM) has borrowed \$42.2 million (2010 – \$48.8 million) comprised of \$33.2 million at fixed rates ranging from 5.04 to 5.12 per cent and \$9 million at a floating rate currently at 1.36 per cent. All outstanding loans are scheduled to be repaid by March 2016.

School boards have been provided loans under various programs beginning in 2006. During the year ended March 31, 2011, school boards were provided with additional loans and made two semi-annual blended payments of principal and interest, leaving the total outstanding amount at \$4,030 million (2010 – \$2,622 million). These loans bear interest ranging from 3.59 to 5.38 per cent and mature from 2031 to 2036.

Committed Credit Facilities:

At the direction of the Province, the OFA has committed to finance a number of public bodies for which funds have not yet been advanced. The details are as follows:

The Algonquin College of Applied Arts and Technology, a Crown Agency established under the Ontario Colleges of Applied Arts and Technology Act, 2002, was provided a \$22 million non-revolving loan credit facility expiring on July 31, 2012 to finance the Student Commons at the Woodroffe Campus. The college has not utilized this credit facility.

The Deposit Insurance Corporation of Ontario (DICO) was provided a maximum \$250 million revolving credit facility expiring on Oct 31, 2013 to ensure DICO's capacity to address systemic difficulties in the credit union system or the failure of large institutions that require resources above those in the Deposit Insurance Reserve Fund which is currently valued at approximately \$97 million. All principal and interest is required to be repaid by December 31, 2024. DICO has not utilized this credit facility.

7. INVESTMENT AND DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides services to agencies, related parties and other public bodies including investment management services as listed below in return for fees amounting to \$305,000 for the year ended March 31, 2011 (2010 – \$183,000). Funds managed on behalf of these other public bodies were \$3.1 billion at March 31, 2011 (2010 – \$3.1 billion).

Deposit Insurance Corporation of Ontario
Infrastructure Ontario
Northern Ontario Heritage Fund
Ontario Capital Growth Corporation
Ontario Immigrant Investor Corporation

Ontario Realty Corporation
Ontario Securities Commission
Ontario Trillium Foundation
Pension Benefits Guarantee Fund

8. DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides debt management services on a cost recovery basis to agencies and related parties as set out below:

Agencies:

Ontario Electricity Financial Corporation (OEFC)

The OFA provides financial services and advice on a cost recovery basis to OEFC and manages its debt portfolio of approximately \$27.1 billion.

Infrastructure Ontario (IO)

The OFA provides financial services and advice on a cost recovery basis to IO and manages its debt of \$3.1 billion including loans from the Province, a provincial agency and third parties.

Total costs recovered and receivables outstanding at March 31, 2011 are set out below:

(in thousands of dollars)

	March 31, 2011	March 31, 2010
Costs Recovered:		
Agencies:		
OEFC	\$ 3,693	\$ 3,621
IO	1,075	1,073
Other (Note 7)	305	183
Total	\$ 5,073	\$ 4,877
Receivables:		
Agencies:		
OEFC	\$ 923	\$ 905
IO	270	268
Other (Note 7)	81	81
Related parties (Note 6)	639	420
Total	\$ 1,913	\$ 1,674

9. FUTURE EMPLOYEE BENEFITS

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan established by the Province of Ontario. The Ministry of Government Services (MGS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGS and is not reported in these financial statements.

10. CONTINGENCIES AND COMMITMENTS

At March 31, 2011, there were no claims under which the OFA would be financially liable. The Province continues to guarantee the term deposits issued by the Province's Savings Office prior to 2003.

11. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the financial statement presentation adopted for the 2010–11 fiscal year.

Ontario French-language Educational Communications Authority (OFLECA)

Management's Report

The financial statements of the Ontario French-language Educational Communications Authority (OFLECA) are the responsibility of the Authority's management and have been examined and approved by its Board of Directors. These financial statements were prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts that were based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

The Authority maintains internal control systems designed to ensure that financial information is relevant and reliable and that assets are safeguarded.

Management recognizes its responsibility for conducting the Authority's affairs in a manner that complies with the requirements of applicable laws and accepted financial standards and principles and for maintaining proper standards of conduct in its activities.

The Board of Directors supervises the financial statements and other financial information through its audit committee, which is comprised solely of non-management directors.

This committee's role is to examine the financial statements and recommend them for approval to the Board of Directors, to examine the internal control and information protection systems and all other matters relating to the Authority's accounting and finances. In order to do so, the audit committee meets periodically with the independent auditors, either with or without the Authority's management, to review respective audit plans and discuss the results of their examinations. This committee is responsible for recommending the appointment of independent auditors or the renewal of their engagement.



Glenn O'Farrell
Chief Executive Officer



Johanne Joly, CMA
Chief Financial Officer

Toronto, Ontario
June 24, 2011

Independent Auditor's Report

To the Board of Directors of the
Ontario French-language Educational Communications Authority

We have audited the accompanying financial statements of the Ontario French-language Educational Communications Authority, which comprise the statement of financial position as at March 31, 2011 and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of a significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario French-language Educational Communications Authority as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton S.E. N.C. R. L.

Chartered Accountants,
Licensed Public Accountants

Ottawa, Ontario
June 24, 2011

Ontario French-language Educational Communications Authority (OFLECA) Operations

Year ended March 31, 2011

	<u>2011</u>	<u>2010</u>
	\$	\$
REVENUE		
Contributions		
Government operating grants (Note 13)	16,965,000	15,956,946
Corporate and government funding (Note 14)	6,428,140	5,107,343
Other revenue (Note 15)	3,626,269	3,057,830
Amortization of deferred contributions - broadcast rights (Note 11)	1,411,287	973,344
Amortization of deferred contributions - capital assets (Note 12)	2,717,264	2,634,393
	<u>31,147,960</u>	<u>27,729,856</u>
EXPENSES		
Content and programming	18,087,555	15,474,087
Production and technology	6,566,831	5,355,894
Administration	2,700,289	2,955,277
Amortization of capital assets	2,843,279	2,743,793
Employee future benefits (Note 8)	700,430	617,500
Write-down of capital assets		106,510
	<u>30,898,384</u>	<u>27,253,061</u>
Excess of revenue over expenses	<u>249,576</u>	<u>476,795</u>

The accompanying notes are an integral part of the financial statements and Note 4 provides other information on operations.

Ontario French-language Educational Communications Authority (OFLECA) Changes in Net Assets

Year ended March 31, 2011

	2011					2010
	Invested in Capital Assets	Invested in Broadcast Rights	Restricted Accrued Pension Asset	Internally Restricted - TVOntario Foundation	Unrestricted	Total
	\$	\$	\$	\$	\$	\$
BALANCE, BEGINNING OF YEAR	387,924	9,846,973	126,600	1,519,008	616,057	12,496,562
Excess (deficiency) of revenue over expenses	(126,015)	(4,949,270)	(700,430)		6,025,291	249,576
Net acquisition of capital assets	(41,115)				41,115	
Net investment in broadcast rights		4,126,174			(4,126,174)	
Contributions to the pension plan			786,330		(786,330)	
Restriction - pension fund (Note 6)			249,576		(249,576)	
BALANCE, END OF YEAR	<u>220,794</u>	<u>9,023,877</u>	<u>462,076</u>	<u>1,519,008</u>	<u>1,520,383</u>	<u>12,746,138</u>

The accompanying notes are an integral part of the financial statements.

Ontario French-language Educational Communications Authority (OFLECA) Cash Flows

Year ended March 31, 2011

	2011	2010
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses	249,576	476,795
Non-cash items		
Net changes in working capital items (Note 3)	3,116,883	(488,557)
Write-down of capital assets		106,510
Employee future benefits	48,300	85,700
Amortization of capital assets	2,843,279	2,743,793
Amortization of deferred contributions - capital assets	(2,717,264)	(2,634,393)
Amortization of deferred contributions - broadcast rights	(1,411,287)	(973,344)
Amortization of broadcast rights	6,360,557	5,724,202
Cash flows from operating activities	<u>8,490,044</u>	<u>5,040,706</u>
INVESTING ACTIVITIES		
Acquisition of capital assets	(1,137,338)	(1,175,904)
Acquisition of broadcast rights	(6,465,909)	(7,074,240)
Cash flows used in investing activities	<u>(7,603,247)</u>	<u>(8,250,144)</u>
FINANCING ACTIVITIES		
Transition funds received		500,000
Grant - programming	3,419,000	2,000,000
Capital grant	1,150,000	30,000
Cash flows from financing activities	<u>4,569,000</u>	<u>2,530,000</u>
Net increase (decrease) in cash	<u>5,455,797</u>	<u>(679,438)</u>
Cash, beginning of year	6,498,506	7,177,944
Cash, end of year	<u><u>11,954,303</u></u>	<u><u>6,498,506</u></u>
CASH REPRESENTED BY		
Unrestricted cash	5,016,261	2,379,587
Restricted cash (Note 6)	6,938,042	4,118,919
	<u><u>11,954,303</u></u>	<u><u>6,498,506</u></u>

The accompanying notes are an integral part of the financial statements.

Ontario French-language Educational Communications Authority (OFLECA)

Financial Position

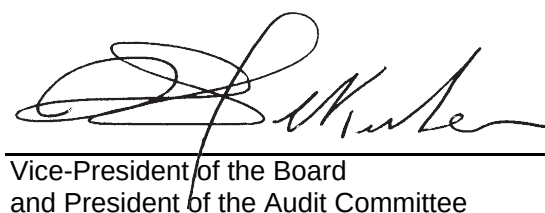
As at March 31, 2011

	2011	2010
	\$	\$
ASSETS		
Current assets		
Cash	5,016,261	2,379,587
Accounts receivable (Note 5)	4,445,723	3,292,330
Prepaid expenses	184,195	251,813
	<u>9,646,179</u>	<u>5,923,730</u>
Restricted cash (Note 6)	6,938,042	4,118,919
Broadcast rights (Note 7)	12,955,106	12,849,754
Accrued pension assets (Note 8)	212,500	126,600
Capital assets (Note 9)	13,649,231	15,355,172
	<u>43,401,058</u>	<u>38,374,175</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	5,844,371	3,079,407
Deferred contributions	2,853,460	1,415,766
	<u>8,697,831</u>	<u>4,495,173</u>
Employee future benefits (Note 8)	1,101,700	967,500
Deferred contributions - broadcast rights (Note 11)	5,667,494	3,659,781
Deferred contributions - capital assets (Note 12)	15,187,895	16,755,159
	<u>30,654,920</u>	<u>25,877,613</u>
NET ASSETS		
Invested in capital assets	220,794	387,924
Invested in broadcast rights	9,023,877	9,846,973
Restricted - accrued pension asset	462,076	126,600
Internally restricted - TVOntario Foundation	1,519,008	1,519,008
Unrestricted	1,520,383	616,057
	<u>12,746,138</u>	<u>12,496,562</u>
	<u>43,401,058</u>	<u>38,374,175</u>

The accompanying notes are an integral part of the financial statements.

On behalf of the Board,


Chair of the Board


Vice-President of the Board
and President of the Audit Committee

Ontario French-language Educational Communications Authority (OFLECA)

Notes to Financial Statements

March 31, 2011

1 - GOVERNING STATUTES AND PURPOSE OF THE AUTHORITY

The Ontario French-language Educational Communications Authority (the Authority) is a Crown corporation created by a decree on April 1st, 2007. The Authority, an independent French language broadcasting network, is a charitable organization and therefore exempt of income taxes. The Authority's main objectives are to provide French language educational broadcasting and telecommunications to the general public, to provide for the francophone community's interests and needs, and to develop the knowledge and skills of this community.

2 - ACCOUNTING POLICIES

Basis of presentation

The financial statements are prepared using the historical cost method, except for certain financial instruments accounted for at fair market value. No information on the fair market value is presented when the carrying amount is a reasonable approximation of the fair market value.

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Authority may undertake in the future. Actual results may differ from these estimates.

Revenue recognition

Contributions

The Authority follows the deferral method of accounting for contributions.

Under this method, contributions restricted for future period expenses are deferred and are recognized as revenue in the year in which the related expenses are incurred. 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.

Subscriptions

Revenue gained from signal subscriptions is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Ontario French-language Educational Communications Authority (OFLECA) Notes to Financial Statements

March 31, 2011

2 - ACCOUNTING POLICIES (Continued)

Financial assets and liabilities

The Authority has chosen to apply the recommendations of Section 3861, "Financial Instruments – Disclosure and Presentation", of the *Canadian Institute of Chartered Accountants' Handbook* with respect to the presentation and disclosure of financial instruments.

On initial recognition, all financial assets and liabilities are measured and recognized at their fair value. Transaction costs from available-for-sale financial assets and held-to-maturity investments increase the carrying amount of the related financial assets. Regular-way purchases or disposals of financial assets are recognized at the transaction date.

Subsequently, financial assets and liabilities are measured and recognized as follows.

Held-for-trading financial assets

Cash is classified as a held-for-trading financial asset and is measured at fair value.

Loans and receivables and other financial liabilities

Accounts receivable are classified as loans and receivables. Accounts payable are classified as other financial liabilities. These financial instruments are measured at amortized cost using the effective interest method (including any impairment in the case of financial assets).

Impairment of long-lived assets

The Authority tests capital assets and broadcast rights for impairment when events or changes in situations indicate that the carrying amount may not be recoverable. The carrying amount of long-lived assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets. In such a case, an impairment loss is recognized and is measured at the amount by which the carrying amount of the long-lived assets exceeds their fair value.

Amortization

Capital assets are amortized over their estimated useful lives according to the straight-line method over the following periods:

	Period
Transmitters	17 years
Transmitter monitoring equipment	7 years
Technical equipment	7 years
Computer equipment	5 years
Office furniture and equipment	15 years
Leasehold improvements	Lease term of 10 years

Ontario French-language Educational Communications Authority (OFLECA) Notes to Financial Statements

March 31, 2011

2 - ACCOUNTING POLICIES (Continued)

Broadcast rights and production costs

Broadcast rights and production costs are accounted for as follows:

Current productions and promotional programs are recognized as expenses as costs are incurred.

All the other programs produced by the organization and under co-production, pre-purchase, and acquisition contracts are accounted for at cost and are amortized over a period of four years on a straight-line basis.

Pension and other post-retirement benefit plans

The Authority accrues its obligations under employee defined benefit plans, net of the fair value of plan assets. In order to do so, the organization has adopted the following policies:

- The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service. This determination incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- An actuarial gain (loss) arises from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 11 years. The average remaining service period of the active employees covered by the other retirement benefit plan is 15 years.

Foreign currency translation

Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the balance sheet date, whereas other assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenue and expenses in foreign currency are translated at the average rate in effect during the year, with the exception of revenue and expenses relating to non-monetary assets and liabilities, which are translated at the historical rate. Exchange gains or losses on financial assets and liabilities are recognized in operations.

Ontario French-language Educational Communications Authority (OFLECA)

Notes to Financial Statements

March 31, 2011

2 - ACCOUNTING POLICIES (Continued)

Contributions received in the form of supplies and services

The Authority accounts for the contributions received in the form of supplies and services when the fair value of these contributions can be reasonably estimated, and when the organization should have obtained the supplies and services for its regular operations in another way.

Cash and cash equivalents

The policy of the Authority is to present investments with a term equal to or less than three months in cash and cash equivalents.

Excess financing

Government ministries can require the reimbursement of any excess funding. All such reimbursements will be accounted for in the financial year in which they occur.

3 - INFORMATION INCLUDED IN CASH FLOWS

Changes in working capital items are as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Accounts receivable	(1,153,393)	(1,429,203)
Prepaid expenses	67,618	44,933
Accounts payable and accrued liabilities	2,764,964	(265,491)
Deferred contributions	1,437,694	1,161,204
	<u>3,116,883</u>	<u>(488,557)</u>

4 - INFORMATION INCLUDED IN OPERATIONS

	<u>2011</u>	<u>2010</u>
	\$	\$
Amortization of broadcast rights	6,360,557	5,724,202
Exchange loss	6,288	22,454

5 - ACCOUNTS RECEIVABLE

	<u>2011</u>	<u>2010</u>
	\$	\$
Governments	2,404,669	2,545,290
Subscriptions	421,350	268,264
Commodity taxes	943,422	
Others	676,282	478,776
	<u>4,445,723</u>	<u>3,292,330</u>

Ontario French-language Educational Communications Authority (OFLECA)

Notes to Financial Statements

March 31, 2011

6 - RESTRICTED CASH

	2011	2010
	\$	\$
Restricted cash for capital renewal (a)	1,759,458	1,759,458
Restricted cash - Pension and other retirement benefits (b)	849,576	
Restricted cash - TVOntario Foundation (c)	1,519,008	1,519,008
Restricted cash for the acquisition of subtitling	360,000	
Restricted cash for the acquisition of broadcast rights	2,000,000	812,000
Restricted cash for the acquisition of capital assets		28,453
Restricted cash for the acquisition of training services	300,000	
Restricted cash - transition	150,000	
	<u>6,938,042</u>	<u>4,118,919</u>

(a) A portion of the funding received annually can be set aside to ensure that the Authority's technical capital assets keep pace with technological changes and can be maintained or replaced

(b) During the year, the Authority chose to restrict the period's surplus for additional contributions to the pension fund. These contributions will be paid in the 2011-2012 fiscal year.

(c) During the 2008-2009 fiscal year, the Authority decided to restrict contributions obtained from the dissolution of the TVOntario Foundation, which were received during a previous year. To this effect, these restricted funds may be used for purposes determined by the Board of directors from time to time, and only with the approval of the Board.

7 - BROADCAST RIGHTS

	2011		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Broadcast rights and completed productions	30,251,062	20,109,943	10,141,119
Work in progress	2,813,987		2,813,987
	<u>33,065,049</u>	<u>20,109,943</u>	<u>12,955,106</u>

	2010		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Broadcast rights and completed productions	22,821,993	13,749,386	9,072,607
Work in progress	3,777,147		3,777,147
	<u>26,599,140</u>	<u>13,749,386</u>	<u>12,849,754</u>

Ontario French-language Educational Communications Authority (OFLECA) Notes to Financial Statements

March 31, 2011

8 - PENSION AND OTHER RETIREMENT BENEFIT PLANS

Description of pension and other retirement benefit plans

The Authority has a number of funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension, other retirement and post-employment benefits to most of its employees.

The pension plan to which most of the Authority's employees contribute is made up of two components. The first component consists of a defined benefit plan entirely funded by the Authority. According to this plan, pension benefits are based on the number of years of service and the employee's salary at the end of his or her career. Every year, the pension benefits are grossed-up in accordance with the rate of inflation, up to a maximum of 3%. The second component consists in defined contribution plan, with contributions paid by both the Authority and the participants. Other retirement benefit plans are contributory health care, dental and life insurance plans.

Total cash payments

Cash payments made for future employee benefits, consisting of cash contributed by the Authority to its funded pension plan, cash payments directly to beneficiaries on account of its unfunded other benefits plan, and cash contributed to its defined contribution plans, amounted to \$736,800 (\$830,300 in 2010).

Defined benefit plans

The Authority measures its accrued benefit obligations and the fair value of the plan assets as at March 31 of each year. The most recent actuarial evaluation of the pension plan, for funding purposes was as of March 31, 2010, and the next required evaluation will be as of March 31, 2013.

Reconciliation of the funded status of the benefit plan to amounts recorded in the financial statements

	2011	
	Pension benefit plan	Other benefit plans
	\$	\$
Accrued benefit obligations	8,427,900	999,200
Fair value of the plan assets	8,364,700	
Funded status of plans - plan deficit	(63,200)	(999,200)
Unamortized actuarial loss (gain)	275,700	(102,500)
Accrued pension asset (liability)	212,500	(1,101,700)

Ontario French-language Educational Communications Authority (OFLECA)

Notes to Financial Statements

March 31, 2011

8 - PENSION AND OTHER RETIREMENT BENEFIT PLANS (Continued)

	2010	
	Pension benefit plan	Other benefit plans
	\$	\$
Accrued benefit obligations	7,063,600	1,018,500
Fair value of the plan assets	7,449,900	
Funded status of plans - plan surplus (deficit)	386,300	(1,018,500)
Unamortized actuarial (gain) loss	(259,700)	51,000
Accrued pension asset (liability)	126,600	(967,500)

Plan asset components

At the measurement date, i.e. March 31 each year, the plan assets consist of the following:

	2011	2010
	%	%
Asset category		
Equity securities	61	62
Debt securities	34	36
Other	5	2
	100	100

Employee future benefit costs recognized in the year and benefits paid

	2011	
	Pension benefit plan	Other benefit plans
	\$	\$
Employee future benefits costs recognized	494,700	146,200
Benefits paid	325,900	12,500

	2010	
	Pension benefit plan	Other benefit plans
	\$	\$
Employee future benefits costs recognized	491,000	133,100
Benefits paid	117,900	6,600

Ontario French-language Educational Communications Authority (OFLECA) Notes to Financial Statements

March 31, 2011

8 - PENSION AND OTHER RETIREMENT BENEFIT PLANS (Continued)

Significant Assumptions

The significant assumptions used are as follows (weighted-average):

	2011	
	<u>Pension benefit plan</u>	<u>Other benefit plans</u>
	%	%
Accrued benefit obligations		
Discount rate	6.00	6.00
Rate of compensation increase	3.50	4.00
Benefit costs		
Discount rate	6.50	6.50
Expected long-term rate of return on plan assets	5.75	
Rate of compensation increase	4.00	4.00
		2010
	<u>Pension benefit plan</u>	<u>Other benefit plans</u>
	%	%
Accrued benefit obligations		
Discount rate	6.50	6.50
Rate of compensation increase	4.00	4.00
Benefit costs		
Discount rate	7.25	7.25
Expected long-term rate of return on plan assets	5.75	
Rate of compensation increase	4.00	4.00

Assumed health care cost trend rates are based on the following:

	2011	2010
Initial health care cost trend rate	8.76%	9%
Cost trend rate declines to	4.5%	4.5%
Year that the rate reaches the rate it is assumed to remain at	2030	2030

Defined contribution plan

The total expense recognized in relation with the defined contribution plan amounts to \$242,100 (\$291,900 in 2010).

Ontario French-language Educational Communications Authority (OFLECA)

Notes to Financial Statements

March 31, 2011

9 - CAPITAL ASSETS

	2011		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Transmitters	118,714	118,714	
Transmitter monitoring equipment	910,683	816,801	93,882
Technical equipment	10,218,036	3,827,805	6,390,231
Computer equipment	5,029,619	2,468,027	2,561,592
Office furniture and equipment	1,100,437	197,361	903,076
Leasehold improvements	5,044,773	1,344,323	3,700,450
	<u>22,422,262</u>	<u>8,773,031</u>	<u>13,649,231</u>
	2010		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Transmitters	118,714	118,714	
Transmitter monitoring equipment	910,683	798,477	112,206
Technical equipment	9,621,251	2,429,552	7,191,699
Computer equipment	4,528,478	1,616,577	2,911,901
Office furniture and equipment	1,092,297	124,469	967,828
Leasehold improvements	5,013,501	841,963	4,171,538
	<u>21,284,924</u>	<u>5,929,752</u>	<u>15,355,172</u>

10 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
	\$	\$
Accounts payable	5,210,305	2,378,064
Accrued wages and benefits	634,066	573,242
Other		128,101
	<u>5,844,371</u>	<u>3,079,407</u>

11 - DEFERRED CONTRIBUTIONS - BROADCAST RIGHTS

	2011	2010
	\$	\$
Balance, beginning of year	3,659,781	1,523,500
Add:		
Projects related to broadcast rights	1,419,000	1,299,625
Grant - programming (Note 13)	2,000,000	1,810,000
Less:		
Amortization	1,411,287	973,344
Balance, end of year	<u>5,667,494</u>	<u>3,659,781</u>

Ontario French-language Educational Communications Authority (OFLECA) Notes to Financial Statements

March 31, 2011

12 - DEFERRED CONTRIBUTIONS - CAPITAL ASSETS

	2011	2010
	\$	\$
Balance, beginning of year	16,755,159	18,881,498
Add:		
Contributions deferred during the current year (Note 13)	1,150,000	508,054
Less:		
Amortization	2,717,264	2,634,393
Balance, end of year	15,187,895	16,755,159

13 - CONTRIBUTIONS - GOVERNMENT OPERATING GRANTS

	2011	2010
	\$	\$
Provincial		
Ministry of Education		
- Base grant	16,200,000	15,900,000
- Grant - programming	2,000,000	2,000,000
- Transition funds	300,000	500,000
- Capital grant	1,000,000	30,000
- HD Signal	765,000	
- Retirement benefit plans	600,000	
- Training	300,000	
- Subtitling	360,000	
Less:		
Deferred contributions - broadcast rights (Note 11)	(2,000,000)	(1,965,000)
Deferred contributions - capital assets (Note 12)	(1,150,000)	(508,054)
Deferred contributions - retirement benefit plans	(600,000)	
Deferred contributions - training	(300,000)	
Deferred contributions - transition	(150,000)	
Deferred contributions - subtitling	(360,000)	
	16,965,000	15,956,946

Ontario French-language Educational Communications Authority (OFLECA)

Notes to Financial Statements

March 31, 2011

14 - CONTRIBUTIONS - CORPORATE AND GOVERNMENT FUNDING

	2011	2010
	\$	\$
Provincial projects		
Ministry of Education		
- Early Reading and Early Math	231,920	232,938
- Subtitling		200,000
- Transition		722,924
Project funding	2,593,856	
Funds deferred from previous year	1,802,260	2,858,741
Funds deferred to future years	(1,439,337)	(1,802,260)
	<u>3,188,699</u>	<u>2,212,343</u>
Federal Projects		
Training	497,772	
Official languages program	2,605,000	2,605,000
	<u>3,102,772</u>	<u>2,605,000</u>
Corporate Projects		
Financing received during the year	140,792	290,000
Funds deferred to future years	(4,123)	
	<u>136,669</u>	<u>290,000</u>
	<u>6,428,140</u>	<u>5,107,343</u>

15 - OTHER REVENUE

	2011	2010
	\$	\$
Signal subscriptions	3,085,366	2,937,523
Sale of products	26,305	26,157
Sublease	80,668	77,830
Interest revenue	115,668	16,320
Litigation settlement and other	318,262	
	<u>3,626,269</u>	<u>3,057,830</u>

16 - RELATED PARTY TRANSACTIONS BETWEEN AGENCIES

As sponsor of the Ontario French-language Educational Communications Authority Pension plan, the Authority has undertaken to pay certain costs of the pension plan, including compensation of employees, actuary fees and costs associated with the use of premises and other associated costs.

Ontario French-language Educational Communications Authority (OFLECA) Notes to Financial Statements

March 31, 2011

17 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES, AND FINANCIAL RISKS

Financial risk management objectives and policies

The Authority is exposed to various financial risks resulting from both its operations and its investment activities. The Authority's management manages financial risks.

The Authority does not enter into financial agreements including derivative financial instruments for speculative purposes.

Financial risks

The Authority's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

The carrying amount on the balance sheet of the Authority's cash and accounts receivable, net of any applicable provisions for losses, represents the maximum amount exposed to credit risk.

The Authority's is exposed to concentration risk attributable to cash since it only trades with one financial institution.

Exchange risk

The Authority is exposed to exchange risk due to cash and receivables denominated in US dollars. As at March 31, 2011, cash in US dollars totalled USD \$110,753 (CAD \$107,630) (USD \$60,015 and CAD \$59,138 in 2010) and receivables totalled USD \$Nil (USD \$100,000 and CAD \$98,464 in 2010).

The Authority does not enter into forward exchange contracts to cover its exchange risk exposure.

Liquidity risk

Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents. To ensure that the Authority has the necessary funds to fulfil its obligations, the Authority's management establishes budgets, but does not prepare cash flow forecasts.

Ontario French-language Educational Communications Authority (OFLECA) Notes to Financial Statements

March 31, 2011

18 - CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Authority's capital management objectives are:

- To ensure the Authority's ability to continue as a going concern;
- To fulfil its financial obligations.

The Authority manages its capital by seeking contributions from provincial and federal governments and by restricting a portion of its net assets for specific uses.

In order to maintain or adjust the capital structure, the Authority may adjust the amount of expenses forecasted for the realization of certain of its activities.

19 - COMMITMENTS

The Authority has entered into an operating lease agreement expiring in August 2017 which calls for lease payments of \$7,667,410 for the rental of office space. The minimum lease payments for the next five years are \$1,124,698 in 2012, \$1,177,268 in 2013, \$1,214,818 in 2014, \$1,214,818 in 2015 and \$1,214,818 in 2016. The lease contains a renewal option for two additional periods of five years, which the Authority may exercise by giving a nine-month notice. The Authority has entered into other operating lease agreements expiring in 2014 which call for monthly lease payments of \$104,167 for access to communications services. The minimum lease payments for the next four years are \$1,250,000 in 2012 and 2013 and \$937,500 in 2014.

As at March 31, 2011, the Authority had committed an amount of \$2,791,356 in 2012 and \$238,616 in 2013 to acquire broadcasting rights.

20 - CONTINGENCIES

A lawsuit in the amount of approximately \$1,750,000 has been filed against the Authority with regards to copyrights. It is impossible at this time to estimate the outcome of the claim. As a result, no provision has been recorded in the financial statements.

A grievance have been filed against the Authority on behalf of an ex-employee for undeterminable amounts. In the opinion of management, this grievance is without basis and accordingly no provision has been recorded in this respect.

21 - COMPARATIVE FIGURES

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



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

Independent Auditor's Report

To the Ontario Immigrant Investor Corporation and to the Minister of Economic Development and Trade

I have audited the accompanying financial statements of the Ontario Immigrant Investor Corporation, which comprise the balance sheet as at March 31, 2011, and the statements of operations and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Ontario Immigrant Investor Corporation as at March 31, 2011 and the results of its operations, and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

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

Toronto, Ontario
July 6, 2011

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Ontario Immigrant Investor Corporation

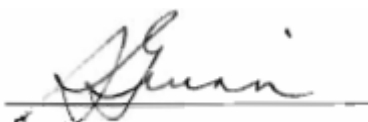
Balance Sheet

As at March 31, 2011

	2011 (\$ 000)	2010 (\$ 000)
ASSETS		
Cash	22,539	3,091
Investments (Note 3)	1,060,961	964,766
Deferred commission charges (Note 6)	34,539	31,293
Accounts receivable	219	—
	<u>1,118,258</u>	<u>999,150</u>
LIABILITIES AND RETAINED EARNINGS		
Liabilities		
Accounts payable	642	506
Repayable Provincial Allocations (Note 5)	1,063,348	929,681
	<u>1,063,990</u>	<u>930,187</u>
Retained Earnings	<u>54,268</u>	<u>68,963</u>
	<u>1,118,258</u>	<u>999,150</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

Ontario Immigrant Investor Corporation

Statement of Operations and Retained Earnings

For the Year Ended March 31, 2011

	2011 (\$ 000)	2010 (\$ 000)
Revenue		
Interest income	36,890	34,673
	<u>36,890</u>	<u>34,673</u>
Expenses (Note 7)		
Amortization of deferred commission charges (Note 6)	14,657	12,880
Investment management fee (Note 3)	2,209	1,973
	<u>16,866</u>	<u>14,853</u>
Net Income	20,024	19,820
Retained earnings, beginning of year	68,963	49,143
Transfer to Consolidated Revenue Fund (Note 4)	<u>(34,719)</u>	<u>—</u>
Retained earnings, end of year	<u>54,268</u>	<u>68,963</u>

See accompanying notes to financial statements.

Ontario Immigrant Investor Corporation

Statement of Cash Flows

For the Year Ended March 31, 2011

	2011 (\$ 000)	2010 (\$ 000)
Cash provided by (used in) operating activities		
Interest received	267	11
Investment Management Fees paid	(2,292)	(1,917)
	<u>(2,025)</u>	<u>(1,906)</u>
Cash (used in) provided by investing and financing activities		
Provincial allocations received net of commissions	240,520	234,719
Provincial allocations repaid	(124,304)	(140,430)
Provincial allocations refunded	(452)	(517)
	<u>115,764</u>	<u>93,772</u>
Investments matured	266,322	212,585
Investments purchased	(325,894)	(301,878)
	<u>(59,572)</u>	<u>(89,293)</u>
Transfer to Consolidated Revenue Fund (Note 4)	(34,719)	—
Net increase in cash	19,448	2,573
Cash, beginning of year	<u>3,091</u>	<u>518</u>
Cash, end of year	<u>22,539</u>	<u>3,091</u>

See accompanying notes to financial statements.

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2011

1. Nature of Corporation

The Ontario Immigrant Investor Corporation was established as a corporation without share capital on April 30, 1999 pursuant to Ontario Regulation 279/99 made under the *Development Corporations Act*.

The Corporation was established in order to participate in a federal Immigrant Investor Program (IIP). Under the IIP, each participating province established a vehicle to receive and invest immigrant investor dollars for the purposes of creating or continuing employment in Canada in order to foster the development of a strong and viable economy. Each participating province, in turn, guarantees immigrant investors that their investment will be repaid after five years with no interest.

2. Significant Accounting Policies

(A) BASIS OF ACCOUNTING

The financial statements have been prepared by management in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

(B) NET DEBT PRESENTATION

The statement of changes in net debt is not presented since this information is readily apparent from other financial statements.

(C) REVENUE RECOGNITION

Accrued interest is recognized as earned and amounts not yet received are included in the carrying value of investments.

(D) FINANCIAL INSTRUMENTS

The carrying amount of cash and accounts payable approximates fair value due to the short-term maturities of these instruments. Investments are stated at cost plus accrued interest earned to date. The fair value of investments is disclosed in note 3. The repayable provincial allocations are carried at the amounts actually received and have not been discounted to reflect the interest-free nature, or fair value, of the debt.

Due to the nature of these financial instruments, it is management's opinion that the Corporation is not exposed to significant interest rate, currency or credit risks arising from its financial instruments.

(E) 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.

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2011

3. Investments

Prior to February 2011, the Corporation invested all of its allocations in fixed income securities issued by the Province on Ontario, maturing within five years. In general, zero-coupon bonds were purchased to align maturity dates to the Provincial Allocations repayment schedule provided in Note 5. As at March 31, 2011, these fixed income securities had a weighted-average yield of 3.67% (2010—3.71%). Their fair value, based on estimated market prices on March 31, 2011 was \$1,049 million (2010—\$986 million).

In September 2010, in order to satisfy the requirements of the Federal Immigration Investor Program the Corporation approved a new investment strategy to direct a significant portion of allocations received to the Loan Program managed by the Ontario Infrastructure Projects Corporation's (OIPC), a related party. Through its Loan Program, the OIPC helps finance hundreds of infrastructure projects such as the construction of roads, bridges and facilities thereby fostering economic development and job creation.

In December 2010, the Corporation entered into an agreement with OIPC to direct a minimum of \$12.5 million of the allocations to the OIPC monthly, in exchange for promissory notes due five years from the date of the transfer at interest rates equal to the Province's cost of borrowing for similar terms. In February 2011, the Corporation started to advance funds to OIPC, and as at March 31, 2011 the promissory notes had a weighted-average interest rate of 2.99%.

The entire portfolio of investments is managed by the Ontario Financing Authority (OFA), a related party, in accordance with the terms and conditions set out in an agreement signed between the OFA, the Corporation and the Province. The OFA receives an investment management fee of 0.2% of the average par value or face value of the investments outstanding during the year for performing these services.

The investments balance which includes accrued interest is broken down as follows:

	March 31, 2011	March 31, 2010
	(\$ 000)	(\$ 000)
Zero Coupon Bonds	1,029,750	964,766
OIPC Promissory Notes	31,211	—
	<u>1,060,961</u>	<u>964,766</u>

4. Transfer to Consolidated Revenue Fund

In order to satisfy the requirements of the Federal Immigrant Investor Program, on March 30, 2011, the Corporation transferred \$34.7 million in cash to the Consolidated Revenue Fund of the Province of Ontario. This amount represented a return of a portion of the Corporation's retained earnings. The cash is used by the Province to support funding commitments made by the Innovation Development Fund, which is administered by the Ministry of Research and Innovation (a related party) and provides funding to assist innovative companies to develop emerging technology.

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2011

5. Repayable Provincial Allocations

The Corporation incurs long-term obligations from funds received under the federal Immigrant Investor Program in accordance with the terms and conditions set out in an agreement signed in June 1999 between the federal Minister of Citizenship and Immigration and the Corporation. The agreement states that the federal Minister, as agent of the Corporation, receives funds from immigrant investors and transfers Ontario's share of the funds (Provincial Allocation) to the Corporation. The Corporation will repay any Provincial Allocations received without interest at expiry of the Allocation Period, being five years from the date the Provincial Allocation was originally received. An investor's application for permanent residence may be withdrawn by the Investor or denied by the federal government. If this happens, the Provincial Allocation pertaining to the Investor is due and refunded by the Corporation within 90 days of written notification from the investor for repayment. Funds received pertaining to applications still being processed by the federal government are also considered repayable within 90 days.

Pursuant to Order-in-Council 1243/99, the Province guarantees the repayment of the Provincial Allocations when due. The repayment schedule on Provincial Allocations is as follows:

	(\$ 000)
Due 90 days on request	24,093
Due fiscal year 2012	88,999
Due fiscal year 2013	216,109
Due fiscal year 2014	240,387
Due fiscal year 2015	251,278
Due fiscal year 2016	242,482
	<u>1,063,348</u>

6. Deferred Commission Charges

The Corporation pays a commission to intermediaries for introducing new immigrant investors who successfully apply for permanent residence in Ontario under the federal Immigrant Investor program. If the application for permanent residence is withdrawn by the immigrant investor or denied by the federal government, the Corporation recovers the commission in the year when this occurs. The commission is amortized to expense on a straight-line basis over the same period as the related Repayable Provincial Allocations, which is normally five years. Amortization begins in the fiscal year when the allocation related to the commission is received. The deferred charges represent the unamortized balance of the commissions.

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2011

6. Deferred Commission Charges (Continued)

	2011	2010
	(\$ 000)	(\$ 000)
Balance, beginning of year	31,293	26,665
Commissions paid	17,925	17,547
Commissions recovered	(22)	(39)
Amortization	(14,657)	(12,880)
Balance, end of year	<u>34,539</u>	<u>31,293</u>

7. Expenses

Administrative support including accommodation, financial, legal and human resource services is provided by the Ministry of Economic Development & Trade without charge.

8. Capital Disclosures

The Corporation defines its capital as the funds borrowed from immigrant investors recorded as Repayable Provincial Allocations.

Management's objective when managing its capital is to invest its resources in accordance with its investment policy and federal program requirements in order to create or continue employment in Ontario.

9. Accounting Pronouncements

Recently approved standards by the Canadian Institute of Chartered Accountants could have a significant impact on the future financial statements of the Corporation. These new standards, which will be effective for the Corporation's fiscal 2013 financial statements, will require the repayable provincial allocations to be recorded at fair value, and commission charges will have to be charged to net income as incurred because they will no longer meet the definition of an asset.

(INFRASTRUCTURE ONTARIO)

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Infrastructure Ontario have been prepared in accordance with accounting principles for governments 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 and are the responsibility of management.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors oversees management's responsibilities for financial reporting through the Audit Committee. The Audit Committee reviews the financial statements and recommends them to the Board for approval.

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

On behalf of management,



J. David Livingston
President and Chief Executive Officer



Dale M. Lawr
Chief Financial Officer



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Independent Auditor's Report

To the Directors of Ontario Infrastructure Projects Corporation

We have audited the accompanying financial statements of Ontario Infrastructure Projects Corporation, which comprise the statement of financial position as at March 31, 2011, and the statements of operations and accumulated surplus (deficit), statement of changes in net financial assets (debt), and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Infrastructure Projects Corporation as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matters

The financial statements as at March 31, 2010 and for the year then ended, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated June 8, 2010.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Mississauga, Ontario
June 16, 2011

**INFRASTRUCTURE ONTARIO
STATEMENT OF FINANCIAL POSITION**
For the year ended March 31, 2011

(in thousands of dollars)

	2011	2010 Reclassified Note 22
Financial assets		
Cash and cash equivalents (Note 3)	\$ 791,445	\$ 710,882
Accounts receivable and prepaid expense (Note 4)	66,229	35,422
Interest receivable	37,304	21,422
Loans receivables (Note 5)	2,966,816	2,217,442
Project receivables (Note 6)	94,783	67,900
Long-term investments (Note 7)	212,537	246,375
	<u>4,169,114</u>	<u>3,299,443</u>
Liabilities		
Accounts payable and accrued liabilities	21,150	11,191
Interest payable	36,014	26,790
Deferred revenue	12,744	8,299
Commercial paper (Note 8)	739,114	669,804
Debt (Note 9)	3,365,307	2,813,440
	<u>4,174,329</u>	<u>3,529,524</u>
Net financial assets (debt)	(5,215)	(230,081)
Non-financial assets		
Tangible capital assets (Note 10)	2,869	4,336
Deferred project costs (Note 11)	25,676	25,805
Deferred costs on hedging	8,484	3,958
	<u>37,029</u>	<u>34,099</u>
Accumulated surplus (deficit)	\$ 31,814	\$ (195,982)

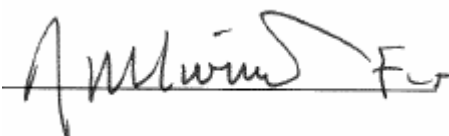
Contingencies (Note 17)

Commitments (Note 18)

See accompanying notes

Approved on behalf of the Board:

Director: 

Director: 

INFRASTRUCTURE ONTARIO
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS (DEFICIT)
For the year ended March 31, 2011
(in thousands of dollars)

	2011	2010 Reclassified Note 22
Project delivery revenue		
Project revenue	\$ 94,294	\$ 56,441
Grant from Ministry of Infrastructure	4,739	5,130
	<u>99,033</u>	<u>61,571</u>
Project delivery expense		
OFA revolving credit facility interest	3,032	3,625
Project advisory costs	44,290	33,177
Salaries and benefits	18,553	16,175
Administration and general	8,439	6,063
	<u>74,314</u>	<u>59,040</u>
Project delivery surplus	<u>24,719</u>	<u>2,531</u>
Loan program revenue		
Investment interest	18,681	10,862
Loan interest	82,058	45,786
Amortization deferred concession costs (Note 5)	11,689	12,218
Grant from Ministry of Infrastructure	527	4,785
	<u>112,955</u>	<u>73,651</u>
Loan program expense		
Interest expense (Note 12)	100,529	63,617
Concession costs	-	3,009
Loan valuation expense (Note 5)	2,190	-
Salaries and benefits	3,061	3,336
Administration and general	3,047	3,313
	<u>108,827</u>	<u>73,275</u>
Loan program surplus	<u>4,128</u>	<u>376</u>
Program revenues	211,988	135,222
Program expenses	<u>183,141</u>	<u>132,315</u>
	28,847	2,907
Restructuring (Note 13)		
Loan remission revenue	200,319	-
Corporate restructuring expenses	(1,370)	-
	<u>198,949</u>	<u>-</u>
Annual surplus	<u>227,796</u>	<u>2,907</u>
Accumulated deficit, beginning of year	<u>(195,982)</u>	<u>(198,889)</u>
Accumulated surplus (deficit), end of year	\$ <u>31,814</u>	\$ <u>(195,982)</u>

See accompanying notes

INFRASTRUCTURE ONTARIO
STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)
For the year ended March 31, 2011
(in thousands of dollars)

	2011	2010 Reclassified Note 22
Annual surplus	\$ <u>227,796</u>	\$ <u>2,907</u>
(Acquisition)/disposal of tangible capital assets	650	(897)
Amortization of tangible capital assets	<u>817</u>	<u>1,115</u>
	<u>1,467</u>	<u>218</u>
Net deferred project and hedging costs	<u>(4,397)</u>	<u>(5,620)</u>
Net change in net financial assets (debt)	224,866	(2,495)
Net financial assets (debt) at beginning of year	<u>(230,081)</u>	<u>(227,586)</u>
Net financial assets (debt) at end of year	\$ <u><u>(5,215)</u></u>	\$ <u><u>(230,081)</u></u>

See accompanying notes

INFRASTRUCTURE ONTARIO
STATEMENT OF CASH FLOWS
For the year ended March 31, 2011
(in thousands of dollars)

	2011	2010 Reclassified Note 22
Operating transactions		
Net surplus	\$ 227,796	\$ 2,907
Items not requiring a current cash outlay:		
Loan remission revenue	(200,319)	-
Concession costs	-	3,009
Amortization of deferred concession costs	(11,689)	(12,218)
Other amortization	1,128	(10,374)
	<u>16,916</u>	<u>(16,676)</u>
Changes in non-cash working capital items:		
Increase in accounts and interest receivables and prepaid expenses	(46,689)	(9,966)
Increase (decrease) in accounts and interest payables	23,628	(2,001)
Decrease (increase) in project receivables and deferred project costs	(26,754)	6,571
Cash provided by operating transactions	<u>(32,899)</u>	<u>(22,072)</u>
Investing transactions		
Net increase in loans receivables	(737,684)	(574,895)
Disposal (acquisition) of tangible capital assets	650	(897)
Cash provided by investing transactions	<u>(737,034)</u>	<u>(575,792)</u>
Financing transactions		
Net debt issued	816,658	576,732
Net change in long term investments	33,838	(43,370)
Cash provided by financing transactions	<u>850,496</u>	<u>533,362</u>
Net (decrease) increase in cash and cash equivalents	80,563	(64,502)
Cash and cash equivalents, beginning of the year	<u>710,882</u>	<u>775,384</u>
Cash and cash equivalents, end of the year	\$ <u>791,445</u>	\$ <u>710,882</u>

See accompanying notes

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

BACKGROUND

On November 7, 2005, the government established the Ontario Infrastructure Projects Corporation (Infrastructure Ontario) to implement Ontario's major infrastructure projects using alternative financing and procurement (AFP) methods.

On July 17, 2006 pursuant to the Ontario Infrastructure Projects Corporation Act, 2006 ("OIPC Act") Infrastructure Ontario and the Ontario Strategic Infrastructure Financing Authority (OSIFA) were amalgamated and continued as a corporation without share capital under the name of Ontario Infrastructure Projects Corporation.

Infrastructure Ontario is a Crown agency and reports to the Minister of Infrastructure. Pursuant to the OIPC Act, the objects of Infrastructure Ontario include the following:

- To provide financing for municipalities, universities and other public bodies in the Province of Ontario as may be specified by regulation.
- To obtain funding to finance its activities.
- To provide on a cost effective and timely manner, project and contract management of large complex infrastructure projects in the province of Ontario assigned to the corporation by the Minister.
- Where requested by the Minister, provide financial and execution advice in respect of assets or interests of the Government and implement or assist in the implementation of transactions in respect of such assets or interests.
- To undertake any additional objects as directed by the Lieutenant Governor in Council.

As a Crown corporation, Infrastructure Ontario is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act of Canada. Infrastructure Ontario has been added to Schedule A of the Canada Ontario Reciprocal Taxation Agreement and is exempt from the Goods and Services Tax. As of July 1, 2010, Infrastructure Ontario is subject to Harmonized Sales Tax (HST).

1. SIGNIFICANT ACCOUNTING POLICIES**Basis of accounting**

These financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) as recommended in the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants (CICA).

Management estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from these estimates.

Key areas where management has made estimates are in the percentage of completion on project revenues and costs and the loan portfolio valuation allowance. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

Revenue recognition

Grants

Infrastructure Ontario receives grant revenue from the Ministry of Infrastructure (MOI) in relation to in-year corporate expenses. The grant is recorded as unearned revenue until the corporate expenses have been incurred. Once the corporate expenses are incurred, the grant is recognized as revenue.

Fees for Services

Infrastructure Ontario provides professional services under either cost based or fixed price contracts. For cost based contracts, revenue is recorded as costs are incurred. Revenue from fixed price contracts is recorded using the percentage-of-completion method. Percentage of completion is calculated based on a ratio of cost incurred to total estimated costs for projects that have reached the construction phase. Losses, if any, on fixed price contracts are recognized during the period they are identified.

Project Advisory

Revenue relating to reimbursable costs for fixed price contracts are recorded when the projects reach the construction phase. All other recoverable costs are recognized as revenue when incurred.

Loan Program

Interest on investments and loans receivable are recognized using the effective interest rate method.

Deferred Project Costs

Deferred project costs represent direct and overhead costs attributable to projects that have not yet reached the construction phase. The pre-construction costs include legal advisors, technical advisors, staff costs and administrative overhead and interest.

Loans receivable

Loans receivable are stated at their estimated net realizable value.

Loans with concessionary terms are discounted using Infrastructure Ontario's cost of borrowing to determine the present value of the loan. The difference between the face value of the loan and its present value is, in substance, a grant. Only the 2003-04 program loans were issued with concessionary terms. Loans with concessionary terms are recorded at face value discounted by the amount of the grant portion. The grant portion is recognized as a concession cost at the date of issuance of the loan and amortized to match the underlying interest subsidy, over the term of the loan.

Loan portfolio valuation allowance

The loan portfolio valuation allowance is maintained at a level that Infrastructure Ontario considers adequate to absorb valuation adjustments and losses on loans. The valuation allowance consists of a general allowance which is reviewed on a regular basis.

The valuation allowance is established against the loan portfolio where prudent assessment by Infrastructure Ontario of existing economic, industry and portfolio conditions indicate that valuation may be impaired or losses occur. The valuation allowance is underpinned by a risk rating process in which risk ratings are assigned at the time of loan origination, monitored on an ongoing basis, and adjusted to reflect changes in underlying credit risk. A number of factors are considered

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

when determining the appropriate level of the valuation allowance, including sensitivity to risk ratings, industry sectors, portfolio quality, business mix, and economic and credit market conditions.

Accounting for Derivatives

Infrastructure Ontario is exposed to interest rate fluctuations during the period between the issuance of long term debt and providing financing to public bodies. To manage this interest rate risk, Infrastructure Ontario utilizes financial instruments with similar characteristics to a hedge. Infrastructure Ontario purchases Province of Ontario bonds with similar terms to its long term debt. Infrastructure Ontario has formally documented its risk management objective and strategy, including relationships between the hedging instrument and the hedged item.

The hedging instruments are classified under long-term investments. Gains and losses resulting from hedging activities are deferred and amortized to operations on a straight line basis over the term of the underlying debt, with maturities ranging from June 2013 to June 2041.

Infrastructure Ontario has chosen not to adopt hedge accounting for its interest rate swaps as described in note 2.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and highly liquid investments with a term to maturity of three months or less.

Debt issue costs

Debt issue costs incurred on the sale of Infrastructure Renewal Bonds & Ontario Infrastructure Projects Corporation (OIPC) Bonds are netted against the related debt and are being amortized on a straight line basis over the life of the bond issues using the effective interest method.

Tangible capital assets

Tangible capital assets are stated at cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful life of the assets beginning in the fiscal year of acquisition, with a half-year provision in the year of acquisition and half-year in the year of disposal. The estimated useful lives of the assets are as follows: computer equipment 3 years, furniture and fixtures 10 years and leasehold improvements 10 years.

2. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

Infrastructure Ontario employs various risk management strategies and operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost effective manner. A variety of strategies are used, including the use of derivative financial instruments ("derivatives"). Infrastructure Ontario does not use derivatives for speculative purposes.

Derivatives are financial contracts, the value of which is derived from underlying instruments. Infrastructure Ontario, being both borrower and lender, uses derivatives to create cash flow hedges for instruments with differing maturity dates. The hedges are created through interest rate swaps, which are legal contracts under which Infrastructure Ontario agrees with another party to exchange cash flows based on one or more notional amounts using stipulated reference interest rates for a specified period. Swaps allow Infrastructure Ontario to offset its existing loan receivables and debt obligations and thereby effectively convert them into instruments with more desirable

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

characteristics. Infrastructure Ontario has swapped certain of its fixed rate loan receivables and fixed rate debt portfolio into floating rate instruments. Swap interest charges are netted against Loan Program revenue.

All swap transactions have been completed with the Ontario Financing Authority (“OFA”) as the contracting party. The OFA has the option at certain dates within the swap period to reset an individual swap and a cash settlement or receipt may result, however the resetting does not affect the effectiveness of the swap transaction. The OFA, as intermediary, has entered into concurrent contracts with third party financial institutions under the same terms and bears the credit risk of the swap transactions.

The table below presents a maturity schedule of Infrastructure Ontario’s derivatives, outstanding as at March 31, 2011, based on the notional amounts of the contracts. The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the Balance Sheet. They represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows of such instruments.

Maturity	Within 1 Year	2 to 5 Years	6 to 10 Years	11 to 15 Years	Over 15 Years	Notional Value Total
(\$,000)						
Debt	-	1,123	360	-	458	1,941
Loans Receivable	156	615	678	590	462	2,501

3. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes \$785 million (2010 - \$708 million) of money market investments, recorded at cost which approximates market value. As at March 31, 2011 the interest rates on these investments ranged from 0.95% to 1.36% (2010 - 0.20% to 0.40%).

4. ACCOUNTS RECEIVABLE AND PREPAID EXPENSE

(\$,000)	2011	2010
HST/GST	\$ 4,656	\$ 329
MOI grant	5,265	-
Prepaid expenses	206	-
MOI recoveries – Pan/Parapan American Games	17,090	-
Project recoveries	39,012	35,093
	<u>\$ 66,229</u>	<u>\$ 35,422</u>

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

5. LOANS RECEIVABLES

Infrastructure Ontario assumed the concessionary loan program for municipalities and the infrastructure renewal loan program on the date of amalgamation with OSIFA.

As of March 31, 2011, construction advances of \$460 million are receivable from municipalities, universities, and other public bodies. The interest rate on these construction loans, is one half of the average of Prime and 30 day Bankers' Acceptances on the concessionary program and 30 day Bankers' Acceptances plus ten basis points on the infrastructure renewal program.

A total of \$2.6 billion in debentures receivable is due from municipalities, universities and other public bodies, with terms ranging from 5 to 40 years.

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

(\$,000)	2011		2010	
Construction Advances				
Concessionary loan program	\$ -		\$ 1,300	
Infrastructure renewal loan program	<u>460,325</u>		<u>576,325</u>	
Total construction advances	<u>460,325</u>		<u>577,625</u>	
Debentures		Interest %		Interest %
Concessionary loan program				
Maturity within 5 years	280	1.87 – 2.31	49,170	1.87 - 3.03
6 to 10 years	143,347	2.06 – 2.71	126,883	2.06 - 2.71
11 to 15 years	57,875	2.28 – 2.67	136,170	2.28 - 2.95
16 to 20 years	371,530	2.36 – 2.95	317,238	2.36 - 2.87
Greater than 20 years	<u>75,058</u>	2.52 – 3.05	<u>76,449</u>	2.52 - 3.05
	<u>648,090</u>		<u>705,910</u>	
Infrastructure renewal loan program				
Maturity within 5 years	46,821	1.48 – 5.07	44,587	3.15 - 5.07
6 to 10 years	272,151	2.91 – 5.20	196,732	3.58 - 5.20
11 to 15 years	304,355	3.71 – 5.37	119,156	4.25 - 5.26
16 to 20 years	620,329	3.81 – 5.89	367,868	4.44 - 5.89
Greater than 20 years	<u>715,801</u>	3.97 – 5.91	<u>316,119</u>	4.73 - 5.91
	<u>1,959,457</u>		<u>1,044,462</u>	
Total debentures	<u>2,607,547</u>		<u>1,750,372</u>	
Deferred Costs on Concessionary Loans				
Deferred costs on concessionary loans, beginning of year	(110,555)		(119,764)	
Concession costs current year	-		(3,009)	
Amortization concession costs	<u>11,689</u>		<u>12,218</u>	
Deferred costs on concessionary loans, end of year	<u>(98,866)</u>		<u>(110,555)</u>	
Loan valuation allowance	<u>(2,190)</u>		-	
Total loan receivable	<u>\$ 2,966,816</u>		<u>\$ 2,217,442</u>	

The organization has mitigated its credit risk with the current loan portfolio. Infrastructure Ontario has an intercept mechanism with the Province of Ontario which allows for funds owing to a borrower that receives funding from the Province to be redirected to Infrastructure Ontario. Loans to non-government borrowers are subject to restrictive covenants on assets and the borrower may be required to provide security agreements and loan insurance.

During fiscal 2011, management reviewed its portfolio of loans and determined it prudent to set up a general valuation allowance against the portfolio.

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

6. PROJECT RECEIVABLES

Project recoveries are recognized either when the expense occurs or on a percentage-of-completion method. Certain project recoveries, including interest costs to finance the receivables, will not be billed until the completion of the project. Project receivables are due from various Ontario Ministries.

7. LONG-TERM INVESTMENTS

Long-term investments consist of \$213 million (2010 - \$246 million) of bonds utilized as hedging instruments as described in Note 1, which are carried at cost. As at March 31, 2011 the interest rates on these investments ranged from 3.00% to 5.75% (2010 - 2.50% to 6.10%) and maturities from May 2011 to June 2041.

8. COMMERCIAL PAPER

Infrastructure Ontario issues notes under a commercial paper program. The funds are used for short-term funding requirements including cash management, financing assets and general operating requirements. The program is authorized to issue a maximum of \$750 million for terms of up to one year. During the year, interest on the notes ranged from 1.09% to 1.17% (2010 - 0.26% to 0.30%). As of March 31, 2011, maturities ranged from April 2011 to June 2011.

9. DEBT

(\$,000)	2011	2010
Infrastructure renewal bonds	\$ 1,250,000	\$ 1,250,000
OIPC bonds	1,050,000	350,000
Province of Ontario loan	799,681	1,000,000
Ontario Clean Water Agency loan	120,000	120,000
Ontario Immigrant Investor Corporation loan	31,110	-
OFA Revolving Credit loan	123,000	100,000
	<u>3,373,791</u>	<u>2,820,000</u>
Debt issue costs	(8,484)	(6,560)
Total	\$ 3,365,307	2,813,440

Infrastructure Renewal Bonds

Infrastructure Ontario assumed \$650 million of Infrastructure Renewal Bonds, on the date of amalgamation with OSIFA. The bonds bear interest at 4.60% per annum and mature on June 1, 2015.

On April 19, 2007, Infrastructure Ontario issued \$300 million of Infrastructure Renewal Bonds. The bonds bear interest at 4.70% per annum and mature on June 1, 2037.

On August 26, 2008, Infrastructure Ontario issued \$300 million of Infrastructure Renewal Bonds. The bonds bear interest at 3.95% per annum and mature on June 3, 2013.

OIPC Bonds

Infrastructure Ontario issued various bonds totaling \$1.0 billion to the Province of Ontario for the purpose of funding its loan program. These bonds are subordinated obligations of Infrastructure Ontario and will rank behind all other existing and future unsubordinated obligations and unsecured

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

public debt of Infrastructure Ontario. The bonds bear interest from 2.75% to 4.96% per annum and maturities range from September 2014 to June 2041. Interest is paid semi-annually on these bonds until maturity.

Province of Ontario Loan

The Province of Ontario provided Infrastructure Ontario with a fifty-year subordinated loan of approximately \$800 million (2010 - \$1 billion) in exchange for a promissory note which matures on March 31, 2053. The interest on the note is reset quarterly at the Province's three-month treasury bill rate and payable quarterly. During the year, interest on the note ranged from 0.54% to 1.01% (2010 - 0.22% to 0.42%).

Ontario Clean Water Agency Loan

The Ontario Clean Water Agency (OCWA), an agency of the Province of Ontario, provided a twenty-year subordinated loan of \$120 million to Infrastructure Ontario in exchange for a promissory note which matures on March 1, 2023. The interest on the note is reset monthly, with the interest rate set at four basis points below the average one month Canadian Dollar Offered Rate, payable quarterly. During the year, interest on the note ranged from 0.44% to 1.20% (2010 - 0.36% to 0.60%).

The Province of Ontario and OCWA loans provide: (i) credit protection to investors in unsubordinated debt such as Infrastructure Renewal Bonds and Commercial Paper (ii) a liquidity backstop for Infrastructure Ontario's financing needs; and (iii) a stable long-term capital base that enables Infrastructure Ontario to achieve a high credit rating.

Ontario Immigrant Investor Corporation Loan

Ontario Immigrant Investor Corporation (OIIC), an agency of the Province of Ontario, provided two five-year subordinated loans totaling \$31 million as of March 31, 2011. These loans are subordinated obligations of Infrastructure Ontario and will rank behind all other existing and future unsubordinated obligations and unsecured public debt of Infrastructure Ontario. The loans bear interest from 2.94% to 3.01% per annum and maturities range from January 2016 to February 2016. Interest is paid semi-annually on these loans until maturity.

Revolving Credit Facility

The Ontario Financing Authority (OFA), an agency of the Province of Ontario provides Infrastructure Ontario with a subordinated revolving credit facility of up to \$200 million to provide working capital for AFP projects. Advances are to be repaid upon completion of individual AFP projects. The credit facility must be repaid in full by June 23, 2016. As at March 31, 2011, Infrastructure Ontario has utilized \$123 million (2010 - \$100 million) on the line of credit, with interest at the Province's cost of funds for borrowings with a similar term. Interest charges range from 1.98% to 4.00% (2010 - 2.10% to 4.60%), with maturities from July 2011 to March 2014.

10. TANGIBLE CAPITAL ASSETS

(\$,000)	Cost	Accumulated Amortization	Net 2011	Net 2010
Computer equipment	\$ 3,331	\$ 2,715	\$ 616	\$ 873
Furniture and fixtures	911	433	478	568
Leasehold improvements	3,059	1,284	1,775	2,895
Total	\$ 7,301	\$ 4,432	\$ 2,869	\$ 4,336

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

11. DEFERRED PROJECT COSTS

Deferred project costs represent the accumulation of project expenses incurred for projects that have not yet reached the construction phase. Once the project reaches the milestone, revenue and its related expense will be recognized in that fiscal year.

12. INTEREST EXPENSE

(\$,000)	2011	2010
Commercial Paper	\$ 5,777	\$ 1,705
Infrastructure Renewal Bonds	55,850	55,816
OIPC Bonds	31,915	2,790
Province of Ontario loan	5,811	2,850
Ontario Clean Water Agency loan	1,075	456
Ontario Immigrant Investor Corporation loan	101	-
	\$ 100,529	\$ 63,617

13. RESTRUCTURING

Debt Restructuring

During the year, Infrastructure Ontario was granted a remission of \$200 million on the Province of Ontario loan, which reduced Infrastructure Ontario's obligation on the loan from \$1 billion to approximately \$800 million. The remission was recorded as revenue and a reduction in the Province of Ontario Loan.

Corporate Restructuring

As discussed in Note 21, Subsequent Events, Infrastructure Ontario amalgamated with Ontario Realty Corporation and Stadium Corporation of Ontario Limited effective June 6, 2011, continuing as Ontario Infrastructure and Lands Corporation. Infrastructure Ontario recognized \$1.37 million in costs related to the merger as at March 31, 2011, including severance costs of \$0.67 million and leasehold write offs of \$0.7 million.

14. RELATED PARTY TRANSACTIONS

In addition to the loans from, the OCWA, the Province of Ontario and the OFA, Infrastructure Ontario receives a grant from MOI to cover corporate expenses. In 2011, the total grant was \$5.3 million (2010 - \$9.9 million).

Project costs and recoveries are also undertaken with various Ontario Crown Agencies and Ministries, including the Ministry of Health and Long Term Care, the Ministry of the Attorney General, the Ministry of Children and Youth Services, the Ministry of Government Services, the Ministry of Community Safety and Correctional Services, and the Ministry of Transportation.

Infrastructure Ontario has incurred costs for services of the OFA of \$1.1 million (2010 - \$1.1 million).

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

15. FUTURE EMPLOYEE BENEFITS

The organization provides pension benefits to certain of its full-time employees through participation in the Public Service Pension Plan, which is a multi employer defined benefit plan established by the Province of Ontario. The cost of the pension plan of \$0.2 million (2010 - \$0.2 million) is based on formulas set by the Ontario Pension Board and has been expensed. In addition, for these employees the cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the financial statements.

The organization provides a defined contribution pension plan for all other full-time employees. The organization contributes 5% of the employee's base salary and up to an additional 2.5% of the employee's base salary as a matching contribution to amounts paid to the plan by the employee. The cost of this plan in the year was \$0.9 million (2010 - \$0.9 million).

16. FINANCIAL INSTRUMENTS

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

The organization earns interest on loans receivable, short and long-term investments and pays interest on short and long-term debt. To the extent that these financial instruments mature or reprice at different points in time, the organization is exposed to interest rate risk. Management actively manages the maturities of these financial assets and liabilities to mitigate this risk including utilizing interest rate swap arrangements as detailed in note 2.

17. CONTINGENCIES

Infrastructure Ontario, in the ordinary course and conduct of its business, may be exposed to various legal proceedings. At March 31, 2011, Infrastructure Ontario was not aware of any such proceedings in process.

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

18. COMMITMENTS

On February 10, 2006, the Province announced that the Infrastructure Renewal loan program would now be open for applications from all municipalities on a continuous basis. The loan program was also expanded to help Ontario universities and other public bodies.

(\$,000)		
Program year	Approved Financing	Issued
2004 - 2005	\$ 585,000	\$ 466,000
2005 - 2006	319,000	261,000
2006 - 2007	49,000	40,000
2007 - 2008	449,000	393,000
2008 - 2009	642,000	564,000
2009 - 2010	946,000	739,000
2010 - 2011	699,000	383,000
	\$ 3,689,000	\$ 2,846,000

Infrastructure Ontario is committed to minimum base rent annual payments under operating leases for the next five years as follows:

(\$,000)	
Fiscal year	Amount (\$)
2011 - 2012	577
2012 - 2013	646
2013 - 2014	664
2014 - 2015	664
2015 - 2016	664

19. TRUST FUNDS UNDER ADMINISTRATION

Infrastructure Ontario administers funds as an agent of the Ministry of Children and Youth Services relating to the Roy McMurtry Youth Centre project. The administered funds are a result of an arrangement that enabled Infrastructure Ontario to make the final construction payment to the construction consortium on behalf of the ministry. As of March 31, 2011, the funds under administration are \$0.6 million (2010 - \$2.6 million), which represents the holdback on the payment to the construction consortium. Infrastructure Ontario acts as trustee for this account as specified in the agreement. The funds are excluded from the financial statements of this organization.

Infrastructure Ontario also administers funds as an agent of the Ministry of Community Safety and Correctional Services relating to the Toronto South Detention Centre project. The administered funds are a result of an arrangement that enabled Infrastructure Ontario to make the Toronto Intermittent Centre (TIC) completion payment on behalf of the ministry. As of March 31, 2011, the funds under administration are \$50 million. In April 2011, these funds have been paid to the

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2011

construction consortium. Infrastructure Ontario acts as trustee for this account as specified in the agreement. The funds are excluded from the financial statements of this organization.

Infrastructure Ontario is required by the Canadian Mortgage of Housing Corporation (CMHC) to collect property taxes and reserve funds as a condition of providing affordable housing loans. As part of the CHMC certificate of insurance, the funds need to be set up in a trust account and administered by Infrastructure Ontario. As at March 31, 2011 the funds under administration are \$0.025 million. The funds are excluded from the financial statements of this organization.

20. ECONOMIC DEPENDENCE

Infrastructure Ontario is dependent on the Province of Ontario for the provision of funds to cover operating costs, finance project costs until recovery and to support the concessionary loans provided to municipalities. Based on the Province's support in providing a multi-year commitment for public infrastructure projects and providing a fifty-year loan, Infrastructure Ontario is considered a going concern.

21. SUBSEQUENT EVENTS

Issuance of Debt

Subsequent to year end, Infrastructure Ontario issued OIPC bonds to the Province of Ontario totaling \$160 million (2010 - \$275 million) for the purpose of funding its loan program. The bonds bear interest from 4.14% to 4.60% per annum and maturities range from June 2021 to June 2041. Interest is paid semi-annually on these bonds until maturity.

Subsequent to year end, Ontario Immigrant Investor Corporation (OIIC) provided two more five-year subordinated loans totaling \$24 million. The loans bear interest from 2.99% to 3.05% per annum and maturities from March 2016 to April 2016.

Corporate Restructuring

Legislation to enact the Ontario Infrastructure and Lands Corporation Act, 2011 was proclaimed June 6, 2011, amalgamating the Ontario Infrastructure Projects Corporation, Ontario Realty Corporation and Stadium Corporation of Ontario Limited under the name Ontario Infrastructure and Lands Corporation. Separate audited financial statements have been prepared for Ontario Realty Corporation and Stadium Corporation of Ontario for the year ended March 31, 2011.

22. COMPARATIVE FIGURES

The comparative figures have been reclassified to reflect the current presentation.

**Ministry of
Municipal Affairs
and Housing**Ontario Mortgage and
Housing Corporation777 Bay Street, 2nd Floor
Toronto ON M5G 2E5
Tel: (416) 585-6731
Fax: (416) 585-7330**Ministère des
Affaires municipales
et du Logement**Société ontarienne
d'hypothèques et de logement777, rue Bay, 2^e étage
Toronto ON M5E 2E5
Tél: (416) 585-6731
Télécopieur: (416) 585-7330**Ontario****Ontario Mortgage and
Housing Corporation****Société ontarienne
d'hypothèques et de logement****Management's Responsibility For Financial Statements**

The accompanying financial statements of the Ontario Mortgage and Housing Corporation have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 22, 2011.

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

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

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

On behalf of Management:

Alison Coke
Chief Executive Officer



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

Independent Auditor's Report

To the Ontario Mortgage and Housing Corporation
and to the Minister of Municipal Affairs and Housing

I have audited the accompanying financial statements of the Ontario Mortgage and Housing Corporation, which comprise the statement of financial position as at March 31, 2011, and the statement of operations and accumulated deficit for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Mortgage and Housing Corporation as at March 31, 2011 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Potential Merger

While not impacting my opinion, I draw attention to Note 12 to the financial statements which describes the uncertainty related to the potential merger with the Ontario Mortgage Corporation.

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

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www.auditor.on.ca
Toronto, Ontario
June 22, 2011

ONTARIO MORTGAGE AND HOUSING CORPORATION
Statement of Financial Position
As at March 31

	2011	2010
	(thousands of dollars)	
ASSETS		
Cash	1,020	727
Accrued Interest from Universities & Colleges	256	275
Due from Province of Ontario	11,785	11,975
Investments in Properties (Note 2)	15,852	17,079
	28,913	30,056
Non-Profit Housing Fund (Note 3)	95,790	923,680
	124,703	953,736
LIABILITIES		
Accounts Payable and Accrued Liabilities	12,786	12,699
Current Portion of Long-Term Debt (Note 4)	54,194	51,982
Long-Term Debt (Note 4)	586,792	640,986
	653,772	705,667
Non-Profit Housing Fund (Note 3)	95,790	923,680
ACCUMULATED DEFICIT	(624,859)	(675,611)
	124,703	953,736

CONTINGENT LIABILITIES (Note 5)

See accompanying notes to financial statements

On behalf of the Board:



Janet Hope, Chair



Alison Coke, Chief Executive Officer

ONTARIO MORTGAGE AND HOUSING CORPORATION
Statement of Operations and Accumulated Deficit
For the year ended March 31

	2011	2010
Revenues:	(thousands of dollars)	
Subsidies from Province:		
Debt Service Obligations	95,123	95,946
Interest Differential in Non-Profit Housing Fund (Note 3)	7,195	16,467
Bursary Program (Note 6)	800	1,405
Environmental Remediation (Note 5b)	1,106	65
Interest received from Student Housing	1,062	1,138
Miscellaneous	-	14
Total Revenues	105,286	115,035
Expenses:		
Debentures Interest:		
Devolved Properties	44,368	47,725
Interest Differential in Non-Profit Housing Fund (Note 3)	7,195	16,467
Student Housing	1,062	1,138
Bursary Program (Note 6)	800	1,405
Environmental Remediation (Note 5b)	1,106	65
Miscellaneous	3	14
Total Expenses	54,534	66,814
Excess of Revenues over Expenses (Note 7)	50,752	48,221
Loss on Transfer of Remaining Property	-	(902)
Accumulated Deficit, Beginning of Year	(675,611)	(722,930)
Accumulated Deficit, End of Year	(624,859)	(675,611)

See accompanying notes to financial statements

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

March 31, 2011

NATURE OF OPERATIONS

Under the *Social Housing Reform Act 2000*, the Corporation transferred, for no consideration, ownership of public housing units to Local Housing Corporations (“LHCs”) which are controlled by Municipal Services Managers. The Corporation retained its Investment in Student Housing and certain other assets, and responsibility for administering the Corporation’s debts, the Non-Profit Housing Fund (“NPHF”), and contingent liabilities. The Ontario Ministry of Municipal Affairs and Housing (“the Ministry”) provides the Corporation with subsidies to cover its debt service payments and other expenses.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). Significant accounting policies followed by the Corporation are summarized below:

i. Revenue

Subsidies from the Province are accounted for as revenue, and revenue is recognized when the related expenses are incurred.

ii. Financial Instruments

The Corporation’s financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale, or other financial liabilities. The classification and method of measurement adopted for the Corporation’s financial instruments, including amounts held in the NPHF, are as follows:

- Cash is classified as held-for-trading and is measured at fair value.
- Accrued Interest from Universities and Colleges, amounts due from the Province of Ontario (“the Province”), and Interest Receivable (NPHF – note 3) are classified as loans and receivables and are measured at cost, which due to their short-term nature, approximates their fair values.
- Investments in Properties, Loans to the Province (NPHF – note 3), and Mortgages to Universities and Colleges (NPHF – note 3) are classified as loans and receivables and are measured at amortized cost. Their fair values are disclosed in note 9.
- Accounts Payable and Accrued Liabilities, and Interest Payable (NPHF – note 3) are classified as other financial liabilities and are measured at cost, which due to their short-term nature, approximates their fair value.

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

March 31, 2011

- Long-Term Debt, which consists of loans from the Province and Canada Mortgage and Housing Corporation debentures (note 4), and Canada Pension Plan Investment Fund Debentures (NPHF – note 3) are classified as other financial liabilities and are measured at amortized cost. Their fair values are disclosed in note 9.

iii. Accumulated Deficit

The Accumulated Deficit that resulted from the transfer of properties to LHC's for no consideration is reduced each year by an amount equal to the portion of the subsidy from the Province required to cover principle payments on the Corporation's long-term debt.

iv. Statement of Cash Flows

A statement of cash flows has not been included in these financial statements because the information it would provide is readily apparent from the other financial statements and accompanying notes.

2. INVESTMENTS IN PROPERTIES

The Corporation's investments in properties are as follows:

	2011	2010
	(thousands of dollars)	
Student Housing	15,852	17,079

This investment represents funds advanced to universities and colleges to cover building costs for student accommodation projects. Each advance is associated with a specific long-term debt obligation of the Corporation and each educational institution makes semi-annual payments to the Corporation equal to the payments on the Corporation's corresponding long-term debt. When the debt is fully repaid, title to the properties will be transferred to the respective institutions.

	2011	2010
	(thousands of dollars)	
Original Cost	35,115	35,115
Less: Accumulated Capital Repayments	19,263	18,036
	15,852	17,079

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

March 31, 2011

3. NON-PROFIT HOUSING FUND

The Province authorized the Corporation to borrow funds from the Canada Pension Plan ("CPP") Investment Fund and loan the funds as mortgages to non-profit housing corporations and universities and colleges to build, acquire or lease housing units. The CPP funds were borrowed from 1989 to 1992 and are repayable 20 years from the date of issuance of the debentures. Interest is payable semi-annually at various rates based on individual debentures – weighted average rate of 10.6% (2010 – 10.0%).

The majority of the CPP funds were initially loaned to non-profit housing corporations. However, during 1993-2000, these loans were refinanced in the private sector and, because the debentures could not be repaid ahead of their maturity dates, the funds were loaned to the Province. The CPP debentures have corresponding loans receivable with the same maturity dates and the Fund will be wound up in July 2012 when all loans receivable and debentures have matured.

The maturity dates of the remaining debentures are as follows:

Debenture No.	Amount	Maturity Date
(thousands of dollars)		
CP-18	30,000	9-May-2011
CP-19	32,000	6-Jun-2011
CP-20	7,000	5-Jun-2012
CP-21	23,900	10-Jul-2012
	92,900	

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

March 31, 2011

As of March 31, the Fund consisted of:

	2011	2010
	(thousands of dollars)	
Assets		
Cash	36	1,404
Loans to Province of Ontario	39,943	734,823
Mortgages to Universities and Colleges	52,957	152,534
Interest Receivable	2,854	34,919
	95,790	923,680
Liabilities and Fund Balance		
Canada Pension Plan Investment Fund		
Current Portion	62,000	794,457
Long-Term Portion	30,900	92,900
Interest Payable	2,854	36,287
Fund Balance	36	36
	95,790	923,680

The interest rates on the mortgages to universities and colleges are the same as those payable on the Corporation's corresponding debentures. However, the interest rates on the loans to the Province reflect the lower rates in effect at the time they were made and as such the interest payments are not sufficient to service the debentures. The Corporation receives an interest differential subsidy from the Ministry to cover the shortfall.

Details of the transactions related to the fund balance are as follows:

	2011	2010
	(thousands of dollars)	
Balance – Beginning of the Year	36	38
Interest Earned – Loans, Mortgages, Bank	49,559	112,454
Interest Differential Subsidy from the Ministry	7,195	16,467
Interest Paid on CPP Debentures	(56,754)	(128, 923)
Balance – End of Year	36	36

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

March 31, 2011

4. LONG TERM DEBT

Long term debt is comprised of the following:

	2011	2010
	(thousands of dollars)	
Canada Mortgage and Housing Corporation	573,271	619,615
Loans Repayable to the Province	67,715	73,353
	640,986	692,968
Less: Current Portion	54,194	51,982
	586,792	640,986

The Corporation borrowed funds from the Canada Mortgage and Housing Corporation ("CMHC") and received capital funds from the Province to finance investments in real property – now devolved to the LHCs. The capital funds provided by the Province have been reclassified as Loans Repayable to the Province, with interest and principal payments being made to the Ontario Ministry of Finance. The interest expense is included in the Statement of Operations and Accumulated Deficit and is off-set by the subsidy from the Ontario Ministry of Municipal Affairs and Housing.

Interest on both the CMHC debt and the Loans Repayable to the Province are payable at various rates based on individual agreements – the weighted average rates are 6.49% and 7.11% respectively (2010 – 6.4% and 7% respectively). Interest expense for March 31, 2011 totaled \$45.4 million (2010 – \$48.3 million), \$5.2 million (2010 – \$5.5 million) of which was paid to the Province.

Scheduled payments of principal and interest over the next five years are as follows:

	CMHC Debentures	Loans Repayable to Province	Total
	(thousands of dollars)		
2012	87,820	10,700	98,520
2013	86,732	10,482	97,214
2014	84,550	10,181	94,731
2015	82,701	9,942	92,643
2016	77,718	9,308	87,026

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

March 31, 2011

5. CONTINGENT LIABILITIES

- a) The Corporation previously entered into loan insurance agreements with CMHC pertaining to mortgage loans on projects funded under various provincially-funded non-profit housing programs administered by the Ministry. Under these agreements, CMHC has insured mortgage loans made by lenders approved under the National Housing Act for the purpose of purchasing, improving, constructing or altering housing units. While the insurance is provided by CMHC, the Corporation is liable to CMHC for any net costs, including any environmental liabilities, incurred as a result of loan defaults on projects funded by the Province.

The Ministry will reimburse any costs incurred by the Corporation. As of March 31, 2011, there were \$7.07 billion (2010 – \$7.4 billion) of mortgage loans outstanding on provincially funded projects. To date, there have been no claims for defaults on the insured mortgage loans.

- b) Under the *Social Housing Reform Act*, the Corporation retained the liability for cleaning up environmentally contaminated sites within the former public housing portfolio. Although the total cost of potential remediation is unknown, the Corporation will be reimbursed by the Ministry for costs incurred. Cumulative expenditures for site remediation to March 31, 2011 are \$3,099,706 (2010 – \$1,993,248).

The Corporation had five outstanding claims as at March 31, 2011: the multi-year Regent Park commitment, one site in the City of Toronto, one site in the Regional Municipality of York, one site in the City of Kenora, and one site in the Town of Rainy River. Remediation costs for the latter two sites are not expected to be significant.

Regent Park, formerly owned by the Corporation, is being re-developed by the Toronto Community Housing Corporation (TCHC). Based on the redevelopment plan prepared by TCHC, it is expected to take up to 15 years for the redevelopment of Regent Park and environmental remediation may be required at each stage of redevelopment. The remediation cost of Regent Park is estimated to be \$12 – 15 million.

At the City of Toronto site, formerly owned by the Corporation, soil was contaminated by petroleum due to site usage as an oil refinery. The Toronto Community Housing Corporation is currently investigating options for remediation. There has been no claim for payment. The remediation cost is estimated to be \$1.9 million.

ONTARIO MORTGAGE AND HOUSING CORPORATION**Notes to Financial Statements**March 31, 2011

At the Regional Municipality of York ("the Region") site, formerly owned by the Corporation, lead contaminated sediment in a small storm water retention pond was identified. The Region is currently investigating options for remediation. There has been no claim for payment. The Region's remediation cost is estimated to be \$1 million.

The Corporation may spend up to \$540,000 in 2011-12 for environmental remediation.

6. BURSARY PROGRAM

The Dr. Albert Rose Bursary program is primarily funded by the Province but may also receive additional funding from municipal service managers and other sources. The program offers financial assistance to rent-geared-to-income tenants in Ontario who wish to acquire a post-secondary education.

7. EXCESS OF REVENUES OVER EXPENSES

The subsidies from the Province include amounts intended to cover the interest and principal payments on the Corporation's long-term debt. The interest is included in the Corporation's expenses and the excess of revenues over expenses represents the principal payments.

8. RELATED PARTY TRANSACTIONS

The Corporation is controlled by the Province and is therefore a related party to other organizations that are controlled by or subject to significant influence by the Province. Transactions with related parties were:

a) Loans to Ontario Colleges

As of March 31, 2011, the outstanding balance due from colleges with respect to Student Housing loans (note 2) was \$855,000 (2010 - \$899,000) and Non-Profit Housing Fund mortgages (note 3) was \$28,333,000 (2010 - \$28,333,000). Total interest and principle payments received from colleges for both programs was \$2,751,000 (2010 - \$2,751,000).

b) Administrative Expenses

The Ministry provides administrative services to the Corporation at no charge. The Corporation does not have any payroll expense as all personnel are Ministry employees and are paid by the Ministry.

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

March 31, 2011

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Information about the Corporation's financial instruments and risks is as follows.

The Corporation is not exposed to significant credit risk as amounts classified as loans and receivables are due primarily from the Province and publicly-funded Ontario colleges and universities.

The carrying amounts of short-term financial instruments approximate fair values.

Long-term financial instruments consist of Investments in Properties (note 2), loans from the Province, CMHC debentures (note 4), and CPP debentures in the NPHF (note 3). The estimated fair values of the Investments in Properties, the CMHC debentures, and the CPP debentures in the NPHF are based on the future cash flows associated with each instrument discounted using an interest rate based on the market prices at March 31, 2011 for debt instruments with similar characteristics. 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. Consequently, the fair value estimates are not necessarily indicative of the amount these instruments would trade for in actual market transactions.

At March 31, 2011 the estimated fair value of: Investments in Properties (note 2) approximated its book value of \$15.9 million (2010 – \$17.1 million); CMHC debentures (note 4) exceeded their aggregate book value by \$96 million (2010 – \$102 million); and CPP debentures in the NPHF (note 3) exceeded their aggregate book value by \$3.8 million (2010 – \$26 million). The Corporation is controlled by the Province, therefore, the fair value of loans receivable from the Province (note 3) – \$40 million (2010 – \$735 million) and loans repayable to the Province (note 4) - \$67.7 million at March 31, 2011 (2010 – \$73.4 million) has not been calculated.

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to Financial Statements

March 31, 2011

10. CAPITAL DISCLOSURES

The Corporation considers cash to be its capital. In managing capital, the Corporation's objectives are to ensure that sufficient cash is on hand to service its debts and pay its expenses. In this regard, the Ministry ensures the Corporation's objectives are met by providing sufficient subsidies, as well as administrative services at no charge to the Corporation.

The Corporation's investments in properties and non-profit housing fund loans are each associated with specific debt obligations of the Corporation. Interest and principle payments received from the investments and loans are used to service the associated debts.

As at March 31, 2011 the Corporation has met its capital objectives and is not subject to any externally imposed capital requirements.

11. ACCOUNTING POLICY TRANSITION

In 2009, the Public Sector Accounting Board approved amendment to "Introduction to Public Sector Accounting Standards". The amendment allowed organizations classified as Other Government Organizations to adopt either 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 Corporation has determined that Public Sector Accounting standards are a more suitable accounting standard to follow. The Corporation is planning to adopt Public Sector Accounting standards for fiscal year 2011/12. The impact on the financial statements is not expected to be significant.

12. POTENTIAL MERGER

In March 2011, the Ontario Government announced that it is moving forward with its plan to reduce the number of agencies and the potential merger of the Ontario Mortgage and Housing Corporation and the Ontario Mortgage Corporation. Currently, a number of options are being explored and no decision has been made on the future direction of the Corporation.

Ontario Northland Transportation Commission

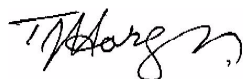
Management's Responsibility

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 consolidated 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 the Commission's assets and liabilities are adequately accounted for and assets safeguarded.

The Commission through its Audit and Finance Committee is responsible for ensuring that management fulfils its responsibilities for internal control and financial reporting. The Audit and Finance Committee is comprised of members of the Commission who meet regularly with management and external auditors to satisfy itself that each group has met its responsibilities. These consolidated financial statements have been reviewed by the Audit and Finance Committee and have been approved by the Commission.

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



T. Hargreaves
Chair



P. Goulet
President and CEO

North Bay, Ontario
June 28, 2011



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

Independent Auditor's Report

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

I have audited the accompanying consolidated financial statements of the Ontario Northland Transportation Commission, which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statements of equity, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Ontario Northland Transportation Commission as at March 31, 2011 and the consolidated results of its operations, and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying my opinion, I draw attention to Note 1 in the consolidated financial statements which indicates that Ontario Northland Transportation Commission has experienced continued losses. Management of Ontario Northland Transportation Commission is projecting further losses in 2012 and a substantial cash flow deficiency which will exceed its available lines of credit. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty in that the Commission's ability to continue as a going concern is dependent on the continued financial support of the Ontario government.

Jim McCarter, FCA
Auditor General
Licenced Public Accountant

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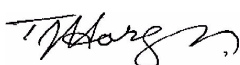
www.auditor.on.ca

Toronto, Ontario
June 28, 2011

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

	March 31 2011	March 31 2010
Assets		
Current		
Cash (Note 3)	\$ 6,823	\$ 4,823
Accounts receivable (Net of allowance - \$3,684; 2010 - \$3,677)	20,579	18,468
Inventory	16,376	18,319
Prepaid expenses	983	1,348
	<u>44,761</u>	42,958
Property, plant and equipment (Schedule 1)	307,351	297,381
Accrued pension benefit asset (Note 4a)	57,890	58,650
	<u>\$ 410,002</u>	\$ 398,989
Liabilities and Province of Ontario Equity		
Current		
Operating lines of credit (Note 5)	\$ 12,300	\$ 12,925
Accounts payable and accrued liabilities	31,236	29,383
Current portion of long-term debt	4,241	4,383
Current portion of capital lease obligation	24	11
Current portion of deferred revenue	322	616
	<u>48,123</u>	47,318
Deferred revenue	759	828
Deferred contributions related to property, plant and equipment (Note 6)	108,581	89,078
Long-term debt (Note 7)	31,879	34,369
Capital lease obligation	-	24
Accrued non-pension benefit obligation (Note 4b)	68,334	64,232
	<u>257,676</u>	235,849
Equity		
Retained earnings	147,688	158,645
Reserve for self insurance	4,638	4,495
	<u>152,326</u>	163,140
Nature of Operations (Note 1)		
Contingencies (Note 12) / Commitments (Note 13)	\$ 410,002	\$ 398,989

Approved on behalf of the Commission:



Chair



President and CEO

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

	March 31 2011	March 31 2010
Retained Earnings		
Balance, beginning of year	158,645	184,413
Net loss for the year	(10,814)	(25,761)
Net transfer to Reserve for Self Insurance	(143)	(7)
Balance, end of year	<u>\$ 147,688</u>	<u>\$ 158,645</u>
Reserve for Self Insurance (Note 9)		
Balance, beginning of year	<u>4,495</u>	4,488
Transfers (to) from Retained Earnings		
Interest earned	43	23
Annual premium	100	100
Claims	<u>-</u>	(116)
	143	7
Balance, end of year	<u>\$ 4,638</u>	<u>\$ 4,495</u>
Total Retained Earnings and Reserve for Self Insurance	<u>\$ 152,326</u>	<u>\$ 163,140</u>

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

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

For the year ended March 31	2011	2010
Revenues (Schedule 2)	\$ 160,072	\$ 144,924
Expenses (Schedule 2)	137,416	133,759
Income from operations, before other operational revenues and expenses	22,656	11,165
Other operational revenues and expenses		
Amortization of property, plant and equipment (Schedule 2)	15,363	14,673
Amortization of deferred contributions related to property, plant and equipment (Schedule 2)	(3,063)	(2,321)
Pension expense (Schedule 2)	18,547	16,415
Write down of intangible assets	-	4,039
Sales tax assessment	-	1,556
Interest expense (Schedule 2)	1,871	2,063
Impairment of property, plant and equipment (Schedule 2)	1,322	-
Loss (gain) on sale of property, plant and equipment (Schedule 2)	(518)	413
Loss from operations before the following items	\$ (10,866)	\$ (25,673)
Investment and other income	(9)	(5)
Investment income on Reserve for Self Insurance	(43)	(23)
Claims on Reserve for Self Insurance	-	116
Net loss for the year	\$ (10,814)	\$ (25,761)

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	2011	2010
Cash provided by (used in)		
Operating activities		
Net loss for the year	\$ (10,814)	\$ (25,761)
Items not affecting cash		
Amortization of property, plant and equipment	15,363	14,673
Amortization of deferred contributions related to property, plant and equipment	(3,063)	(2,321)
Loss (gain) on disposal of property, plant and equipment	(518)	413
Impairment of property, plant and equipment	1,322	-
Write-down of intangible assets	-	4,039
Amortization of intangible assets	-	545
Pension expense	18,547	16,415
	<u>20,837</u>	<u>8,003</u>
Changes in non-cash working capital balances		
Accounts receivable	(2,111)	(1,312)
Inventory	1,943	(695)
Prepaid expenses	365	(184)
Accounts payable and accrued liabilities	1,853	818
Deferred revenue	(363)	(259)
Net pension benefit obligation	(11,725)	(148)
Net non-pension benefit obligation	(1,960)	(2,031)
	<u>8,839</u>	<u>4,192</u>
Investing activities		
Investment in property, plant and equipment	(26,655)	(32,935)
Proceeds from sale of property, plant and equipment	518	739
	<u>(26,137)</u>	<u>(32,196)</u>
Financing activities		
Operating lines of credit	(625)	1,055
Long-term debt	(2,632)	(226)
Capital lease obligations	(11)	(72)
Deferred contributions related to property, plant and equipment	22,566	24,599
	<u>19,298</u>	<u>25,356</u>
Change in cash during the year	2,000	(2,648)
Cash, beginning of year	4,823	7,471
Cash, end of year	\$ 6,823	\$ 4,823
Supplemental disclosure of cash flow information:		
Interest paid and included in net loss for the year	\$ 1,871	\$ 2,063

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 Property, Plant and Equipment
Schedule 1
(dollars in thousands)

For the year ended March 31		2011		2010	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Rail Services					
Roadway	\$ 305,130	\$ 119,592	\$ 185,538	\$ 161,643	
Buildings	43,217	19,086	24,131	24,036	
Equipment	80,538	50,335	30,203	27,388	
Equipment under capital lease	1,022	249	773	824	
Under construction	3,871	-	3,871	17,035	
Telecommunications (Ontera)					
Equipment	152,490	117,883	34,607	38,720	
Buildings	6,460	4,143	2,317	2,490	
Under construction	11,699	-	11,699	11,481	
Motor Coach Services					
Coaches	8,589	5,884	2,705	3,141	
Buildings	2,796	271	2,525	2,595	
Refurbishment					
Equipment	585	105	480	500	
Buildings	3,435	416	3,019	3,061	
Marine Services (Moosonee)					
Vessels	385	368	17	20	
Under construction	3,964	-	3,964	2,908	
Development					
Land and buildings	2,851	1,349	1,502	1,539	
	\$ 627,032	\$ 319,681	\$ 307,351	\$ 297,381	

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	2011	2010
Rail Services		
Sales revenue (Notes 10 and 16)	\$ 51,704	\$ 53,415
Government reimbursement (Note 8)	46,059	30,459
Operating revenue	97,763	83,874
Operating expense	73,629	70,029
Operating income	24,134	13,845
Amortization of property, plant and equipment	9,462	8,899
Amortization of deferred contributions related to property, plant and equipment	(2,192)	(1,439)
Pension expense	11,045	9,647
Loss (gain) on sale of property, plant and equipment	(517)	262
Interest expense	587	925
Income (loss) from operations	5,749	(4,449)
Telecommunications (Ontera)		
Sales revenue	31,949	32,662
Operating expense	25,297	26,862
Operating income	6,652	5,800
Amortization of property, plant and equipment	5,162	4,969
Amortization of deferred contributions related to property, plant and equipment	(871)	(882)
Pension expense	2,827	2,660
Impairment of property, plant and equipment (Note 11)	1,322	-
Sales tax assessment	-	1,556
Interest expense	937	667
Loss from operations	(2,725)	(3,170)
Motor Coach Services		
Sales revenue	11,050	10,583
Operating expense	10,807	10,429
Operating income	243	154
Amortization of property, plant and equipment	506	542
Pension expense	1,171	1,047
Loss on sale of property, plant and equipment	-	170
Interest expense	101	111
Loss from operations	(1,535)	(1,716)
Refurbishment		
Sales revenue	18,553	17,089
Operating expense	18,445	18,249
Operating income (loss)	108	(1,160)
Amortization of property, plant and equipment	85	85
Pension expense	1,886	1,708
Write down of intangible assets	-	4,039
Interest expense	140	250
Loss from operations	(2,003)	(7,242)

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	2011	2010
Marine Services (Moosonee)		
Sales revenue	153	156
Government reimbursement (Note 8)	41	41
Operating revenue	194	197
Operating expense	247	182
Income (loss) from operations	(53)	15
Rental Properties		
Sales revenue	563	519
Operating expense	318	362
Operating income	245	157
Amortization of property, plant and equipment	37	37
Gain on sale of property, plant and equipment	(1)	(19)
Income from operations	209	139
Administration		
Operating revenue	-	-
Operating expense	8,673	7,646
Operating loss	(8,673)	(7,646)
Amortization of property, plant and equipment	111	141
Pension expense	1,618	1,353
Interest expense	106	110
Loss from operations	(10,508)	(9,250)
Total Operations		
Sales revenue	113,972	114,424
Government reimbursement (Note 8)	46,100	30,500
Total revenues	160,072	144,924
Expenses	137,416	133,759
Income from operations	22,656	11,165
Amortization of property, plant and equipment	15,363	14,673
Amortization of deferred contributions related to property, plant and equipment	(3,063)	(2,321)
Pension expense	18,547	16,415
Write down of intangible assets	-	4,039
Sales tax assessment	-	1,556
Interest expense	1,871	2,063
Impairment of property, plant and equipment (Note 11)	1,322	-
Loss (gain) on sale of property, plant and equipment	(518)	413
Loss from operations	\$ (10,866)	\$ (25,673)

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, 2011

1. Nature of Operations

The Ontario Northland Transportation Commission (the "Commission"), an Operational Enterprise of the Ontario government, delivers a variety of services, including rail freight, passenger rail, motor coach and telecommunications primarily in the north-eastern portion of Northern Ontario.

These financial statements have been prepared on a going concern basis. This assumes that the Commission will be able to realize its assets and discharge its liabilities in the ordinary course of business for the foreseeable future.

The Commission has a history of operating losses and cash flows that, without the support of the Government of Ontario, would be negative. With the completion of the latest pension fund valuation the Commission is committed to funding significant going concern and solvency deficits. The Commission's ability to maintain operations is dependent on the continued support from the Government of Ontario while completing plans to reduce pension deficits and minimize losses from operations while complying with regulatory requirements.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumption were not applicable. If the going concern assumption were not applicable for these financial statements, adjustments to the carrying value of assets would be necessary and reported revenues and expenses and balance sheet classifications used to reflect these on a liquidation basis could differ from those applicable to a going concern.

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.

Revenue Recognition

Revenue from all sources are recognized when all of the following conditions are met:

- a) services are provided or products delivered to customers
- b) there is a clear evidence that an arrangement exists, and
- c) collection is reasonably assured.

Rail services 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.

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

2. Significant Accounting Policies (continued)

Revenue Recognition (continued)

Contract revenues are generally recorded on a percentage of completion basis as work reaches predetermined project milestones.

Monthly subscriber fees in connection with wireless telecommunications services, internet services, network, local and long distance services are recorded as revenue as the service is provided. Any revenue or cost adjustments, whether positive or negative, in the interconnection and traffic settlement agreements are recognized in the year in which they become known and estimable.

Government Assistance

Government assistance related to operating expenditures is recognized as revenue when the related expenditures are incurred.

The Province of Ontario reimburses the Commission for the cost of certain property, plant and equipment purchased for use in operations. The Commission records the contributions as deferred contributions related to property, plant and equipment. Deferred contributions related to property, plant and equipment are amortized to revenue on a straight-line basis at rates corresponding to those of the related capital assets.

Property, Plant and Equipment

Property, plant and equipment are stated at acquisition cost less accumulated amortization. Amortization is provided for using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for principal categories of property, plant and equipment 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

No amortization is provided for on assets under construction until they are placed in use.

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

2. Significant Accounting Policies (continued)

Employee Future Benefits

Pension Plans - The Commission maintains a contributory 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 obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. 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. These expenses are recorded in the year in which employees render services to the Commission. Net actuarial gains or losses and past services pension costs, in excess of 10 percent of the greater of the benefit obligation and the fair value of plan assets, are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plans (approximately 12 years).

Pension fund assets are valued using current market values. Prior services costs arising from all other sources, including the prospective initial application of CICA Handbook Section 3461, are amortized over the expected average remaining service period of active employees who are expected to receive benefits under the plan at the date of amendment.

Inventory

Materials and supplies, with the exception of used rail and wheel-sets are valued at the lower of cost and net realizable value by using the weighted-average costing methodology. Used rail is shown at unamortized book value determined at the time of retirement. Wheel-sets are valued at standard cost. The Commission uses the same cost formulas for all inventories having a similar nature and use to the Commission. When circumstances which previously caused inventories to be written down no longer exist, that previous impairment is reversed.

The cost of inventory expensed to operations and used in capital projects for 2011 was \$ 24,397,000 (\$ 24,771,000 in 2010).

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

2. Significant Accounting Policies (continued)

Impairment of Property, Plant and Equipment

Property, plant and equipment, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability 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 by the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Commission uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the consolidated balance sheet date. Revenues and expenses are translated at the rates of exchange in effect at the transaction date. Realized and unrealized gains and losses are included in the determination of net income. Included in Rail revenue is a foreign currency gain of \$ 244,000 (2010 - \$853,000) arising mainly from Rail traffic settlements between Canada and the U.S.A.

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 income.

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 cost 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 is classified as held-for-trading; accounts receivable are classified as loans and receivables; and, accounts payable and accrued liabilities, operating lines of credit and long-term debt are classified as other liabilities.

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

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.

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 property, plant and equipment, valuation allowances for accounts receivable and inventory and obligations for pension and non-pension post employment benefits. 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. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in income in the year in which they become known.

Cash

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

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, 2011

3. Cash

	<u>2011</u>	<u>2010</u>
Cash	\$ 2,185,000	\$ 328,000
Cash related to Reserve for Self Insurance (Note 12)	4,638,000	4,495,000
Cash	\$ 6,823,000	\$ 4,823,000

4. Employee Future Benefits

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

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 most recent actuarial valuation for the contributory pension plan for funding purposes was January 1, 2010. The results of this valuation were extrapolated to December 31, 2010. In accordance with existing pension regulations, annual valuations will be completed for the Commission's pension plan. The date of the most recent report for accounting purposes for the non-pension post employment benefit plan was December 31, 2010. This report is completed annually.

The pension plan assets target percentage allocation and average asset allocations as at March 31, 2011 and March 31, 2010, by asset category are as follows:

	Target	<u>2011</u>	<u>2010</u>
Equity securities – Domestic	20% - 30%	26.3%	23.4%
– Foreign	10% - 30%	17.4%	17.5%
Debt securities	35% - 55%	52.8%	55.9%
Real estate	0% - 15%	1.8%	1.9%
Short term and other	0% - 15%	1.7%	1.3%
Total		100%	100%

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

4. Employee Future Benefits (continued):

a. Reconciliation of accrued benefit obligation to accrued benefit asset (liability):

Pension Plans:

	Pension	SERP	2011	2010
Accrued benefit obligation	\$ (499,814,000)	\$ (2,884,000)	\$ (496,319,000)	\$ (507,550,000)
Plan assets at fair value	452,857,000	-	452,857,000	422,865,000
Funded status – plan (deficit) surplus	(46,957,000)	(2,884,000)	(49,841,000)	(84,685,000)
Unamortized initial liability	-	196,000	196,000	392,000
Unamortized past service costs	10,633,000	61,000	10,694,000	12,586,000
Unamortized net actuarial (gain) loss	97,065,000	(224,000)	96,841,000	130,357,000
Accrued benefit asset (liability) net of valuation allowance – end of year	\$ 60,741,000	\$ (2,851,000)	\$ 57,890,000	\$ 58,650,000

The valuation allowance in the current and prior year was nil.

	Pension	SERP	2011	2010
Accrued benefit asset – beginning of year	\$ 61,394,000	\$ (2,744,000)	\$ 58,650,000	\$ 70,475,000
Expense	(12,194,000)	(291,000)	(12,485,000)	(11,973,000)
Funding contributions	5,576,000	184,000	5,760,000	148,000
Special payments	5,965,000	-	5,965,000	-
Accrued benefit asset – end of year	\$ 60,741,000	\$ (2,851,000)	\$ 57,890,000	\$ 58,650,000

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

4. **Employee Future Benefits (continued):**

b. **Reconciliation of accrued benefit obligation to accrued benefit asset (liability)**

Non-Pension Benefit Plans:

	<u>2011</u>	<u>2010</u>
Accrued benefit obligation - beginning of year	\$ (68,296,000)	\$ (62,632,000)
Unamortized net actuarial gain	(38,000)	(1,069,000)
Adjustment to match booked position	-	(531,000)
Accrued benefit liability - end of year	\$ (68,334,000)	\$ (64,232,000)
	<u>2011</u>	<u>2010</u>
Accrued benefit liability - beginning of year	\$ (64,232,000)	\$ (61,821,000)
Expense – Non-WSIB	(3,699,000)	(3,671,000)
Expense– WSIB	(2,363,000)	(240,000)
Funding contributions – Non-WSIB	1,960,000	2,031,000
Adjustment to match booked position – Non-WSIB	-	(531,000)
Accrued benefit liability - end of year	\$ (68,334,000)	\$ (64,232,000)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of \$14,830,000 (2010 - \$12,467,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2010.

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

4. Employee Future Benefits (continued):

c. Components of Net Periodic Pension Benefit expense

	<u>2011</u>	<u>2010</u>
Current service cost less employee contributions	\$ 7,434,000	\$ 7,729,000
Interest on accrued benefit obligation	25,160,000	27,824,000
Expected return on plan assets	(28,871,000)	(27,643,000)
Amortization of initial obligation	196,000	197,000
Amortization of past service costs	1,892,000	1,892,000
Amortization of net actuarial loss	6,674,000	1,974,000
	<u>\$ 12,485,000</u>	<u>\$ 11,973,000</u>

d. Components of Net Periodic Non-Pension Benefit Expense

	<u>2011</u>	<u>2010</u>
Current service cost	\$ 3,431,000	\$ 1,136,000
Interest on accrued benefit obligation	2,631,000	2,920,000
Amortization of net actuarial gain	-	(145,000)
Adjustment to match booked position	-	531,000
	<u>\$ 6,062,000</u>	<u>\$ 4,442,000</u>

e. Weighted Average Assumptions

Discount rate - pension	5.00 %	5.00 %
Discount rate - non pension	5.25 %	5.75 %
Discount rate - WSIB	7.00 %	7.00 %
Expected long-term rate of return on plan assets	6.50 %	7.00 %
Rate of compensation increase		
2010 & 2011	0 %	1.5 %
2012 & 2013	0.5 %	2.0 %
2014 & thereafter	3.0 %	3.0 %
Average remaining service period (years)	12	12
Drug cost increases	5.0%	5.0%
Medical and hospital cost increases	5.0%	5.0%
Dental cost increases	4.5%	4.5%
Vision care cost increases	0%	0%

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

5. 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, 2011 (2010 - \$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 \$4,300,000 was being utilized as at March 31, 2011 (2010 - \$4,925,000) 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, 2011, two letters of guarantee totalling \$1,428,000 (2010 - \$ 1,428,000) have been issued with an annual renewal commission of 0.375%.

6. Deferred Contributions Related to Property, Plant and Equipment

Deferred contributions related to property, plant and equipment represent the unamortized capital contributions received from the 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.

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

	<u>2011</u>	<u>2010</u>
Balance - beginning of year	\$ 89,078,000	\$ 66,800,000
Contributions from the Province	22,566,000	24,599,000
Amortization to revenue	(3,063,000)	(2,321,000)
 Balance - end of year	 <u>\$ 108,581,000</u>	 <u>\$ 89,078,000</u>

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

7. Long-term Debt and Capital Lease Obligation

a. Long-term Debt

	2011	2010
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	\$ 2,584,000	2,809,000
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.	6,315,000	7,789,000
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.	4,018,000	5,040,000
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.	2,024,000	2,083,000
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 a floating charge on all Ontera assets	4,509,000	5,031,000
Loan from Bank of Montreal, bearing interest at 5.95% per annum, repayable in blended weekly payments of \$32,000 for 15 years beginning October 7, 2010. Secured by a floating charge on all Ontera assets. Prior year construction advance converted to a fixed rate \$17,000,000 loan.	16,670,000	16,000,000
	36,120,000	38,752,000
Less current portion	4,241,000	4,383,000
Long-term debt	\$ 31,879,000	\$ 34,369,000

Interest on long-term debt was \$ 1,645,000 (\$ 1,426,000 in 2010).

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

2011-2012	\$ 4,241,000
2012-2013	4,490,000
2013-2014	4,770,000
2014-2015	3,788,000
2015-2016	1,987,000
Thereafter	16,844,000
	<u>\$ 36,120,000</u>

Ontario Northland Transportation Commission

Notes to Consolidated Financial Statements

March 31, 2011

7. Long-term Debt and Capital Lease Obligation (continued):

b. Capital Lease Obligation

	2011	2010
Capital lease bearing interest at 7% per annum, repayable in blended monthly payments of \$1,000 for 5 years beginning September 22, 2006.	24,000	35,000
	24,000	35,000
Less current portion	24,000	11,000
Capital lease obligation	\$ -	24,000

Payments under capital lease included above are as follows:

2011-2012	\$ 25,000
Total minimum payments	25,000
Less: amount representing interest	1,000
Obligations under capital lease	\$ 24,000

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

8. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development, Mines and Forestry (the "Ministry"), 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 Ministry would provide 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 (2010 - \$2,500,000) was received for the year ended March 31, 2011.

Details of Government reimbursement received during the year are as follows:

	<u>2011</u>	<u>2010</u>
Ministry of Northern Development, Mines and Forestry:		
Rail - Passenger Service and Moosonee Branch	\$ 21,160,000	\$ 21,160,000
Marine Services (Moosonee)	40,000	40,000
One-time funding	<u>22,400,000</u>	<u>6,800,000</u>
	43,600,000	28,000,000
National Transportation Agency of Canada:		
Current year's operations	<u>2,500,000</u>	<u>2,500,000</u>
	<u>\$ 46,100,000</u>	<u>30,500,000</u>

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

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

9. 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 \$ 4,554,000 (2010 - \$ 4,411,000) plus \$ 84,000 (2010 - \$84,000) 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.

10. Passenger Revenue

In compliance with the Travel Industry Act, the 2011 gross retail sales were \$ 245,000 (2010 - \$ 227,000) and the 2011 gross wholesale sales were \$ 158,000 (2010 - \$ 83,000).

11. Impairment of Property, Plant and Equipment

Impairment charges of \$1,322,000 for technologically obsolete telecommunications equipment of the Ontera division were recognized in operating income because the carrying amount of the long-lived asset was not recoverable and exceeded its fair value based on undiscounted cash flows.

12. Contingencies

Statement of claim

In the normal course of its operations, various statements of claim have been issued against the Commission claiming damages for personal injury, property damages, environmental actions and employment-related issues. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims are 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, 2011

13. Commitments

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.

14. Financial Instruments

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

Fair value

The fair value of cash and cash equivalents, accounts receivable, 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 is approximately equal to its carrying value since the applicable interest rates are comparable to 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 \$139,000. 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.

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

14. Financial Instruments (continued)

Credit risk

The Commission is exposed to credit risk due to the concentration of large customers (see Economic Dependence - Note 16 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.

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, 2011

Customer accounts receivables net of allowance for doubtful accounts (in thousands)	
Current	\$ 18,010
30-60 days past billing date	1,870
60-90 days past billing date	(75)
90-120 days past billing date	336
Greater than 120 days past billing date	438
Trade accounts receivable	<u>\$ 20,579</u>

Fifty-two percent of the balance in the greater than 120 days past billing date (\$228,000) 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)	2011	2010
Balance, beginning of year	\$ 3,677	\$ 3,172
Additions (provision for doubtful accounts)	242	614
Write-offs	(235)	(109)
Balance, end of year	<u>\$ 3,684</u>	<u>\$ 3,677</u>

Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

14. Financial Instruments (continued)

Credit risk (continued)

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 the amount of the allowance for doubtful accounts. The allowance for doubtful accounts is calculated on a specific-identification basis for doubtful customer accounts receivable over a specified dollar value. For the telecommunications division the allowance is based on a percentage of all outstanding customer accounts receivable balances.

Currency risk

The Commission is not exposed to significant concentrations of 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 have a floating rate of interest.

The Commission's long-term debt has fixed interest rates. The Commission expects to hold its long-term debt to maturity. As a result, management is of the opinion that the cash flow risks associated with long-term debt are not material.

Liquidity Risk

The Commission monitors its liquidity to ensure access to sufficient funds to meet operational requirements. The Commission manages its liquidity by forecasting its cash flow requirements and monitoring actual cash flows as well as by managing maturity profiles of financial assets and financial liabilities. 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, 2011

15. 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.

16. Economic Dependence

During 2011, the Rail Services Division derived 43% (2010 - 49%) of its revenue from three major customers.

17. Comparative Figures

Prior year's figures have been reclassified where necessary to conform to the 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 to include some amounts that are based on estimates and judgments.

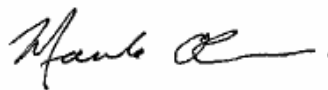
Ontario Place maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable, the company assets and liabilities are adequately accounted for and assets are safeguarded. The systems include policies and procedures and 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 Independent 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:



John Tevlin
General Manager



Marsha O'Connor, CMA
Director of Finance & Administration



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

Independent Auditor's Report

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

I have audited the accompanying financial statements of the Ontario Place Corporation, which comprise the balance sheet as at December 31, 2010, and the statements of operations, Statement of Changes in Net Assets and cash flows and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Place Corporation as at December 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

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Toronto, Ontario
August 8, 2011

Ontario Place Corporation

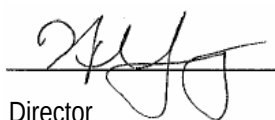
Balance Sheet

As at December 31, 2010

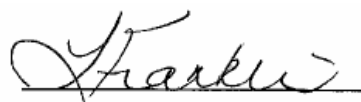
	2010 (\$ 000)	2009 (\$ 000) (Restated)
ASSETS		
Current		
Cash – unrestricted	4,782	4,079
Cash – restricted [Note 4]	6,132	4,869
Accounts receivable [Note 3]	6,642	4,761
Inventory	215	232
Prepaid expenses and deferred charges	334	76
	<u>18,105</u>	<u>14,017</u>
Capital Assets [Note 5]	114,228	115,603
Capital Assets Under Lease Obligation [Note 6]	251	282
	<u>114,479</u>	<u>115,885</u>
	<u>132,584</u>	<u>129,902</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payables and accrued liabilities [Note 11B]	1,822	1,159
Current portion of obligations under capital lease [Note 7]	45	43
Due to the Province of Ontario	246	198
Deferred revenue	66	124
	<u>2,179</u>	<u>1,524</u>
Long Term Liabilities		
Accrued employee severance liability [Note 11B]	717	676
Obligations under capital lease [Note 7]	219	264
	<u>936</u>	<u>940</u>
Deferred Capital Contributions [Note 8]	15,872	17,223
Unspent Deferred Capital Contributions [Notes 4 & 8]	5,014	1,869
	<u>20,886</u>	<u>19,092</u>
Net Assets		
Invested in capital assets [Note 9]	98,356	98,380
Unrestricted [Note 3]	10,227	9,966
	<u>108,583</u>	<u>108,346</u>
	<u>132,584</u>	<u>129,902</u>

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, 2010

	2010 (\$ 000)	2009 (\$ 000)
Operating revenue [Schedule 1]	12,925	13,855
Administrative and operating expenses [Schedule 2]	(17,666)	(18,957)
Operating deficit before the following	(4,741)	(5,102)
Province of Ontario operating grants	5,033	5,121
Amortization of deferred capital contributions	2,406	1,873
Amortization of capital assets	(2,430)	(1,897)
Amortization of capital assets under lease	(31)	(31)
	4,978	5,066
Province of Ontario property tax grant	—	3,000
Recovery of prior years' property taxes [Note 12]	—	10,293
	—	13,293
Excess of revenue over expenses for the year	237	13,257

See accompanying schedules and notes to financial statements.

Ontario Place Corporation

Statement of Changes in Net Assets For the Year Ended December 31, 2010

	2010 (\$ 000)			2009 (\$ 000)
	Invested in Capital Assets	Unrestricted	Total	
Net assets, beginning of year as previously reported	98,380	7,466	105,846	92,589
Change in accounting policy (Note 3)	—	2,500	2,500	2,500
Net assets, beginning of year as restated	98,380	9,966	108,346	95,089
Excess (deficiency) of revenues over expenses	(24)	261	237	13,257
Net assets, end of year	98,356	10,227	108,583	108,346

See accompanying schedules and notes to financial statements.

Ontario Place Corporation

Statement of Cash Flows

For the Year Ended December 31, 2010

	2010 (\$ 000)	2009 (\$ 000)
Operating Activities		
Excess of revenues over expenses	237	13,257
Adjustments for items not requiring an outlay of cash		
Amortization of capital assets	2,430	1,897
Amortization of leased capital asset	31	31
Amortization of deferred capital contributions	(2,406)	(1,873)
Net change in non-cash working capital	533	(9,064)
Accrued employee severance liability	41	107
Cash generated from operating activities	866	4,355
Investing Activities		
Capital asset acquisitions – net	(1,055)	(2,914)
Cash used in investing activities	(1,055)	(2,914)
Financing Activities		
Capital grants received	2,200	2,845
Obligation under capital lease principal paid	(45)	(49)
Cash generated from financing activities	2,155	2,796
 Increase in cash during the year	 1,966	 4,237
Cash, beginning of year	8,948	4,711
Cash, end of year	10,914	8,948
 Cash - unrestricted	 4,782	 4,079
Cash - restricted	6,132	4,869
	10,914	8,948

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, 2010

	2010 (\$ 000)	2009 (\$ 000)
Schedule 1		
Operating Revenue		
Admissions	4,854	5,858
Parking	1,997	1,893
Sponsorship revenue [Note 13]	1,586	1,725
Amphitheatre	1,491	1,289
Retail sales and catering	1,225	1,187
Marina	874	863
Concessions and facility rental	553	689
Other revenue	164	151
Cinesphere revenues	118	171
Interest income	63	29
	<u>12,925</u>	<u>13,855</u>
Schedule 2		
Administrative and Operating Expenses		
Salaries and wages	7,664	7,359
Employee benefits [Note 11]	1,289	1,299
Advertising [Note 13]	1,956	2,821
General and administration	1,822	1,959
Programming and entertainment	947	1,377
Utilities	864	882
Cost of retail sales and catering	818	587
Site maintenance	676	914
Janitorial	632	622
Supplies	550	667
Transportation and communications	239	257
Other	209	213
	<u>17,666</u>	<u>18,957</u>

See accompanying notes to financial statements.

Ontario Place Corporation

Notes to Financial Statements

December 31, 2010

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.

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 Ministry 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) REVENUE RECOGNITION

Grants are recognized on an accrual basis.

Revenue from admission tickets, parking, retail sales and catering, marina dockage, sponsorship, and the cinesphere are recognized when the goods or services are provided.

Revenue from interest, concessions, and amphitheatre are recognized when they are earned.

(C) INVENTORY

Supplies inventory is valued at cost.

Ontario Place Corporation

Notes to Financial Statements

December 31, 2010

2. Significant Accounting Policies (Continued)

(D) 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

(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 expenditures for the period. Actual amounts could differ from these estimates.

(F) 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 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 recorded at face 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.

Ontario Place Corporation

Notes to Financial Statements

December 31, 2010

2. Significant Accounting Policies (Continued)

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.

(G) 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, 2010. These transactions were material in nature and are disclosed in Note 12.

3. Change in Accounting Policy

During 2010, the Corporation changed its policy for recognizing Grant revenue. Previously the Corporation recorded grant revenue in the year it was received. Grant revenue is now recognized on an accrual basis to better reflect the substance of the transactions. The change has been applied retroactively and has increased Accounts receivable at the end of 2009 as previously reported by \$2,500,000 (2008 – \$2,500,000) representing an increase in “Invested in capital assets” under Changes in Net Assets of the same amount.

4. Cash – Restricted

Cash grants totalling \$6,131,600 are held by Ontario Place which are externally restricted as follows:

	2010 (\$ 000)	2009 (\$ 000)
Property tax grant	3,118	3,000
Unspent deferred capital grant	3,014	1,869
	<u>6,132</u>	<u>4,869</u>

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.

Unspent deferred capital contributions are described in Note 8.

Ontario Place Corporation

Notes to Financial Statements

December 31, 2010

5. Capital Assets

Capital assets consist of the following:

	2010 (\$ 000)			2009 (\$ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land, waterlots	101,660	—	101,660	101,660
Buildings	12,795	5,130	7,665	7,491
Attractions	9,649	5,980	3,669	5,055
Equipment, fixtures	2,667	1,455	1,212	1,372
Computer equipment	71	49	22	25
	<u>126,842</u>	<u>12,614</u>	<u>114,228</u>	<u>115,603</u>

6. Capital Assets Under Lease Obligation

	Dec. 31, 2010 (\$ 000)	Dec. 31, 2009 (\$ 000)
Equipment (cost)	313	313
Accumulated amortization	(62)	(31)
	<u>251</u>	<u>282</u>

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 2010 is \$31,343 (\$31,343 for 2009).

Ontario Place Corporation

Notes to Financial Statements

December 31, 2010

7. Capital Lease Obligation

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

Year ending December 31	2010 (\$ 000)	2009 (\$ 000)
2011	57	57
2012	57	57
2013	57	57
Up to 2015	130	187
Total minimum lease payments	301	358
Amount representing interest at 5%	(37)	(51)
Balance of the obligation	264	307
Less: current portion	(45)	(43)
	219	264

8. 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 total deferred capital contributions balance are as follows:

	2010 (\$ 000)	2009 (\$ 000)
Balance, beginning of year	19,092	18,120
Amount amortized to revenue	(2,406)	(1,873)
Capital grants recognized	4,200	2,845
Balance, end of year	20,886	19,092

Included in the above are unspent deferred capital contributions in the amount of \$5,014,000, of which \$2,000,000 (2009 – \$ nil) is included in accounts receivable with the remaining amount included in restricted cash as described in note 4. Refer to note 10 regarding funds that have already committed to date.

9. 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, 2010

10. Commitments

In addition to the capital lease obligations discussed in Note 6, the following is a schedule of future payments for the purchase of capital equipment and related support under contracts effective during fiscal 2010:

Year ending December 31	2010 (\$ 000)
2011	934
2012	—
2013	—
2014	41
2015 and thereafter	41
Total purchase commitments	<u>1,016</u>

11. 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 \$341,852 (2009 – \$278,728), 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.

12. Property Tax Accrual and Recovery

Ontario Place and the City of Toronto were in dispute regarding the amount of property taxes Ontario Place was assessed to pay from 1998-2008. In late 2009, the Corporation received confirmation of a settlement of the assessment appeals it

Ontario Place Corporation

Notes to Financial Statements

December 31, 2010

filed with the City of Toronto resulting in a recovery of a significant portion of property taxes previously accrued. During 2009, Ontario Place paid all property taxes due up to the end of 2009 based on the settlement.

12. Property Tax Accrual and Recovery (Continued)

Ontario Place received and paid its 2010 interim tax bill. However, the 2010 final tax bill was higher than what was expected, as the City used tax rates that were inconsistent with the 2009 settlement. As a result, Ontario Place filed an appeal for its 2010 tax bill.

Ontario place has withheld payment of the final tax bill. Property taxes billed, paid and recorded for 2010 are as follows:

2010 Total Property Tax Bill Received	1,869,000
2010 Total Taxes Recorded and Paid	1,417,000

13. Non-monetary Transactions

Ontario Place entered into a number of non-monetary transactions, which saw Ontario Place exchange advertising space 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	Contract value

Approximately \$1,112,000 has been recognized as both sponsorship revenue and advertising expense as a result of these exchanges. Similar exchanges made in 2009 were valued at \$1,125,000. There were no gains or losses associated with the above transactions.

14. Subsequent Event

To celebrate its 40th anniversary, Ontario Place will offer free admission to the grounds for the 2011 season, with tickets for rides and attractions sold separately. Due to the potential increase in sales of other ticket types, the net effect on revenue from the free grounds admission cannot be reasonably determined for 2011. Revenue from grounds admission in 2010 was \$879,000; including \$569,000 from its annual admission share agreement with the CNE.

As a result of the Corporation's decision to offer free admission in 2011, this agreement was not renewed for 2011.

Ontario Place Corporation

Notes to Financial Statements

December 31, 2010

15. Comparative Figures

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

16. Future Accounting Changes

The Public Sector Accounting Board ("PSAB") has issued new accounting standards for government organizations. The Corporation has determined it will be classified as a Government NPO ("GNPO") as it meets all the related criteria. PSAB allows GNPOs to choose between the Public Sector Accounting ("PSA") Handbook or the PSA Handbook supplemented by the inclusion of the not-for-profit standards from the Canadian Institute of Chartered Accountants ("CICA") Handbook, known as the 4200 series. These standards will be effective for fiscal years commencing on or after January 1, 2012. The Corporation plans to select PSA standards plus the 4200 series of the PSA Handbook and will first report under these standards in its financial statements for the year ending December 31, 2012. The Corporation is currently in the process of evaluating the potential impact of adopting these new standards.

Independent Auditors' Report



To the Board of Directors

We have audited the accompanying financial statements of Ontario Power Authority, which comprise the statement of financial position as at December 31, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Power Authority as at December 31, 2010, and the results of its financial performance, changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Accountants, Licensed Public Accountants
February 24, 2011
Toronto, Canada

Statement of Financial Position

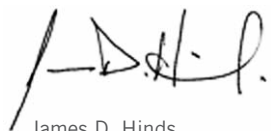
(in thousands of dollars)

As at December 31, 2010, with
comparative figures for 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 97,263	\$ 19,932
Accounts receivable (note 3)	289,123	206,530
Prepaid expenses	86	129
	386,472	226,591
Capital assets (note 4)	11,236	7,710
Other financial assets (note 5)	15,689	29,676
Total Assets	\$ 413,397	\$ 263,977
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 296,254	\$ 214,895
Other liabilities	68	–
Contract deposits (note 7)	67,571	35,789
	363,893	250,684
Deferred rent inducement, net (note 8)	691	836
Other financial liabilities (note 5)	49,966	14,089
Net assets:		
Internally Restricted Conservation and Technology Development Funds (note 9)	12,581	6,671
Invested in capital assets	11,236	7,710
Accumulated operating deficit	(24,970)	(16,013)
	(1,153)	(1,632)
Commitments (note 8)		
Contingencies and guarantees (note 14)		
Total Liabilities and Net Assets	\$ 413,397	\$ 263,977

See accompanying notes to financial statements

On behalf of the Board of Directors:


James D. Hinds
Chair

Colin Andersen
Chief Executive Officer

Statement of Operations

(in thousands of dollars)

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

	2010	2009
Revenue:		
Fees	\$ 62,407	\$ 50,350
Recovery of other financial accounts (note 5)	14,423	15,665
Registration fees	3,249	557
Interest income	1,427	43
Other income	18	12
	81,524	66,627
Expenses:		
Compensation and benefits	30,153	26,182
Professional and consulting fees	18,981	23,137
Amortization of other financial accounts (note 5)	14,423	15,665
General operating costs (note 10)	10,240	9,419
Conservation and Technology Development Fund expenses (note 9)	3,590	3,868
Amortization of capital assets	2,229	1,466
	79,616	79,737
Excess (deficiency) of revenue over expenses before interest expenses	1,908	(13,110)
Interest expenses	1,429	520
Excess (deficiency) of revenue over expenses	\$ 479	\$ (13,630)

See accompanying notes to financial statements

Statement of Changes in Net Assets

(in thousands of dollars)

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

	Invested in Capital Assets	Internally Restricted (see note 9)	Accumulated Operating Deficit	Total Net Assets 2010	Total Net Assets 2009
Balance, beginning of the year	\$ 7,710	\$ 6,671	\$(16,013)	\$ (1,632)	\$ 11,998
Excess (deficiency) of revenue over expenses	(2,229)	—	2,708	479	(13,630)
Establishment of Funds					
Conservation Fund	—	5,000	(5,000)	—	—
Technology Development Fund	—	4,500	(4,500)	—	—
Conservation Fund expenses	—	(2,339)	2,339	—	—
Technology Development Fund expenses	—	(1,251)	1,251	—	—
Purchase of capital assets (net)	5,755	—	(5,755)	—	—
Balance, end of the year	\$ 11,236	\$ 12,581	\$ (24,970)	\$ (1,153)	\$ (1,632)

See accompanying notes to financial statements.

Statement of Cash Flows

(in thousands of dollars)

Year ended December 31, 2010, with

comparative figures for 2009

	2010	2009
Cash Flows from Operating Activities:		
Excess (deficiency) of revenue over expenses	\$ 479	\$ (13,630)
Items not involving cash:		
Amortization of capital assets	2,229	1,466
Amortization of deferred rent inducement	(145)	(144)
Amortization of other financial accounts	14,423	15,665
Change in non-cash operating items (note 12)	30,591	21,514
	47,577	24,871
Cash Flows from Financing Activities:		
Repayment of other liabilities	–	(19,587)
Received for other liabilities	68	18,099
Increase in other financial assets	(436)	(727)
Increase (decrease) in other financial liabilities	35,877	(49,099)
	35,509	(51,314)
Cash Flows from Investing Activities:		
Purchase of capital assets	(5,755)	(3,692)
	(5,755)	(3,692)
Increase (decrease) in cash and cash equivalents	77,331	(30,135)
Cash and cash equivalents, beginning of year	19,932	50,067
Cash and cash equivalents, end of year	\$ 97,263	\$ 19,932

Supplemental cash flow information:	2010	2009
Interest paid	\$ 885	\$ 335
Interest received	\$ 1,104	\$ 706

See accompanying notes to financial statements

Notes to Financial Statements

(in thousands of dollars)

Year ended December 31, 2010

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 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 earned.

(c) Cash and cash equivalents:

Cash and cash equivalents are comprised of bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 90 days.

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended December 31, 2010

2) Significant accounting policies (continued):**(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	4 years
Computer software	3 to 5 years
Audio-visual equipment	10 years
Telephone system	5 years
Leasehold improvements	Term of lease plus extension option

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 by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Assets to be disposed of would be separately presented in the 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 2010, 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 does not have sufficient 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.

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended December 31, 2010

2) Significant accounting policies (continued):**(g) Future Accounting Standards:**

In December 2010, the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("AcSB") and the Public Sector Accounting Board ("PSAB") released the accounting standards impacting the future financial reporting framework for not-for-profit organizations. These standards were released as a result of a joint, comprehensive standard setting process by both Boards. These standards are effective for years beginning on or after January 1, 2012. Organizations have an option to early adopt these new standards.

Under the new accounting standards issued by the PSAB, government not-for-profit organizations will apply public sector accounting standards contained in the Public Sector Accounting (PSA) Handbook. To aid in the transition to public sector accounting standards, the PSAB has included the former Section 4400 series of accounting standards used currently by not-for-profit organizations in the PSA Handbook with minimal changes. These not-for-profit accounting standards are the Section 4200 series in the revised PSA Handbook.

Government not-for-profit organizations have the option of applying the PSA Handbook supplemented by the Section 4200 series or applying the PSA Handbook without the Section 4200 series.

The OPA is continuing to review the potential impacts of the transition in accounting standards on its financial statements.

3) Accounts receivable:

	2010	2009
Receivable from IESO (note 13)	\$187,789	\$173,253
Conservation charges	98,059	32,957
Renewable energy fund charges	1,126	–
Other	1,232	320
HST/GST receivable	917	–
	\$289,123	\$206,530

4) Capital assets:

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Furniture and equipment	\$ 3,277	\$ 1,218	\$ 2,059	\$ 1,974
Computer hardware	4,405	3,075	1,330	2,651
Computer Software	4,623	537	4,086	–
Audio-visual equipment	229	104	125	148
Telephone system	338	195	143	209
Leasehold improvements	5,047	1,554	3,493	2,728
	\$ 17,919	\$ 6,683	\$ 11,236	\$ 7,710

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended December 31, 2010

5) Other financial assets and liabilities:

The OPA records certain assets, liabilities and deferrals which 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, government procurement deferral account and the global adjustment account.

	2010	2009
Other financial assets	\$ 15,689	\$ 29,676
Other financial liabilities	(49,966)	(14,089)

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 financial asset as the electricity market funds paid are recoverable from the market and its participants. When the HOEP is less than the RPP, the OPA receives the difference and records a financial liability as the funds received will be returned to the market and its participants. 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.

	2010	2009
OPG rebate contribution	\$ (599,107)	\$ (591,671)
Total RPP variance before interest	534,311	562,208
Interest earned	14,830	15,374
	\$ (49,966)	\$ (14,089)

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 HOEP is greater than the contract price, the OPA receives payments from the retailers and records a financial liability. When HOEP is less than the contract price, the OPA pays the retailer and records a financial 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.

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended December 31, 2010

5) Other financial assets and liabilities (continued):

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 - 2011. The OPA began amortizing the accumulated balance in 2009 on a straight-line basis over the three-year recovery period. The amortization expense for 2010 is \$14,324 (2009 - \$14,324).

	2010	2009
2005 retailer contract settlement account	\$ (13,627)	\$ (26,201)
2006 retailer contract settlement account	18,004	34,616
2007 retailer contract settlement account	12,401	23,843
2008 retailer contract settlement account	45	87
2009 retailer contract settlement account	191	367
2010 retailer contract settlement account	359	–
Retailer contract discount settlement account	(1,684)	(3,237)
	\$ 15,689	\$ 29,475

Government procurement deferral account

The OPA reimburses the government for costs incurred for electricity procurement and records the costs as a financial asset. The remaining balance of 2008 government procurement costs of \$102 were requested in the 2010 revenue requirement submission. The balance of \$99 was recovered and amortized in 2010 based on actual amount. Subsequently, the over accrued balance of \$102 was written off. Any subsequent balances will be included in future revenue requirement submissions. The OPA began amortizing the government procurement costs in 2009 on a straight-line basis, with amortization for 2010 totalling \$99 (2009 - \$1,341).

	2010	2009
Government procurement costs	\$ –	\$ 201

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 2 (DR2), Demand Response 3 (DR3), non-utility generation (NUG), regulated nuclear generation balancing amount (nuclear) and regulated hydro electric generation balancing amount (hydro). These accounts are settled simultaneously by the IESO. The account also records the amounts paid and received for OPA contracts (standard offer, generation and conservation/demand management, Feed-In Tariff and hydroelectric contract initiatives) which the OPA settles on a monthly basis with the IESO.

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended December 31, 2010

5) Other financial assets and liabilities (continued):

The DR3, NUG, nuclear, hydro and OPA contract 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.

	2010	2009
DR2	\$ 12,448	\$ –
DR3	17,536	8,121
NUG	959,670	961,613
Nuclear	882,214	1,367,679
Hydro	7,146	183,575
OPA Contracts	1,969,859	1,697,901
Global adjustment balancing amount	(3,848,873)	(4,218,889)
	\$ –	\$ –

6) Accounts payable and accrued liabilities:

	2010	2009
Accrued contract settlements	\$ (189,002)	\$ (171,136)
HST payable	–	(11,457)
Other accrued liabilities	(107,252)	(32,302)
	\$ (296,254)	\$ (214,895)

7) Contract deposits:

The OPA receives performance security in the form of deposit amounts received from renewable energy supply, Feed-In Tariff (FIT) Program and demand response suppliers. For suppliers engaged in a contract which involves the construction of a new supply facility, the deposits are larger during the construction phase and are reduced once a project commences commercial operations. Deposits related to the FIT Program are submitted to the OPA with the supplier application and can be returned if one of the following occurs: (a) the supplier withdraws their application from the Program; (b) the supplier obtains a contract with the OPA; or (c) the supplier's application is rejected by the OPA.

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

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended December 31, 2010

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, 2010, the deferred rent inducement, net of amortization, was \$691 (2009 - \$836).

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, 2010, the accrued liability was \$321 (2009 - \$313).

Lease commitments for premises are set to terminate by October 2015. Lease commitments include amounts for leased computer hardware. Computer hardware commitments terminate between 2012-2013. The minimum annual payments under the operating lease are approximated as follows:

2011	\$ 1,687
2012	1,678
2013	1,652
2014	1,650
2015	1,294
	\$ 7,961

9) Internally restricted conservation and technology 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, 11 funds have been set up as depicted in the table below.

	Restricted Fund	Expensed 2010	Expensed Prior Years	Balance 2010
2005 Conservation Fund	\$ 1,100	\$ —	\$ 837	\$ 263
2006 Conservation Fund	1,500	—	1,575	(75)
2007 Conservation Fund	3,000	25	2,649	326
2008 Conservation Fund	3,000	941	1,634	425
2009 Conservation Fund	3,000	1,242	433	1,325
2010 Conservation Fund	5,000	131	—	4,869
2006 Technology Development Fund	1,000	—	487	513
2007 Technology Development Fund	1,000	18	632	350
2008 Technology Development Fund	1,500	460	1,077	(37)
2009 Technology Development Fund	1,500	509	605	386
2010 Technology Development Fund	4,500	264	—	4,236
	\$ 26,100	\$ 3,590	\$ 9,929	\$ 12,581

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended December 31, 2010

10) General operating costs:

	2010	2009
General program costs	\$ 4,799	\$ 4,970
Premises	3,447	2,737
Information technology	1,046	745
Office and administration	948	967
	\$ 10,240	\$ 9,419

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 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, 2010, the OPA paid or accrued contributions totalling \$1,916 (2009 - \$1,572) during the year.

12) Change in non-cash operating items:

	2010	2009
Increase in accounts receivable	\$ (82,593)	\$ (133,015)
Decrease in prepaid expenses	43	172
Increase in accounts payable and accrued liabilities	81,359	119,100
Increase in contract deposits	31,782	35,257
	\$ 30,591	\$ 21,514

13) Related party transactions:

The OPA considers the OEB, Hydro One, the IESO, OPG, Ontario Financing Authority (OFA), and the Ministry of Energy 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 2010 the OPA was allocated a portion of the operating costs of the OEB. The total of the OPA's transactions with the OEB were \$1,147 in 2010 (2009 - \$1,083).

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 2010, the OPA procured \$31,359 in conservation demand management (2009 - \$18,682) from Hydro One and its wholly owned subsidiaries.

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended December 31, 2010

13) Related party transactions (continued):

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 2010 was \$76,830 (2009 - \$66,015). In addition, the OPA and the IESO have agreements set up for the settlement of amounts paid and received for the global adjustment account, RPP, and retailer contract settlement deferral accounts on behalf of the various market participants (see note 5). At December 31, 2010, the OPA had a net receivable of \$187,789 (2009 - \$173,253). The OPA also incurred \$447 in 2010 (2009 - \$350) for IESO consulting services.

The OPA has an agreement with OPG for consulting services and planning support. In 2010, the OPA incurred \$nil (2009 - \$13) for such services.

The OPA has available a revolving operating facility in the amount of \$975,000, provided by the OPA to fund its general operating expenses and support the RPP variance account. The line of credit was renewed in 2010 for a three-year term from January 1, 2011 to December 31, 2013. No amounts were drawn on this facility as at December 31, 2010.

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 \$nil was incurred in 2010 (2009 - \$99).

14) Contingencies and guarantees:**Contingencies:**

(a) 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, 2010 in the opinion of management, no such liabilities exist.

(b) In October 2009, the OPA signed a contract with TransCanada Energy Ltd. to design, build and operate a 900 megawatt (MW) electricity generating station in Oakville over a 20-year term. As a result of the cancellation of this natural gas plant at the direction of the Ministry of Energy of Ontario during October 2010, the OPA may be contingently liable under the original contract. At this time, any potential settlement amount is undeterminable.

(c) 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, 2010, 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 which the OPA has guaranteed, is \$106 as at December 31, 2010 and is not presently in default. The contract related to this guarantee expires in September 2012.

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended December 31, 2010

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 other financial assets and other financial 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) Capital Disclosures:

Due to the OPA's primary objectives (note 1), the OPA plans for revenues to fund expenses. Any variances that occur are addressed in the following year revenue requirement submission. The OPA submitted the proposed 2011 expenditures, revenue requirements, and fees to OEB for review on November 2, 2010 after approval by the Minister. The Minister provided formal approval of OPA's business plan on November 1, 2010. As of February 24, 2011, the OEB has not approved the OPA's proposed usage fee for 2011.

17) Financial risk management:

The OPA is exposed to financial risks in the normal course of its business operations, including market risks resulting from credit risk and liquidity risk. The nature of the financial risks and the OPA's strategy for managing these risks has not changed significantly from the prior year.

(a) Credit risk:

Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The OPA is exposed directly to credit risk related from accounts receivable and bank deposits held at the chartered bank. Direct exposure to credit risk is limited to the carrying amount presented for these assets on the statement of financial position. Accounts receivable as of December 31, 2010 included no material items past due.

(b) Liquidity risk:

Liquidity risk refers to the risk that the OPA will encounter financial difficulty in meeting obligations associated with its financial liabilities. The OPA manages liquidity risk by forecasting cash flows to identify financing requirements. Cash flows from operations and maintaining appropriate credit facilities reduce liquidity risk.

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**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 29, 2011.

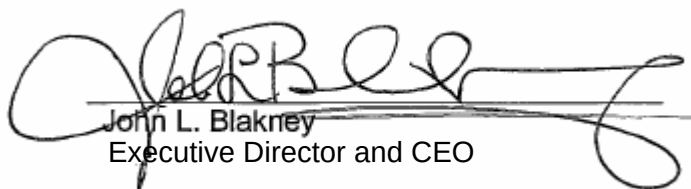
Management is responsible for the integrity of the financial statements and maintains a system of internal accounting and administrative control that is designed to provide reasonable assurance the financial information is relevant, reliable and accurate and that the Commission's assets are properly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

Independent Auditor's Report

To the Ontario Racing Commission
and to the Ministry of Finance

I have audited the accompanying financial statements of the Ontario Racing Commission, which comprise of the balance sheet as at March 31, 2011, and the statement of operations and retained income and statement of cash flows for the year then ended, and a summary of accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Racing Commission as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gary Peall, CA
Deputy Auditor General
Licensed Public Accountant

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Toronto, Ontario
June 29, 2011

Ontario Racing Commission

Balance Sheet

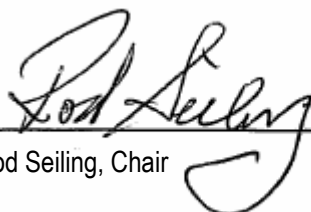
As at March 31, 2011

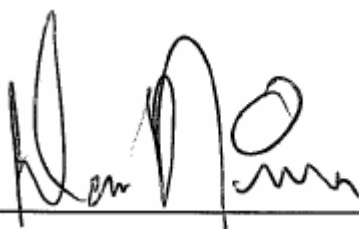
	2011 (\$ 000)	2010 (\$ 000)
ASSETS		
Current		
Cash	2,541	2,093
Restricted cash (Note 4)	4,652	6,917
Accounts receivable	680	202
Prepaid expenses	27	28
	<u>7,900</u>	<u>9,240</u>
Capital assets (Note 9)	<u>305</u>	<u>381</u>
	<u>8,205</u>	<u>9,621</u>
LIABILITIES AND RETAINED INCOME		
Current		
Accounts payable and accrued liabilities	2,040	1,463
Amounts held in trust (Note 4)	4,652	6,917
	<u>6,692</u>	<u>8,380</u>
Long-term		
Accrued benefit obligation [Note 7(C)]	806	721
Deferred lease inducement (Note 13)	230	276
	<u>1,036</u>	<u>997</u>
Retained income	<u>477</u>	<u>244</u>
	<u>8,205</u>	<u>9,621</u>

Commitments and contingencies (Note 10)

See accompanying notes to financial statements.

Approved on behalf of the Commission:


Rod Seiling, Chair


Dan Nixon, Member

Ontario Racing Commission

Statement of Operations and Retained Income For the Year Ended March 31, 2011

	2011 (\$ 000)	2010 (\$ 000)
Revenue		
Wagering levy (Note 5)	5,422	5,567
Licence and registration fees	4,831	3,596
Cost recovery from industry (Note 6)	1,823	1,469
Fines and penalties	333	350
Interest income	20	4
Miscellaneous	10	11
Total revenue	12,439	10,997
Expenses		
Salaries and wages	5,956	5,544
Employee benefits (Note 7)	1,391	1,066
Services (Note 11)	3,688	3,359
Transportation and communication	893	1,131
Supplies	180	188
Amortization	98	107
Total expenses	12,206	11,395
Excess/(deficiency) of revenue over expenses	233	(398)
Retained income, beginning of year	244	642
Retained income, end of year (Note 12)	477	244

See accompanying notes to financial statements.

Ontario Racing Commission

Statement of Cash Flows

For the Year Ended March 31, 2011

	2011 (\$ 000)	2010 (\$ 000)
Cash flows from operating activities		
Excess/(Deficiency) of revenue over expenses	233	(398)
Amortization	98	107
	<u>331</u>	<u>(291)</u>
Changes in non-cash items		
Non-cash operating working capital	100	470
Accrued benefit obligation	85	65
Deferred lease inducement	(46)	(46)
	<u>139</u>	<u>489</u>
	<u>470</u>	<u>198</u>
Cash used for investing activity		
Purchase of capital assets	(22)	(54)
Net change in cash position	448	144
Cash position, beginning of year	<u>2,093</u>	<u>1,949</u>
Cash position, end of year	<u>2,541</u>	<u>2,093</u>
Cash is composed of:		
General	1,541	1,093
Reserve (Note 12)	1,000	1,000
	<u>2,541</u>	<u>2,093</u>

See accompanying notes to financial statements.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2011

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.

Cost recovery is recognized as income in the year the related expense was incurred.

(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, 2011

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

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, 2011 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, 2011, 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, 2011, the Commission held funds in trust in interest-bearing bank accounts for others in the horse racing industry, as follows:

	2011 (\$ 000)	2010 (\$ 000)
Amounts held in trust:		
Fort Erie racetrack horsepeople purse account funds	3,888	5,966
Fort Erie Live Racing Consortium	484	500
Total Carbon Dioxide Program	268	440
Quinte racetrack horsepeople purse account funds	12	11
	<u>4,652</u>	<u>6,917</u>

Ontario Racing Commission

Notes to Financial Statements

March 31, 2011

4. Amounts Held in Trust (Continued)

(A) FORT ERIE RACETRACK HORSEPEOPLE PURSE ACCOUNT FUNDS

In December 2008, the Commission ordered the Fort Erie racetrack operator at that time to transfer the horsepeople's purse account funds to the Commission to be held in trust by the Commission. Since that time, a new operator has been licensed to operate the racetrack however the Commission continues to hold some of the horsepeople's purse account funds in trust.

(B) FORT ERIE LIVE RACING CONSORTIUM

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

(C) TOTAL CARBON DIOXIDE PROGRAM (TCO2)

Beginning in September 2008, an annual agreement is signed between the Commission and the Canadian Pari-Mutuel Agency ("CPMA") that CPMA will provide funding to the Commission to subsidize the cost of tests to detect the presence of alkalinizing agents in horses at racetracks that provide pari-mutuel betting. At that time, the racetrack operators contracted for sample collection and laboratory testing services and received a proportionate amount of this subsidy funding. In October 2010, the Commission assumed direct responsibility for the contract for TCO2 sample collection and laboratory testing services. As a result, the cost and funding of this program has begun to be reflected as services expenditure and cost recovery from industry, respectively.

Subsidies for the fiscal year 2010-2011 had been fully received from the CPMA and will be disbursed to the racetracks after March 31, 2011.

(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 2009 calendar year.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2011

6. Cost Recovery from Industry

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

	2011 (\$ 000)	2010 (\$ 000)
Cost recovery from:		
Equine Medication and Drug Control	1,005	1,000
TCO2 Program	320	-
Horse Improvement Program	213	317
Quarter Horse Racing Industry Development Program	123	114
Miscellaneous	117	17
Due Diligence	25	-
Purse Account Examinations	20	21
	<u>1,823</u>	<u>1,469</u>

(A) EQUINE MEDICATION AND DRUG CONTROL

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 covered the two year period from January 1, 2007 through December 31, 2008, required 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. Since the expiration of that initial two year agreement, the Commission has arranged to continue administering the Task Force under the same terms and financial arrangements. As of March 31, 2011, all Task Force funding from the industry had been spent.

(B) TOTAL CARBON DIOXIDE PROGRAM (TCO2)

As of October 1, 2010, the Commission assumed responsibility for the sample collection and laboratory testing services of the TCO2 Program. The costs of tests to detect the presence of alkalinizing agents in horses at racetracks that provide pari-mutuel betting are included as Services in the Statements of Operations and Retained Income. These expenses are fully recovered and included as Cost Recovery from Industry through charges to the racetrack operators, net of CPMA funding subsidies.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2011

6. Cost Recovery from Industry (Continued)

(C) 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. Separate financial statements have been prepared for the HIP, which were audited by an independent public accounting firm.

(D) 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. Separate financial statements have been prepared for the QHRIDP, which were audited by an independent public accounting firm.

(E) PURSE ACCOUNT 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.

7. Employee Benefits

(A) PENSION BENEFITS

The Commission's full-time employees participate in the Public Service Pension Plan (PSPP), 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 PSPP, 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 \$320,170 (2010-\$321,250), 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 Government of Ontario and is not included in the Statement of Operations and Retained Income.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2011

7. Employee Benefits (Continued)

(C) ACCRUED BENEFIT OBLIGATION

The accrued benefit obligation records earned employee severance payments due upon termination or retirement. In fiscal 2011, the cost of these employee benefits was \$394,116 (2010 – \$87,497) and is included in employee benefits in the Statement of Operations and Retained Income.

8. Members' Remuneration

Total remuneration of the Chair and members of the Commission for the year was \$184,043 (2010 – \$241,707). Members' remuneration is charged to Services in the Statement of Operations and Retained Income.

9. Capital Assets

	2011 (\$ 000)			2010 (\$ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment and software	405	354	51	50
Office furniture and equipment	280	251	29	61
Leasehold improvements	450	225	225	270
	1,135	830	305	381

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)
2012	370	183	553
2013	370	125	495
2014	358	43	401
2015	358	35	393
2016-2017	358	---	358
	1,814	386	2,200

(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.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2011

11. Related Party Transactions

The Commission paid the Province of Ontario for: Ontario Provincial Police investigative and related services totalling \$1,182,316 (2010 – \$1,096,975); and for administrative services, information technology services, and use of computer equipment totalling \$278,332 (2010 – \$270,747).

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(1) of the *Racing Commission Act, 2000* allows the Commission to retain its surplus funds unless, under subsection 13(2), it is ordered by the Minister responsible for the Commission to pay into the Consolidated Revenue Fund of the Province of Ontario the portion of its surplus funds as determined by the Minister. In fiscal 2002, the Commission obtained approval from the 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.

14. Accounting Policy Transition

In 2009, the Public Sector Accounting Board approved amendment to “Introduction to Public Sector Accounting Standards”. The amendment allowed organizations classified as an Other Government Organization to 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 is planning to adopt Public Sector Accounting standards for fiscal year 2011/12. The impact on the financial statements are not expected to be significant.

Ontario Realty Corporation

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Ontario Realty Corporation have been prepared in accordance with Canadian generally accepted accounting principles of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the recommendations of the Accounting Standards Board (AcSB) of the CICA and are the responsibility of management.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors oversees management's responsibilities for financial reporting through the Audit Committee. The Audit Committee reviews the financial statements and recommends them to the Board for approval.

The financial statements have been audited by 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 outlines the scope of the Auditor's examination and opinion.

On behalf of management,

A stylized, handwritten signature in dark ink, consisting of a large, sweeping loop followed by a horizontal stroke.

J. David Livingston
President and Chief Executive Officer

A handwritten signature in dark ink, appearing to read 'Dale Lawr' with a cursive flourish at the end.

Dale M. Lawr
Chief Financial Officer



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

Independent Auditor's Report

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

I have audited the accompanying financial statements of the Ontario Realty Corporation, which comprise the balance sheet as at March 31, 2011, and the statement of operations and retained earnings and the statement of cash flows for the year then ended, and a summary of accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Realty Corporation as at March 31, 2011 and its financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 16, 2011

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

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www.auditor.on.ca

ONTARIO REALTY CORPORATION

(A Crown Corporation of the Province of Ontario)

(thousands of dollars)

BALANCE SHEET

As at March 31	2011	2010 (note 14)
ASSETS		
Current assets		
Cash and cash equivalents (notes 8b and 8c)	\$ 44,029	\$ 42,780
Accounts receivable (note 8d)	6,738	5,033
Prepaid expenses	699	1,305
	<u>51,466</u>	<u>49,118</u>
Capital assets (note 4)	4,892	6,516
	<u>\$ 56,358</u>	<u>\$ 55,634</u>
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,942	\$ 9,162
Deferred revenue (note 8a)	1,136	774
Provision for restructuring costs (note 3)	5,666	920
	<u>13,744</u>	<u>10,856</u>
RETAINED EARNINGS	42,614	44,778
	<u>\$ 56,358</u>	<u>\$ 55,634</u>
Funds held in trust (note 5)		
Commitments (note 6)		
Contingencies (note 7)		

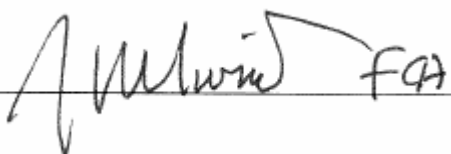
The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

On behalf of the Board:

Director:



Director:



ONTARIO REALTY CORPORATION

(A Crown Corporation of the Province of Ontario)

(thousands of dollars)

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

Year Ended March 31	2011	2010 (note 14)
REVENUE		
Grants (note 8a)	\$ 22,545	\$ 23,344
Management fees (note 8a)	20,745	24,412
Direct recoverable costs (note 8a)	12,199	15,202
Bank interest and other income (note 8c)	316	126
	<u>55,805</u>	<u>63,084</u>
EXPENSES		
Salaries and benefits (notes 3, 8e and 9)	35,020	42,206
Direct operating expenses (note 8f)	15,227	17,884
Amortization	1,953	2,089
	<u>52,200</u>	<u>62,179</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE RESTRUCTURING COSTS	3,605	905
Provision for restructuring costs (note 3)	<u>(5,769)</u>	<u>98</u>
NET (SHORTFALL) EXCESS OF REVENUE OVER EXPENSES	(2,164)	1,003
RETAINED EARNINGS, BEGINNING OF YEAR	44,778	43,775
RETAINED EARNINGS, END OF YEAR	\$ 42,614	\$ 44,778

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)

(thousands of dollars)

STATEMENT OF CASH FLOWS

Year Ended March 31	2011	2010 (note 14)
Cash flow from operating activities:		
Net (shortfall) excess of revenue over expenses	\$ (2,164)	\$ 1,003
Amortization	1,953	2,089
	(211)	3,092
Changes in non cash working capital:		
(Increase) Decrease in accounts receivable	(1,705)	912
Decrease (Increase) in prepaid expenses	606	(399)
(Decrease) in accounts payable and accrued liabilities	(2,220)	(436)
Increase in deferred revenue (note 8a)	362	774
Increase (Decrease) in provision for restructuring costs (note 3)	4,746	(98)
	1,578	3,845
Cash flow from investing activities:		
Purchase of capital assets	(329)	(1,075)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,249	2,770
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	42,780	40,010
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 44,029	\$ 42,780

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)

March 31, 2011

(thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

NATURE OF THE CORPORATION

The Ontario Realty Corporation (Corporation) was established under the *Capital Investment Plan Act 1993* (Act) as a Crown Corporation of the Province of Ontario (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 Infrastructure (MOI).

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 47.6 million rentable square feet: 37.1 million owned by the Province and 10.5 million leased from the private sector, as well as 97,520 acres of land owned by the Province (Government Real Estate Portfolio).

As described in Note 12, the Corporation is being amalgamated with Ontario Infrastructure Projects Corporation and Stadium Corporation of Ontario Limited. It will continue its operations under the name Ontario Infrastructure and Lands Corporation.

1. BASIS OF PRESENTATION

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a) Revenue**

Grant received from MOI for in-year corporate expenses is recognized as revenue when costs are incurred.

Management fees and direct recoverable costs are recognized as revenue when services are provided or the related expenses are incurred and collection is reasonably assured.

ONTARIO REALTY CORPORATION

(A Crown Corporation of the Province of Ontario)

March 31, 2011

(thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

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 no greater than 90 days.

c) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions 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. Significant estimates include, but are not limited to impairment of long-lived assets and useful lives of capital assets. 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

The Corporation reviews the carrying value of long-lived assets for potential impairment when there is evidence that events or changes in circumstances exist that indicate the carrying value might not be recoverable. The recoverability of long-lived assets is determined by evaluating whether the carrying value of such assets can be recovered from estimated undiscounted future operating cash flows. When an asset is impaired, according to the foregoing test, an impairment loss is measured and recognized as the excess of the carrying value of the asset over its fair value. No such impairment loss has been incurred to date.

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.

ONTARIO REALTY CORPORATION

(A Crown Corporation of the Province of Ontario)

March 31, 2011

(thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

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. The Corporation accounts for the plan 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.

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, 2011:

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

The carrying amounts of cash and cash equivalents, accounts receivable 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.

3. RESTRUCTURING COSTS

As disclosed in Note 12, Ontario Realty Corporation amalgamated with Ontario Infrastructure Projects Corporation and Stadium Corporation of Ontario effective June 6, 2011, continuing as Ontario Infrastructure and Lands Corporation. The purpose of the merger was to rationalize the three similar operations and reduce redundant costs.

During fiscal 2009, the Corporation decided to contract out its regional property and land management services commencing April 2010.

ONTARIO REALTY CORPORATION

(A Crown Corporation of the Province of Ontario)

March 31, 2011

(thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

Provision for restructuring costs consist of the following:

	2011			2010		
	Corporate Restructuring	Regional Property Management Restructuring	Total	Corporate Restructuring	Regional Property Management Restructuring	Total
Balance beginning of year	\$ -	\$ 920	\$ 920	-	\$ 1,018	\$ 1,018
Increase (Decrease) in provision	5,732	37	5,769	-	(98)	(98)
Severance payments	(113)	(910)	(1,023)	-	-	-
Balance end of year	\$ 5,619	\$ 47	\$ 5,666	-	\$ 920	\$ 920

4. CAPITAL ASSETS

Capital assets consist of the following:

	2011			2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	\$ 9,269	\$ 8,728	\$ 541	\$ 1,306
Custom software	4,153	3,743	410	585
Furniture, fixtures and office equipment	1,072	1,025	47	89
Leasehold improvements	6,536	2,642	3,894	4,536
	\$ 21,030	\$ 16,138	\$ 4,892	\$ 6,516

5. 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 the Government Real Estate Portfolio, including provincially-owned and leased properties. The funds held in trust for the Province are \$115,413 (2010 - \$173,136).

ONTARIO REALTY CORPORATION

(A Crown Corporation of the Province of Ontario)

March 31, 2011

(thousands of dollars)

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 years ending March 31

2012	\$ 2 918
2013	2,932
2014	2,932
2015	3,055
2016	3,079
Thereafter	4,719
	<u>\$ 19,635</u>

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 dependent on the Province as all of the revenue received from the Province for the provision of services is under the control of the MOI.

The Corporation's prime sources of revenue are:

- i. Grants

Pending the implementation of a full fee structure, corporate operating costs incurred by the Corporation are funded by a grant from MOI.

ONTARIO REALTY CORPORATION

(A Crown Corporation of the Province of Ontario)

March 31, 2011

(thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

ii. Management Fees

Market-based fees are charged for services provided to Government Real Estate Portfolio for Property and Project Management based on a percentage of project costs.

iii. Direct Recoverable Costs

Certain projects and services are provided to MOI and ministries on a cost recovery basis.

- 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 \$33,611 (2010 - \$18,411), invested by the OFA, are included in cash and cash equivalents in the Balance Sheet and interest earned on these investments of \$202 (2010 - \$53) is included in Bank interest and other income in the Statement of Operations and Retained Earnings.
- d) The Corporation's accounts receivable include \$6,365 (2010 - \$4,974) from the MOI and other ministries.
- e) Only classified full-time employees hired prior to November 30, 2001, who have more than ten years pensionable service upon retirement, are entitled to post-retirement non-pension benefits. The cost of these post-retirement non-pension employee benefits is paid by the Province and is not included in the Statement of Operations and Retained Earnings.
- f) The Corporation's direct operating expenses include accommodation costs of \$2,896 (2010 - \$2,645) charged by the MOI's Government Real Estate Portfolio.
- g) As a result of the Corporation's relationship with the Province of Ontario, other related party transactions also exist and have been disclosed in Note 5 - Funds Held in Trust.
- h) 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.

ONTARIO REALTY CORPORATION

(A Crown Corporation of the Province of Ontario)

March 31, 2011

(thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

9. PENSION PLANS

The Corporation's required contributions to pension plans (see note 2e) for the year ended March 31, 2011 were \$1,627 (2010 – \$1,679) and are included in salaries and benefits in the Statement of Operations and Retained Earnings.

10. CAPITAL MANAGEMENT

The Corporation generates positive cash flows from its operations and defines capital as retained earnings of \$42,614 (2010 - \$44,778). 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.

11. 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)

March 31, 2011

(thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

Account 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. 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.

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, 2011, 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 \$434 (2010 - \$414).

ONTARIO REALTY CORPORATION

(A Crown Corporation of the Province of Ontario)

March 31, 2011

(thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

12. SUBSEQUENT EVENT

Legislation to enact the Ontario Infrastructure and Lands Corporation Act, 2011 was proclaimed June 6, 2011, amalgamating the Ontario Infrastructure Projects Corporation, Ontario Realty Corporation and Stadium Corporation of Ontario Limited under the name Ontario Infrastructure and Lands Corporation. Separate audited financial statements have been prepared for Ontario Infrastructure Projects Corporation and Stadium Corporation of Ontario for the year ended March 31, 2011.

13. COMPARATIVE FIGURES

Certain figures in the March 31, 2010 financial statements have been reclassified to conform to the basis of presentation for the year ended March 31, 2011.

ONTARIO SCIENCE CENTRE

Ontario Science Centre Financial Statements for the year ended March 31, 2011 were not available at the time of printing. When available, they will be posted to the website: www.fin.gov.on.ca/en/.

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.



Howard I. Wetston
Chair and Chief Executive Officer



A. Kenneth Gibson, CA
Director, Corporate Services

May 24, 2011



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

Independent Auditor's Report

To the Ontario Securities Commission

I have audited the accompanying financial statements of the Ontario Securities Commission, which comprise the balance sheet as at March 31, 2011, and the statements of operations and operating surplus and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Ontario Securities Commission as at March 31, 2011 and the results of its operations, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

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Toronto, Ontario
May 24, 2011

ONTARIO SECURITIES COMMISSION**Balance Sheet**

As at March 31,

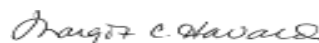
	2011	2010
ASSETS		
CURRENT		
Cash	\$ 26,503,743	\$ 35,592,848
Accounts receivable	2,151,928	1,046,029
Prepaid expenses	765,481	505,472
	29,421,152	37,144,349
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 5)	43,603,984	43,495,838
FUNDS IN TRUST (Note 6)	64,880,151	49,135,268
RESERVE FUND ASSETS (Note 7)	20,000,000	20,000,000
PREMISES AND EQUIPMENT (Note 8)	3,691,175	5,351,254
	\$ 161,596,462	\$ 155,126,709
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$13,374,631	\$ 11,686,270
Current portion of obligation under capital leases (Note 13(b))	78,778	107,899
	13,453,409	11,794,169
NON-CURRENT		
Obligation under capital leases (Note 13(b))	1,631	88,522
Pension liabilities (Note 9(b))	1,883,446	1,747,190
	15,338,486	13,629,881
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 5)	43,603,984	43,495,838
FUNDS IN TRUST (Note 6)	64,880,151	49,135,268
SURPLUS		
OPERATING		
General (Note 10)	17,675,597	28,767,478
Reserve (Note 7)	20,000,000	20,000,000
	37,675,597	48,767,478
CONTRIBUTED	98,244	98,244
	37,773,841	48,865,722
	\$ 161,596,462	\$ 155,126,709

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


Howard I. Wetston, Q.C.
Chair

Margot C. Howard
Chair, Audit and Finance Committee

ONTARIO SECURITIES COMMISSION**Statement of Operations and Operating Surplus**

For the year ended March 31,

	2011	2010
REVENUES		
Fees (Note 10)	\$ 72,566,666	\$ 60,928,330
Investment income	298,018	460,044
Miscellaneous	90,128	77,243
	72,954,812	61,465,617
EXPENSES		
Salaries and benefits (Note 14(d))	65,958,301	61,673,500
Occupancy (Note 13(a))	6,525,669	6,444,891
Administrative	6,195,206	6,567,220
Amortization	2,980,974	2,705,055
Professional services	2,648,338	2,465,416
Other	441,086	464,207
	84,749,574	80,320,289
Recoveries of enforcement costs (Note 12)	(702,881)	(870,397)
	84,046,693	79,449,892
DEFICIENCY OF REVENUES OVER EXPENSES	(11,091,881)	(17,984,275)
OPERATING SURPLUS, BEGINNING OF YEAR	48,767,478	78,751,753
LESS: Distribution to Province of Ontario (Note 14(b))	-	12,000,000
OPERATING SURPLUS, END OF YEAR	\$ 37,675,597	\$ 48,767,478
Represented by:		
General	\$ 17,675,597	\$ 28,767,478
Reserve	20,000,000	20,000,000
	\$ 37,675,597	\$ 48,767,478

See accompanying Notes to Financial Statements.

ONTARIO SECURITIES COMMISSION**Statement of Cash Flows**

For the year ended March 31,

	2011	2010
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Deficiency of revenues over expenses	\$ (11,091,881)	\$ (17,984,275)
Items not affecting cash		
Increase in pension liabilities	136,256	100,622
Loss on disposal of premises and equipment	-	1,683
Amortization	2,980,974	2,705,055
	(7,974,651)	(15,176,915)
Changes in non-cash working capital:		
Accounts receivable	(1,105,899)	458,845
Prepaid expenses	(260,009)	332,028
Accounts payable and accrued liabilities	1,688,361	(490,656)
	322,453	300,217
	(7,652,198)	(14,876,698)
Cash flows from financing activities		
Repayment of obligations under capital leases	(116,012)	(149,860)
	(116,012)	(149,860)
Cash flows from investing activities		
Purchase of premises and equipment (Note 8)	(1,320,895)	(1,372,927)
	(1,320,895)	(1,372,927)
NET DECREASE IN CASH POSITION	(9,089,105)	(16,399,485)
CASH POSITION, BEGINNING OF YEAR	35,592,848	51,992,333
CASH POSITION, END OF YEAR	\$ 26,503,743	\$ 35,592,848

See accompanying Notes to Financial Statements.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2011

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 between knowledgeable, willing parties who are under no compulsion to act.

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 receivables

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

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2011

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.

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 and are deemed to be earned upon receipt.

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 in respect of insider trading reports are recognized on the 15th and at the end of each month and include fees related to 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.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2011

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. 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 1.01%) and the Reserve fund earned interest at an average rate of 0.80%.

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	\$ 40,176	\$ (40,176)
Reserve Fund balance	43,468	(43,468)
	<u>\$ 83,644</u>	<u>\$ (83,644)</u>

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 99% 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.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2011

The OSC's accounts receivable balance consists of a large number of debtors with individually immaterial outstanding balances, and amounts receivable from the Government of Canada for the recovery of the Harmonized Sales Tax paid during the year and from the Canadian Securities Transition Office for staff seconded to that office. 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.

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

	2011	2010
Current	\$ 1,260,248	\$ 578,632
Past due 31 to 60 days	726,266	296,124
Past due 61 to 90 days	76,178	69,940
Past due greater than 90 days	954,746	897,413
	<u>\$ 3,017,438</u>	<u>\$ 1,842,109</u>

Reconciliation of allowance for doubtful accounts:

	2011	2010
Opening balance	\$ 796,080	\$ 817,366
Current year provision	86,265	19,869
Write-off during the year	(16,835)	(41,155)
Closing balance	<u>\$ 865,510</u>	<u>\$ 796,080</u>

The accounts receivable balance of \$2,151,928 is the sum of the total receivable of \$3,017,438 less the allowance for doubtful accounts of \$865,510.

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, 2011, the OSC had a cash balance of \$26,503,743 to settle current liabilities of \$13,453,409.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2011

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 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.

The balance at March 31, 2010 included a settlement for \$1,900,000, the allocation of which was 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. During the year, the Minister approved an allocation to the Ministry of Finance for financial literacy.

As at March 31, 2011, the accumulated balance is determined as follows:

	2011	2010
Opening balance	\$ 43,495,838	\$ 17,180,263
Settlements and Orders	4,527,223	29,842,804
Interest	449,785	125,771
Payments		
Investor Education Fund (Note 15(b)(i))	(2,968,862)	(3,370,000)
Ministry of Finance – Financial Literacy	(1,900,000)	-
Others	-	(283,000)
Closing balance	\$ 43,603,984	\$43,495,838
Represented by:		
Cash	\$ 42,860,235	\$ 43,392,254
Receivables	743,749	103,584
	\$ 43,603,984	\$ 43,495,838

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2011

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, 2011 were \$64,880,151 (2010 - \$49,135,268), representing total payments received to date of \$62,644,618 (2010 - \$46,907,190) and interest earned to date of \$2,873,542 (2010 - \$2,310,262), less payments issued to date totalling \$638,009 (2010 - \$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 applicable 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 Canadian Securities Administrators (CSA) plan 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, 2011, accumulated payments, related to the development or enhancement of the systems, totalled \$638,009 (2010 - \$82,184).

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 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, 2011, have been invested in Government of Ontario treasury bills with the Ontario Financing Authority, with maturity dates no later than October 19, 2011.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2011

8. PREMISES AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2011 Net Book Value</u>	<u>2010 Net Book Value</u>
Office furniture	\$ 4,123,859	\$ 3,660,545	\$ 463,314	\$ 654,518
Office equipment	581,182	557,088	24,094	62,821
Computer hardware and related applications	15,664,187	13,998,391	1,665,796	2,080,565
Computer hardware and related applications held under capital leases	421,594	421,468	126	155,010
Leasehold improvements	9,957,150	8,419,305	1,537,845	2,398,340
	<u>\$ 30,747,972</u>	<u>\$ 27,056,797</u>	<u>\$ 3,691,175</u>	<u>\$ 5,351,254</u>

During the year, premises and equipment were acquired at an aggregate cost of \$1,320,895 (2010 - \$1,372,927), none of which were acquired by means of capital leases (2010 - \$0).

9. PENSION PLANS

- a) All eligible OSC employees must, and members may, participate in the Ontario Public Service Pension Plan. The OSC's contribution to the Public Service Pension Plan for the year ended March 31, 2011 was \$3,881,224 (2010 - \$3,713,737), 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 \$2,021,767 at March 31, 2011 (2010 - \$1,782,872) and an accrued benefit liability (ABL) of \$1,883,446 (2010 - \$1,747,190). The difference between the ABO and the ABL represents the unamortized net actuarial loss of \$56,030 (2010 - \$35,682) and the amount of unamortized past service costs of \$82,291 (2010 - \$0). The OSC's expense related to the supplemental pension plans for the year was \$221,041 (2010 - \$197,519) and is included in salaries and benefits. Benefits totalling \$117,331 were paid during the year (2010 - \$96,897). The average remaining service lifetime of the active members covered by these plans ranges from 0.17 to 1.89 years at March 31, 2010 (2009 - 1.0 to 2.89 years); the 2010 figures were used for amortization purposes in fiscal 2011. The average life expectancy of the non-active members ranges from 15.16 to 31.40 years at March 31, 2010 (2009 - 15.90 to 32.35 years). The significant actuarial assumptions adopted at March 31, 2011 include a discount rate of 5% (2010 - 5.25%) on the ABO, 5.25% (2010 - 6.5%) on the benefit cost and a rate of compensation increase ranging from 0% to 2.1%, as applicable (2010 - 2.0% to 2.1%).

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2011

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 Commission revised its participation fees and activity fees effective April 5, 2010. The forecasted General Operating Surplus at March 31, 2010 was used to establish the revised participation fees rates.

Details of fees received for the year ended March 31, 2011 are as follows:

	<u>2011</u>	<u>2010</u>
Participation Fees	\$ 58,403,578	\$ 49,068,114
Activity Fees	11,777,063	9,828,324
Late Filing Fees	2,386,025	2,031,892
Total	<u>\$ 72,566,666</u>	<u>\$ 60,928,330</u>

11. COMMITMENTS AND CONTINGENCIES

- a) The OSC has committed to paying its share of annual shortfalls resulting from the operations of SEDAR (45.1%), SEDI (25%) and NRD (36.07%), should they occur and accumulated surpluses are unavailable. The systems are operated by an external agency on behalf of the CSA under agreements dated as of August 1, 2004 for SEDAR, October 26, 2001 for SEDI and June 13, 2003 for NRD. The Alberta Securities Commission, the British Columbia Securities Commission, L'Autorité des marchés financiers, and the Investment Industry Regulatory Organization of Canada (in the case of NRD only) have also committed to paying specified percentages of any annual deficit in the systems.

In the current year, there were no 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, 2011, \$25,825,385 (2010 - \$22,394,935) of the total funds held in trust is available for SEDAR, \$10,396,081 (2010 - \$7,495,057) is available for SEDI, and \$28,118,685 (2010 - \$19,245,276) is available for NRD.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2011

- 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 2011, the OSC recorded \$702,881 (2010 - \$870,397) in recoveries of enforcement costs of which \$297,881 (2010 - \$741,198) was for internal resources and \$405,000 (2010 - \$129,199) 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:

2012	-	\$ 6,085,247
2013	-	\$ 2,538,141
2014	-	\$ 3,800

There are currently no lease commitments beyond 2014. The OSC premises lease expires in August 2012. The OSC must notify the landlord of its leasing intentions by August 2011.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2011

b) Capital Leases

The OSC has entered into capital lease agreements for computer hardware and related applications. Leases that transfer substantially 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, 2011 is \$7,053 (2010 - \$17,764). The following is a schedule of future minimum lease payments for the capital leases, which expire on or before April 30, 2012:

Year Ending March 31,	
2012	80,577
2013	1,638
Total minimum lease payments	82,215
Less: Amount representing interest at 5%	1,806
Balance of the obligation	\$ 80,409

The total obligation under capital leases of \$80,409 consists of a current portion of \$78,778 and a non-current portion of \$1,631.

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 2010, the OSC remitted \$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, 2011

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, 2011 and 2010 and for the two years ended March 31, 2011 are as follows:

INVESTOR EDUCATION FUND

	2011	2010
Financial Position		
Total assets	\$ 2,408,961	\$ 2,498,362
Less: Total liabilities	482,465	532,082
Total net assets	1,926,496	1,966,280
Less: Invested in premises and equipment	142,904	249,746
Available for Fund purposes	<u>\$ 1,783,592</u>	<u>\$ 1,716,534</u>

Results of Operations

Total contributions and interest income	\$ 2,988,996	\$ 3,378,477
Total expenses	3,028,780	3,051,414
Excess/(Deficiency) of revenue over expenses	<u>\$ (39,784)</u>	<u>\$ 327,063</u>

Cash flows

Cash flows from operating activities		
Cash receipts from the OSC	\$ 2,968,862	\$ 3,370,000
Cash receipts from third parties	178,106	202,422
Interest income received	19,133	8,812
Cash paid for initiatives and expenses	(3,339,727)	(2,725,925)
Cash paid for premises and equipment	(23,134)	(178,596)
Net increase (decrease) in cash position	(196,760)	676,713
Cash position, beginning of period	2,228,573	1,551,860
Cash position, end of period	<u>\$ 2,031,813</u>	<u>\$ 2,228,573</u>

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2011

- b) During the year, the OSC entered into transactions with the Fund as follows:
- i) The OSC paid \$2,968,862 to the Fund (2010 - \$3,370,000). 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, 2011, the OSC incurred costs totalling \$764,092 (2010 - \$703,456) for services related to the Fund. The total cost of these services has been charged to the Fund and, of this amount, \$160,928 is owing to the OSC as of March 31, 2011 (2010 - \$171,050).

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 OSC, 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. The OSC's first annual IFRS financial statements will be for the year ending March 31, 2012, and will include the comparative period of 2011.

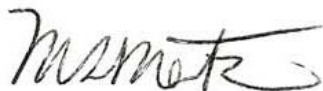
Ontario Tourism Marketing Partnership Corporation

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 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.

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 Directors, whose report follows.



Marlene Stirrett-Matson
Director, Corporate Services
June 23, 2011



Lidia Maleckyj
Treasurer
June 23, 2011



Tel: 905 270-7700
Fax: 905 270-7915
Toll-free: 866 248 6660
www.bdo.ca

BDO Canada LLP
1 City Centre Drive, Suite 1700
Mississauga ON L5B 1M2 Canada

Independent Auditor's Report

To the Board of Directors of
Ontario Tourism Marketing Partnership Corporation

We have audited the accompanying financial statements of Ontario Tourism Marketing Partnership Corporation, which comprise the balance sheet as at March 31, 2011, statement of operations, statement of changes in fund balances, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Tourism Marketing Partnership Corporation as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'BDO Canada LLP'. The signature is written in a cursive, flowing style.

Chartered Accountants, Licensed Public Accountants

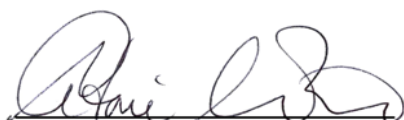
Mississauga, Ontario
June 23, 2011

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Balance Sheet

March 31	2011 (\$ 000)	2010 (\$ 000)
ASSETS		
Current		
Cash	6,205	3,136
Accounts receivable	1,733	930
Due from the province	10,881	6,857
Inventory	106	116
Prepaid expenses	106	35
	<u>19,031</u>	<u>11,074</u>
Capital assets (Note 3)	<u>4,474</u>	<u>4,138</u>
	23,505	15,212
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities	6,817	8,397
Deferred revenue (Note 4)	9,785	1,539
	<u>16,602</u>	<u>9,936</u>
Deferred capital contributions (Note 5)	<u>560</u>	<u>-</u>
	<u>17,162</u>	<u>9,936</u>
Contingent liability (Note 12)		
Fund Balances		
Investment in capital assets	3,914	4,138
Unrestricted	2,429	1,138
	<u>6,343</u>	<u>5,276</u>
	23,505	15,212

Approved on behalf of the Board:



Chair



Director

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Statement of Operations

For the year ended March 31	2011 (\$ 000)	2010 (\$ 000)
Revenues		
Province of Ontario Grant (Note 6)	44,981	50,798
Advertising sales	2,273	2,189
Travel Information Centres - Sales and rentals	908	888
Interest income	81	18
Trade promotions	203	135
Government of Canada	96	100
Marketing research and other revenue	176	171
	<u>48,718</u>	<u>54,299</u>
Expenses		
Advertising and marketing	24,139	29,062
Partnerships and sales	1,713	2,366
Travel Information Centres (Note 7)	6,841	6,484
Administration (Note 8)	7,079	6,961
Tourism consumer information services	2,870	2,860
Events marketing program	2,908	4,161
Research	949	1,017
Amortization of capital assets	1,121	915
Board and committee expenses (Note 9)	31	62
	<u>47,651</u>	<u>53,888</u>
Excess of revenues over expenses	1,067	411

The accompanying notes are an integral part of these financial statements

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Statement of Changes in Fund Balances

For the year ended March 31, 2011

	Unrestricted	Investment in Capital Asset	2011 Total	2010 Total
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
Net assets , beginning of the year	1,138	4,138	5,276	4,865
Excess (deficiency) of revenues over expenditures for the year	2,188	(1,121)	1,067	411
Purchase of capital assets, net	(897)	897	-	-
Net assets , end of year	2,429	3,914	6,343	5,276

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	2011 (\$ 000)	2010 (\$ 000)
Cash provided by operating activities		
Excess of revenues over expenses	1,067	411
Add non-cash items:		
Amortization of capital assets	1,121	915
	<u>2,188</u>	<u>1,326</u>
Change in non-cash working capital	1,778	173
	<u>3,966</u>	<u>1,499</u>
Cash used in investing activities		
Capital asset additions	(1,457)	(1,256)
Cash obtained through financing activities		
Deferred capital contribution	560	(1,256)
	<u>3,069</u>	<u>243</u>
Increase in cash during the year	3,069	243
Cash, beginning of year	3,136	2,893
Cash, end of year	6,205	3,136

The accompanying notes are an integral part of these financial statements

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION**Notes to Financial Statements****March 31, 2011**

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. However, related 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

The corporation follows the deferral method of accounting for revenues.

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 Centres – 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, 2011**

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 donated 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) Inventory

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

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

(e) Capital Assets

All capital assets are recorded at cost. 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.

Assets in progress represent assets under construction or development. These assets are not amortized until they are put in use.

(f) Deferred Capital Contributions

Deferred capital contributions represent amounts received from Ministry of Tourism and Culture to finance the acquisition of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations on the same basis as the amortization of the related assets.

(g) Funds Invested in Capital Assets

Funds invested in capital assets represents funds provided for 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, 2011**

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 fund balances. 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, 2011

3. CAPITAL ASSETS

	2011 (\$ 000)			2010 (\$ 000)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture	333	180	153	215
Leasehold improvements	1,565	765	800	1,060
Tourism consumer information system	4,328	2,017	2,311	2,863
Assets in progress	1,210	-	1,210	-
	7,436	2,962	4,474	4,138

4. DEFERRED REVENUE

	2011 (\$ 000)	2010 (\$ 000)
Ministry of Tourism and Culture		
Regional web	140	-
TCIS – redevelopment	5,000	-
Research – RTO projects	1,000	-
RTO Project funding	454	-
OTICS	200	-
TEMPP	160	-
Convention development	2,750	-
International Indian Film Awards	-	1,500
Advertising programs	81	399
	9,785	1,539

5. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent contributions received relating to assets in progress:

	2011 (\$ 000)			2010 (\$ 000)
	Contributed	Accumulated Amortization	Net Book Value	Net Book Value
Contributions received in the year	560	-	560	-

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2011

6. REVENUE: PROVINCE OF ONTARIO

The Corporation received funding from the Province as follows:

	2011 (\$ 000)	2010 (\$ 000)
Core funding	38,760	38,552
Travel Information Centres	4,331	4,331
Great Outdoors Project	351	-
Events Marketing	314	275
International Indian Festival Awards	660	-
TCIS Solutions Architect and Grants Review	145	-
Media Buys	66	5,857
Summer Experience Program	354	333
VANOC Funding deferred from 08/09	-	450
Stratford and Shaw Festival Funding	-	1,000
	44,981	50,798

7. TRAVEL INFORMATION CENTRES

The expenditures for the Travel Information Centres are as follows:

	2011 (\$ 000)	2010 (\$ 000)
Salaries and benefits	3,577	3,382
Accommodation	1,927	1,886
Services	502	498
Transportation and communications	197	160
Supplies and equipment	73	68
Merchandise for sale	565	490
	6,841	6,484

Included in salaries and benefits are contributions to the PSPF and OPSEU pension funds for the year of \$167,391 (2010 - \$144,596).

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION**Notes to Financial Statements****March 31, 2011**

8. ADMINISTRATIVE EXPENSES

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

	2011	2010
	(\$ 000)	(\$ 000)
Salaries and benefits	5,863	5,767
Services	1,046	983
Transportation and communications	136	157
Supplies and equipment	34	54
	<u>7,079</u>	<u>6,961</u>

The Corporation provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are both multi-employer defined benefit pension plans established by the Province. These plans are accounted for as defined contribution plans, as the Corporation has insufficient information to apply defined benefit plan accounting to these pension plans. Included in salaries and benefits are contributions to the PSPF and OPSEU pension funds for the year of \$361,607 (2010 – \$350,380).

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

9. BOARD AND COMMITTEE EXPENSES

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

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2011

10. SALARY DISCLOSURE

Section 3(5) of the Public Sector Salary Disclosure Act, 1996 required disclosure of Ontario public-sector employees who were paid an annual salary in excess of \$100,000. For the Corporation, in the calendar year 2010, this disclosure requirement is as follows:

Name	Position	Salary (\$)	Taxable Benefits (\$)
Garrett, Robin	President/Chief Administrative Officer	\$167,069	\$282
Kenny, William	Vice, President, Industry Relations	\$136,915	\$221
Lanyon, Mary-Ann	Vice President, Marketing and Sales	\$131,000	\$221
Holliday, Julia	Director, Interactive Marketing and Call Centre	\$117,842	\$187
Milner, Christopher	Director, Northern Partnerships	\$114,693	\$186
Rubinstein, Suzanne	Director, Ontario Travel Information Centres	\$114,693	\$186
Mathias, Raymond	Director, Overseas Marketing	\$114,693	\$186
Stirrett-Matson, Marlene	Director, Corporate Services	\$112,960	\$183
Nahm, Jane	Manager, Operations	\$110,002	\$162
Pezzutto, Mara	Manager, North America Marketing	\$105,320	\$171
Ramkissoonsingh, Narvin	Director, Partnerships	\$105,298	\$176
Tuckett, Debbie	Projects Co-ordinator, Industry Relations	\$102,339	\$156
Hamazaki, Harvey	Trade Consultant, Asia	\$100,008	\$192

11. COMMITMENTS

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

	(\$ 000)
2012	981
2013	981
2014	894
2015	792
2016	579
Thereafter	1,236

12. CONTINGENT LIABILITY

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

Ontario Trillium Foundation**Management's Responsibility For Financial Information**

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

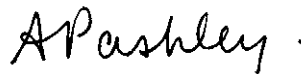
Management maintains a system of internal controls designed to provide reasonable assurance that financial information is accurate and that assets are protected.

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

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



L. Robin Cardozo, FCA
Chief Executive Officer



Anne Pashley
Vice-President,
Finance and Administration



KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Trillium Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Ontario Trillium Foundation, which comprise the statement of financial position as at March 31, 2011, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Page 2

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Trillium Foundation as at March 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the Canada Corporations Act, we report that, in our opinion, the accounting policies applied by in preparing and presenting the financial statements in accordance with Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 9, 2011
Toronto, Canada

ONTARIO TRILLIUM FOUNDATION

Statement of Financial Position

March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Cash	\$ 1,221,652	\$ 847,635
Prepaid expenses and other	732,080	173,031
Investments (note 2)	124,848,978	116,942,596
Capital assets (note 3)	603,950	693,421
	<u>\$ 127,406,660</u>	<u>\$ 118,656,683</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued liabilities	\$ 1,574,209	\$ 705,106
Deferred contributions (note 4(a))	5,913,103	4,096,629
Grants payable (note 4(b))	117,347,306	111,282,906
	<u>124,834,618</u>	<u>116,084,641</u>

Net assets:

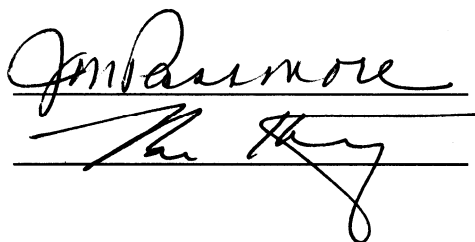
Invested in capital assets	603,950	693,421
Unrestricted	1,968,092	1,878,621
	<u>2,572,042</u>	<u>2,572,042</u>

Commitments (note 7)

	<u>\$ 127,406,660</u>	<u>\$ 118,656,683</u>

See accompanying notes to financial statements.

On behalf of the Board:



Janet Passmore, Acting Chair

Brian Hutchings, Treasurer

ONTARIO TRILLIUM FOUNDATION

Statement of Operations

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Ontario government funding (note 4(a))	\$ 122,458,526	\$ 119,275,907
Grants rescinded or recovered (note 4(a))	1,494,209	1,783,448
Investment income (note 4(a))	1,355,443	660,802
	125,308,178	121,720,157
Expenses:		
Program activities:		
Grants pledged (note 4)	111,808,400	108,528,300
Grantmaking expenses (note 4)	11,241,316	11,178,398
Services to the community (note 6)	642,972	580,049
	123,692,688	120,286,747
Support services (note 4)	1,127,825	1,041,395
Amortization	487,665	392,015
	125,308,178	121,720,157
Excess of revenue over expenses	\$ —	\$ —

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2011, with comparative figures for 2010

			2011	2010
	Invested in capital assets	Unrestricted	Total	Total
Net assets, beginning of year	\$ 693,421	\$ 1,878,621	\$ 2,572,042	\$ 2,572,042
Excess (deficiency) of revenue over expenses	(487,665)	487,665	—	—
Purchase of capital assets	398,194	(398,194)	—	—
Net assets, end of year	\$ 603,950	\$ 1,968,092	\$ 2,572,042	\$ 2,572,042

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Amortization of capital assets which does not involve cash	\$ 487,665	\$ 392,015
Change in non-cash operating items	8,190,928	8,130,186
	8,678,593	8,522,201
Investing activities:		
Purchase of investments	(2,489,305,517)	(3,153,131,685)
Disposal of investments	2,481,399,135	3,145,088,517
Purchase of capital assets	(398,194)	(269,844)
	(8,304,576)	(8,313,012)
Increase in cash	374,017	209,189
Cash, beginning of year	847,635	638,446
Cash, end of year	\$ 1,221,652	\$ 847,635

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements

Year ended March 31, 2011

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, 2011

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' 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 Foundation 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, 2011

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. Investments:

Investments, at fair value, are as follows:

	2011	2010
Treasury bills	\$ 38,052,170	\$ 66,415,789
Bankers' acceptances	56,894,430	15,058,896
Bonds	29,902,378	35,467,911
	<u>\$ 124,848,978</u>	<u>\$ 116,942,596</u>

All investments are in fixed income securities and mature within the next five months (2010 - six months). These investments bear interest from 0.9% to 1.2% (2010 - 0.2% to 0.5%). Investment in bonds includes bonds issued by the provincial government of 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, 2011

2. 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.

3. Capital assets:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and fixtures	\$ 809,812	\$ 756,300	\$ 53,512	\$ 82,231
Computer hardware	1,175,783	980,572	195,211	165,312
Computer software	960,771	730,372	230,399	310,692
Leasehold improvements	1,623,743	1,498,915	124,828	135,186
	\$ 4,570,109	\$ 3,966,159	\$ 603,950	\$ 693,421

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

4. 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.

	2011		2010	
	General operations	Community Capital Fund	Total	Total
Deferred contributions, beginning of year	\$ 4,096,629	\$ —	\$ 4,096,629	\$ 3,192,536
Funding received:				
Ministry of Tourism and Culture:				
Annual core allocation	120,000,000	—	120,000,000	120,000,000
Special projects	225,000	3,950,000	4,175,000	—
Ministry of Citizenship and Immigration	100,000	—	100,000	180,000
	120,325,000	3,950,000	124,275,000	120,180,000
Investment income recorded as revenue	1,355,443	—	1,355,443	660,802
Grants pledged	(108,336,200)	(3,472,200)	(111,808,400)	(108,528,300)
Grantmaking expenses	(10,935,544)	(305,772)	(11,241,316)	(11,178,398)
Support services and amortization	(1,615,490)	—	(1,615,490)	(1,433,410)
Services to the community	(642,972)	—	(642,972)	(580,049)
Grants rescinded or recovered	1,421,709	72,500	1,494,209	1,783,448
Amounts recognized as Ontario government funding	(118,753,054)	(3,705,472)	(122,458,526)	(119,275,907)
Change during the year	1,571,946	244,528	1,816,474	904,093
Deferred contributions, end of year	\$ 5,668,575	\$ 244,528	\$ 5,913,103	\$ 4,096,629

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

4. Deferred contributions and grants payable (continued):

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

	2011	2010
Grants pledged	\$ 111,808,400	\$ 108,528,300
Grants rescinded	(880,693)	(1,229,100)
Grants paid	(104,863,307)	(100,051,600)
	6,064,400	7,247,600
Grants payable, beginning of year	111,282,906	104,035,306
Grants payable, end of year	\$ 117,347,306	\$ 111,282,906

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

2012	\$ 80,649,606
2013	27,679,000
2014	7,452,900
2015	1,325,600
2016	240,200
	\$ 117,347,306

5. Allocation of expenses:

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, 71% (2010 - 72%) and services to the community, 4% (2010 - 3%).

Support services reported in the statement of operations of \$1,127,825 (2010 - \$1,041,395) are reported after allocation of \$3,121,993 (2010 - \$3,052,498) to grantmaking expenses and \$153,969 (2010 - \$113,195) to services to the community.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

6. 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.

7. Commitments:

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

2012	\$ 690,305
2013	1,121,569
2014	1,149,930
2015	1,153,144
2016	1,103,286
Thereafter	6,962,785
	<u>\$ 12,181,019</u>

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

OTF plans to move its head office premises and has signed a new lease that extends to September 2021.

8. 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.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

9. 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 2.

10. Early lease termination:

On September 27, 2010, the Foundation signed a lease amending agreement with its landlord to terminate their head office lease eight months earlier than the date set out in its existing lease. The landlord has agreed to pay OTF \$350,300, which includes three months free rent, at or before June 30, 2011, the end of the lease. This amount has been recorded as a receivable and deferred lease liability as of year end.

There is a change in estimate in the calculation of leasehold amortization due to the reduced lease term. This change resulted in an additional \$38,039 recognized as amortization in the current year.

11. Community Capital Fund:

On August 27, 2010, the Foundation signed an agreement with the Ministry to administer the Community Capital Fund to provide grants for specific infrastructure projects that support Ontario government priorities and help to revitalize community-based infrastructure by directing funding towards capital assets.

The total funding to be received from the Ministry is \$50,000,000 and the project is scheduled to be completed March 31, 2013.

During the year, \$3,950,000 was received from the Ministry, of which \$3,472,200 is included in grants pledged.

12. Subsequent event:

On April 12, 2011, the Foundation has entered into a new lease agreement with 800 Bay Street Inc. for the rental of office premises over a 10-year term effective October 1, 2011 and expiring on September 30, 2021.

Ornge

June 29, 2011

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 June 16, 2011.

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, 2011 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 June 16, 2011 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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ornge

We have audited the accompanying consolidated financial statements of Ornge, which comprise the consolidated statement of financial position as at March 31, 2011, the consolidated statements of operations and changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

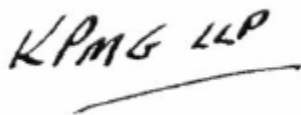
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ornge as at March 31, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line.

Chartered Accountants, Licensed Public Accountants

June 16, 2011
Toronto, Canada

ORNGE

Consolidated Statement of Financial Position
(In thousands of Canadian dollars)

March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,397	\$ 10,420
Short-term investments	4,130	10,772
Accounts receivable	12,325	1,739
Prepaid expenses and deposits	17,091	75,992
Loan receivable (note 2)	4,290	—
Derivative financial instrument - short term	1,352	1,544
	52,585	100,467
Restricted cash and cash equivalents (note 3)	11,808	113,040
Other assets	—	207
Capital assets (note 4)	264,350	94,594
	\$ 328,743	\$ 308,308

Liabilities and Net Assets

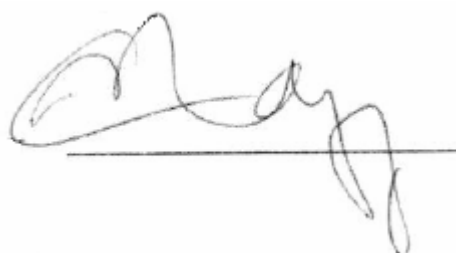
Current liabilities:		
Accounts payable and accrued liabilities	\$ 33,132	\$ 18,931
Deferred revenue (note 5)	1,302	513
Current portion of deferred contribution related to capital assets (note 6)	1,294	1,533
Current portion of capital lease obligation (note 7)	406	—
Current portion of bonds payable (note 9)	83	—
Derivative financial instrument - short term	1,420	12,125
	37,637	33,102
Bonds payable, net of transaction costs (note 9)	295,748	272,536
Derivative financial instrument - long term	—	1,011
Long-term portion of capital lease obligation (note 7)	4,111	—
Long-term portion of deferred contribution related to capital assets (note 6)	1,205	2,499
Net assets (note 11)	(9,958)	(840)
Commitments (note 13)		
Contingency (note 14)		
	\$ 328,743	\$ 308,308

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

ORNGE

Consolidated Statement of Operations and Changes in Net Assets
(In thousands of Canadian dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Ontario Ministry of Health and Long-Term Care:		
Transport medicine program	\$ 135,670	\$ 131,082
Specifically funded programs (note 12)	13,648	18,233
Other income	1,382	1,198
Lease income	3,657	
Donation income	1,006	436
Recognition of deferred contribution related to:		
IT licenses	—	169
Capital assets (note 6)	1,533	2,231
	156,896	153,349
Expenses:		
Carrier and fleet-related	72,871	70,098
Salaries, employee benefits and other labour-related	48,418	42,938
Supplies and other	12,486	10,410
Facilities and facility-related	1,927	3,103
Amortization of capital assets	8,252	6,539
Specifically funded programs (note 12)	13,648	18,233
Loss on disposal of capital assets	—	119
Capital asset impairment	130	531
Foreign exchange and derivative loss (gain)	(1,101)	16,555
Interest	6,688	3,421
Internally restricted strategic initiative expenditures (note 1(j))	2,655	163
	165,974	172,110
Deficiency of revenue over expenses before income taxes	(9,078)	(18,761)
Income taxes (recovery)	40	(21)
Deficiency of revenue over expenses	(9,118)	(18,740)
Net assets, beginning of year	(840)	17,900
Net assets, end of year	\$ (9,958)	\$ (840)

See accompanying notes to consolidated financial statements.

ORNGE

Consolidated Statement of Cash Flows
(In thousands of Canadian dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (9,118)	\$ (18,740)
Items not involving cash:		
Amortization of capital assets	8,252	6,539
Amortization of transaction costs	115	85
Recognition of deferred contribution related to IT licenses	—	(169)
Recognition of deferred contribution related to capital assets	(1,533)	(2,231)
Unrealized foreign exchange and derivative loss (gain)	(11,524)	11,592
Loss on disposal of capital assets	—	119
Capital asset impairment	130	531
Change in non-cash operating working capital:		
Accounts receivable	(10,586)	894
Prepaid expenses and deposits	(3,309)	(3,502)
Accounts payable and accrued liabilities	14,201	(721)
Other assets	207	(207)
Deferred revenue	789	(4,613)
	(12,376)	(10,423)
Financing activities:		
Loan payable	—	(50,821)
Proceeds from bond issuance	23,863	275,000
Transaction costs	(685)	(2,549)
Repayment of capital lease obligation	(130)	—
	23,048	221,630
Investing activities:		
Purchase of capital assets	(102,567)	(49,542)
Prepaid deposits	(8,718)	(63,549)
Proceeds of disposition	6	515
Redemption (purchase) of short-term investments	6,642	(2,916)
Loan receivable	(4,290)	—
	(108,927)	(115,492)
Increase (decrease) in cash and cash equivalents	(98,255)	95,715
Cash and cash equivalents, beginning of year	123,460	27,745
Cash and cash equivalents, end of year	\$ 25,205	\$ 123,460
Supplemental cash flow information:		
Interest paid	\$ 15,749	\$ 7,875
Supplemental disclosure of non-cash transactions:		
Capital assets acquired through capital lease	4,647	—
Transfer of prepaid expenses and deposits to capital assets	70,928	—

See accompanying notes to consolidated financial statements.

ORNGE

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

These consolidated financial statements include the activities of Ornge (the "Organization"), Ornge PEEL Ltd., 4384865 Canada Inc. (operating as Ornge Air), Orngeco, Ornge Global Real Estate Inc., Ornge Real Estate, Ornge Foundation, J Smarts and Ornge Issuer Trust. Effective January 1, 2011, Ornge resigned as a member of Orngeco and sold its interests in Ornge PEEL Ltd., and 4384865 Canada Inc. (operating as Ornge Air) to a third party for net book value which was a nominal amount. As a result, only nine months' activities of those entities are included in the consolidated financial statements. Transactions and balances between the entities have been eliminated in arriving at the consolidated financial statements.

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

The Organization 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. The Organization is dedicated to the provision of high-quality patient care through innovative transport medicine.

1. Significant accounting policies:

(a) Cash and cash equivalents:

Cash and cash equivalents include investments in highly liquid securities that are readily convertible to known amounts of cash.

(b) 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
Bonds payable	Other liabilities	Amortized cost

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

1. Significant accounting policies (continued):

(i) 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 consolidated statement of financial position date. Fair value fluctuations, including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in the consolidated statement of operations.

Financial liabilities designated as held-for-trading are those non-derivative financial liabilities that the Organization 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. The Organization has not designated any non-derivative financial liabilities as held-for-trading.

(ii) Loans and receivables:

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

(iii) 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.

(iv) 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 (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

1. Significant accounting policies (continued):

(c) 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 year incurred.

(d) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, taking into consideration estimated residual value, using the following useful lives:

Equipment and vehicles	3 - 5 years
Computer equipment and software	3 years
Leasehold improvements	Term of lease
Buildings	10 - 40 years
Aircraft airframes	10 - 30 years
Aircraft engines	10 - 20 years
Avionics	5 years
Building under capital lease	15 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.

(e) 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.

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

1. Significant accounting policies (continued):

(f) 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 consolidated statement of financial position at their fair value with changes in the fair value recognized as foreign exchange and derivative loss (gain) in the consolidated statement of operations and changes in net assets. Fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments.

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.

(g) 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 year in which the related expenses are incurred.

Other income includes billings for uninsured services, which are recognized as revenue when services are provided to non-insured patients and patients covered by WSIB and amounts can be reasonably estimated.

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

1. Significant accounting policies (continued):

Lease income relates to the rental of aircraft, aircraft-related infrastructure and other properties and is recognized on a monthly basis.

Donation income includes unrestricted donations, which are recognized as revenue when received, and restricted donations, which are recognized as revenue in the year in which the related expenses are incurred.

(h) 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 consolidated statement of financial position date. Revenue and expenses are translated at the average exchange rate prevailing during the year. Exchange gains and losses are included in the consolidated statement of operations.

(i) Employee benefit plans:

Full-time employees of the Organization 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 15).

(j) Internally restricted net assets:

The Board of Directors of the Organization 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 (Canada), from Ornge to Ornge Foundation to be used in the furtherance of the objectives of Ornge Foundation (i.e., for the exclusive benefit of Ornge).

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

1. Significant accounting policies (continued):

All internally restricted funds at March 31, 2011 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.

(k) Allocation of expenses:

The Organization 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.

(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 results could differ from those estimates.

(m) Change in accounting policies:

Effective April 2010, the Organization adopted one of The Canadian Institute of Chartered Accountants' ("CICA") amendments to the 4400 Sections of the CICA Handbook. These amendments included the ability to eliminate the requirement to show net assets invested in capital assets as a separate component of net assets. Adoption of this change in accounting policy has restated the 2011 and comparative figures and decreased net assets internally restricted by \$21,372 (2010 - \$16,195).

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

2. Loan receivable:

The loan receivable is an unsecured demand revolving credit facility in an aggregate amount of up to \$8,000, bearing interest at 5.598% per annum. The outstanding balance as at March 31, 2011 is \$4,290.

3. Restricted cash and cash equivalents:

Restricted cash is made up of the following:

	Restricted for	2011	2010
Held in Ornge Issuer Trust	Acquisition of fixed wing and rotary wing aircraft and related infrastructure and for general corporate purposes	\$ 7,033	\$ 107,680
Held in Ornge Foundation	Purchase of capital assets, as defined by the specified gift per the donation agreement between the Organization and Ornge Foundation and other purposes, as defined by the donors	4,775	5,360
		\$ 11,808	\$ 113,040

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

4. Capital assets:

The net book value of capital assets as at March 31, 2011 is as follows:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Equipment and vehicles	\$ 10,817	\$ 4,927	\$ 5,890	\$ 5,741
Computer equipment and software	4,534	2,634	1,900	2,504
Leasehold improvements	1,582	662	920	739
Land	3,243	—	3,243	3,243
Buildings	20,011	1,435	18,576	17,684
Aircraft airframes	90,259	4,760	85,499	42,775
Aircraft engines	24,736	1,269	23,467	12,414
Avionics	3,232	469	2,763	1,623
Building under capital lease	5,141	86	5,055	—
Assets under construction	117,037	—	117,037	7,871
	\$ 280,592	\$ 16,242	\$ 264,350	\$ 94,594

5. Deferred revenue:

Deferred revenue consists of externally restricted funds received for various purposes. Deferred revenue will be recognized in the consolidated 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.

	2011	2010
Balance, beginning of year	\$ 513	\$ 5,126
Add contributions	15,419	13,836
Less expenditures	14,630	18,449
Balance, end of year	\$ 1,302	\$ 513

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

6. Deferred contribution related to capital assets:

Deferred contributions related to capital assets represent the unamortized amount of contributions received for the purchase of capital assets. Contributions are amortized over the life of the related asset. The changes in the deferred contribution of capital assets balance as at March 31, 2011 are as follows:

	2011	2010
Deferred contribution related to capital assets, beginning of year	\$ 4,032	\$ 6,263
Less amortization of deferred contribution related to capital assets	1,533	2,231
	2,499	4,032
Less current portion of deferred contribution related to capital assets	1,294	1,533
Long-term portion of deferred contribution related to capital assets, end of year	\$ 1,205	\$ 2,499

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

7. Capital lease obligation:

On October 14, 2010, the Organization entered into an agreement to lease a building and certain associated lands. The lease payments related to the building are treated as capital lease.

The following is a schedule of future minimum lease payments under the capital lease expiring March 31, 2016, together with the balance of the obligation under capital lease:

2012	\$	657
2013		667
2014		677
2015		687
2016		2,763
Total minimum lease payments		5,451
Amounts representing interest at 5.82%		(934)
Balance of the obligation		4,517
Less current portion		406
	\$	4,111

8. Short-term credit facility:

On December 15, 2010, the Organization entered into a \$60,000 short-term, unsecured credit facility for a general corporate purpose. The facility matures on December 15, 2015.

The Organization is required to make mandatory repayments on the facility from proceeds of disposition of certain rotary wing aircraft, as prescribed by the credit facility.

As at March 31, 2011, no amounts were drawn against the credit facility.

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

9. Bonds payable:

	2011	2010
Series A unsecured debenture (a)	\$ 275,000	\$ 275,000
First Mortgage Series A bond (b)	23,863	—
	298,863	275,000
Less current portion	83	—
	\$ 298,780	\$ 275,000

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

2012	\$ 83
2013	3,285
2014	6,764
2015	7,157
2016	7,607
Thereafter	273,967

(a) On June 11, 2009, the Organization issued a Series A unsecured debenture (the "Debenture") in the amount of \$275,000 to finance the acquisition of certain fixed wing and rotary wing aircraft and related infrastructure, and for general corporate purposes. The Debenture bears interest at 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 2011, no further transaction costs related to the Debenture were incurred. The amount of such costs was \$2,549 in 2010, 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.

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

9. Bonds payable (continued):

The fair market value of the Debenture as at March 31, 2011 is \$287,796, excluding accrued interest of \$4,758 (2010 - \$280,225, excluding accrued interest of \$4,757). The yield on a similar private placement would be 5.245% (2010 - 5.535%). Given that there is no active secondary market for this issue, the price quoted represents the theoretical trade level of the Debenture.

- (b) On January 31, 2011, the Organization issued a First Mortgage Series A bond (the "Bond") in the amount of \$23,877 for general corporate and investment purposes. The Bond bears interest at 5.598% per annum, calculated semi-annually and shall be repaid in blended payments of principal and interest monthly. The maturity date of the Bond is January 31, 2036. The Bond is secured by a first fixed and specific mortgage, pledge, charge, assignment and security interest in and to the Organization's corporate building, the related land and fixtures, and all benefits to be derived from these assets, including the lease of these assets.

In 2011, the transaction costs related to the Bond totaled \$684, which included professional fees. These costs were recorded against the Bond amount and are being amortized over the life of the Bond using the effective interest rate method.

The Organization may redeem a portion of or the entire Bond at any time prior to their maturity at a price based on the principal amount then outstanding plus a "make-whole" premium, and accrued and unpaid interest.

The Organization is subject to certain covenants associated with the Bond. The Organization must maintain a certain reserve level and a minimum debt service ratio. During the year, the Organization was in compliance with these covenants.

The fair market value of the Bond as at March 31, 2011 is \$23,877. The yield on a similar private placement would be 5.598%. Given that there is no active secondary market for the issue, the price quoted represents the theoretical trade level of the Bond.

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

10. Financial instruments:

(a) Fair values:

The carrying amounts of the Organization'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 capital lease approximates its fair value, as the implicit interest rates used in determining their fair value represent current interest rates.

The fair values of the derivative financial instruments represent 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 bonds payable is as disclosed in note 9.

The Organization has free-standing derivatives not held for speculative purposes that are not publicly traded and do not have quoted market values. These financial instruments have not been recorded in the financial statements as the ultimate exercisability of the options are contingent on the occurrence of a future event and, as a result, the fair value cannot be reasonably determined.

(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.

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

10. Financial instruments (continued):

The Organization is exposed to currency risk as a significant volume of its capital purchase transactions are denominated in U.S. dollars. Unfavourable changes in the applicable exchange rate may impact earnings and accounts payable and accrued liabilities. The Organization had 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, 2011, the Organization had the following amount denominated in a foreign currency:

	2011	2010
Accounts payable and accrued liabilities	U.S. \$ 6,837	U.S. \$ 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:

The Organization 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. The Organization 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.

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

10. Financial instruments (continued):

(e) Liquidity risk:

The Organization 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, the Organization monitors its cash resources based on financial forecasts and anticipated cash flows.

(f) Capital risk management:

The Organization maintains a capital level that enables it to meet several objectives, namely:

- (i) longevity of its capital to support continued operations and growth of its operations; and
- (ii) meeting financial covenants under the current long-term debt agreements.

The Organization 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.

(g) Commodity risk:

The Organization requires significant quantities of fuel for its aircraft operations. As a result, the Organization 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.

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

11. Internally restricted net assets:

Included in internally restricted net assets are:

	2011	2010
Internally restricted:		
Other	\$ 6,905	\$ 9,928
Foundation	3,422	4,591
Fuel	1,000	1,000
Invested in capital assets	(21,372)	(16,195)

During the year, the Board approved a transfer from unrestricted in the amount of \$6,720, represented by \$5,991 to invested in capital assets and \$729 to internally restricted other.

12. Allocation of expenses:

The specifically funded program expenses consist of direct program costs and allocation of general support expenses as follows:

	2011	2010
Direct program costs - CCLA	\$ 9,407	\$ 10,203
Direct program costs - one-time MOH funding	—	5,000
Allocation of administrative costs - CCLA	4,241	3,030
Specifically funded program expenses	\$ 13,648	\$ 18,233

ORNGE

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

13. Commitments:

(a) Operating commitments:

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

Within one year	\$	6,905
Between one and five years		446
Beyond five years		1,203

(b) 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 and Cdn. dollars.

	Cdn. dollars	U.S. dollars
Within one year	\$ 657	\$ 12,745
Between one and five years	4,794	–

(c) Letter of credit:

At March 31, 2011, the Organization has a letter of credit outstanding of \$272 expiring in 2014.

14. Contingency:

The Organization 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

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, unless otherwise indicated)

Year ended March 31, 2011

14. Contingency (continued):

The Organization participates in the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the public liability insurance risks of its 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, 2011, no claims are expected to be in excess of the Organization's policy limits and there have been no material changes to claims previously reported.

15. Pension plan:

Full-time employees of the Organization are eligible to be members of 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 \$2,521 (2010 - \$2,519) and is included in salaries and employee benefits expense and specifically funded programs in the consolidated 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, 2010 indicates the Plan is fully funded.

16. Comparative figures:

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

OTTAWA CONVENTION CENTRE

Ottawa Convention Centre Financial Statements for the year ended March 31, 2011 were not available at the time of printing. When available, they will be posted to the website: www.fin.gov.on.ca/en/.



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ROYAL ONTARIO MUSEUM

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Royal Ontario Museum for the year ending March 31, 2011 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 July 11, 2011.

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,

A handwritten signature in black ink, appearing to be 'W.T. Graesser', written over a horizontal line.

W.T. Graesser,
Vice-President & Chief Financial Officer

A handwritten signature in blue ink, appearing to be 'Glenn Dobbin', written over a horizontal line.

Glenn Dobbin,
Deputy Director & Chief Operating Officer



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INDEPENDENT AUDITORS' REPORT

To the Trustees of The Royal Ontario Museum

We have audited the accompanying financial statements of The Royal Ontario Museum, which comprise the balance sheet as at March 31, 2011, the statements of operations, changes in net surplus and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Royal Ontario Museum as at March 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

July 11, 2011
Toronto, Canada

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, 2011, with comparative figures for 2010

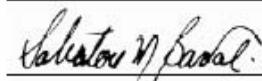
	2011	2010
Assets		
Current assets:		
Due from The Royal Ontario Museum Foundation (note 9)	\$ 493	\$ 1,870
Other accounts receivable	1,543	1,170
Deferred exhibition costs and other assets	1,651	1,099
Investments (note 2)	323	341
	4,010	4,480
Deferred pension costs (note 10)	17,658	14,651
Capital assets (note 3)	258,951	265,540
	\$ 280,619	\$ 284,671
Liabilities and Net Surplus		
Current liabilities:		
Bank indebtedness (note 11(a))	\$ 4,178	\$ 3,904
Accounts payable and accrued liabilities	8,167	6,340
Current portion of long-term debt (note 11(b))	7,283	13,000
Deferred contributions (note 5)	4,462	3,325
Deferred revenue	2,694	2,520
	26,784	29,089
Long-term debt (note 11(b))	34,917	35,840
Deferred capital contributions (note 6)	211,020	213,063
Accrued non-pension liability (note 10)	4,930	4,287
	277,651	282,279
Net surplus:		
Operating surplus	1,660	1,194
Board-restricted	1,308	1,198
	2,968	2,392
Commitments (note 14)		
	\$ 280,619	\$ 284,671

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, 2011, with comparative figures for 2010

	Operating Fund	Restricted Fund	Capital Fund	2011	2010
Revenue:					
Grants (note 7)	\$ 30,136	\$ 4,411	\$ —	\$ 34,547	\$ 40,460
Admission fees	9,865	—	—	9,865	10,835
Museum programs	2,385	—	—	2,385	2,582
Ancillary services	10,637	—	—	10,637	10,419
Investment income	—	1	—	1	—
Donations - gifts-in-kind	—	7,305	—	7,305	1,460
Amortization of deferred capital contributions	—	—	11,253	11,253	11,180
Other	1,041	705	—	1,746	1,424
	54,064	12,422	11,253	77,739	78,360
Expenses:					
Curatorial and collections management	10,395	2,031	—	12,426	11,559
Building, security and visitor services	12,294	313	—	12,607	12,041
Ancillary services	6,853	—	—	6,853	6,538
General and administration	4,393	—	—	4,393	4,297
Education and public programs	2,872	690	—	3,562	3,337
Library and information services	2,724	—	—	2,724	2,624
Exhibition and gallery development	3,259	—	—	3,259	3,431
Marketing and public relations	4,677	—	—	4,677	5,281
Temporary exhibitions	3,369	—	—	3,369	3,015
Artifacts and specimens:					
Gifts-in-kind	—	7,305	—	7,305	1,460
Purchased	—	1,962	—	1,962	1,192
Interest	2,166	—	—	2,166	2,158
Amortization of capital assets	596	5	11,253	11,854	11,686
Other	—	6	—	6	10
	53,598	12,312	11,253	77,163	68,629
Excess of revenue over expenses	\$ 466	\$ 110	\$ —	\$ 576	\$ 9,731

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2011, with comparative figures for 2010

			2011	2010
	Operating surplus	Board- restricted	Total	Total
Balance, beginning of year	\$ 1,194	\$ 1,198	\$ 2,392	\$ (7,339)
Excess of revenue over expenses	576	–	576	9,731
Interfund transfers	(110)	110	–	–
Balance, end of year	\$ 1,660	\$ 1,308	\$ 2,968	\$ 2,392

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 576	\$ 9,731
Items not involving cash:		
Amortization of capital assets	11,854	11,686
Amortization of deferred capital contributions	(11,253)	(11,180)
Change in non-cash operating working capital:		
Due from The Royal Ontario Museum Foundation	1,377	(30)
Other accounts receivable	(373)	427
Deferred exhibition costs and other assets	(552)	305
Accounts payable and accrued liabilities	1,827	(1,462)
Deferred contributions	1,137	793
Deferred revenue	174	42
Change in deferred pension costs	(3,007)	(3,724)
Change in accrued non-pension liability	643	388
	2,403	6,976
Financing activities:		
Repayments of long-term debt	(6,640)	(8,000)
Increase (decrease) in bank indebtedness	274	(508)
Contributions received for capital asset purchases	9,210	6,768
	2,844	(1,740)
Investing activities:		
Purchase of capital assets	(5,265)	(5,224)
Change in investments	18	(12)
	(5,247)	(5,236)
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, 2011

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) 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.

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.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2011

1. Significant accounting policies (continued):

(b) Financial instruments other than investments:

The Museum designates its bank indebtedness as held-for-trading, which is measured at fair value. Other accounts receivable and due from The Royal Ontario Museum Foundation are classified as loans and receivables, which are measured at amortized cost. Accounts payable and 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.

(c) 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, 2011

1. Significant accounting policies (continued):

(d) 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, 2011, there are no derivative instruments held by the Museum.

(e) 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.

(f) 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, 2011

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

(h) 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.

(i) 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.

(j) 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, 2011

1. Significant accounting policies (continued):

(k) 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:

	2011		2010	
	Fair value	Cost	Fair value	Cost
Fixed income	\$ 323	\$ 322	\$ 341	\$ 339

The fixed income securities bear a yield to maturity at 1.00% (2010 - 0.25%) with a maturity date of May 2011 (2010 - June 2010).

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, 2011

3. Capital assets:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 931	\$ –	\$ 931	\$ 931
Building	41,476	30,815	10,661	11,700
Galleries	17,540	15,072	2,468	3,213
Building improvements	22,232	15,121	7,111	7,270
ROM Project:				
Building	205,064	21,292	183,772	189,012
Galleries	61,782	10,559	51,223	50,580
Furniture and equipment	5,679	2,894	2,785	2,834
	<u>\$ 354,704</u>	<u>\$ 95,753</u>	<u>\$ 258,951</u>	<u>\$ 265,540</u>

As at March 31, 2011, the total cost of assets included assets which are under construction. These assets are not in use and to date have not been amortized. The cost of these assets are \$3,631 (2010 - \$174).

4. Artifacts and specimens:

As at March 31, 2011, the collection consisted of approximately 6,000,000 artifacts and specimens. During the year ended March 31, 2011, the Museum accessioned approximately 150 (2010 - 132) objects to its collections through the donation and purchase of artifacts.

5. Deferred contributions:

Deferred contributions represent grants from federal and provincial governments, corporations and The Royal Ontario Museum Foundation (the "Foundation") (note 9) related primarily to this year's operations.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2011

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:

	2011	2010
Balance, beginning of year	\$ 213,063	\$ 217,475
Amortization of deferred capital contributions	(11,253)	(11,180)
Contributions received for capital asset purchases (notes 3 and 9)	9,210	6,768
Balance, end of year	\$ 211,020	\$ 213,063

7. Grants:

	2011	2010
Province of Ontario:		
Operating	\$ 28,273	\$ 27,518
Deficit reduction grant	—	7,200
Other	28	658
Government of Canada	416	144
Foundation (note 9)	5,830	4,940
	\$ 34,547	\$ 40,460

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2011

8. Expenses:

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

	2011	2010
Salaries and benefits (note 10)	\$ 32,234	\$ 31,347
Purchased goods and services	25,770	24,136
Amortization of capital assets	11,854	11,686
Gifts-in-kind	7,305	1,460
	<u>\$ 77,163</u>	<u>\$ 68,629</u>

9. 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, 2010	June 30, 2009
Unrestricted funds	\$ (4,418)	\$ (2,349)
Restricted funds available currently	8,012	3,453
Endowment funds:		
Externally restricted	18,312	15,518
Internally restricted	10,926	10,557
	<u>\$ 32,832</u>	<u>\$ 27,179</u>

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2011

9. The Royal Ontario Museum Foundation (continued):

During the year ended March 31, 2011, the Foundation granted \$13,808 (2010 - \$11,090) to the Museum. Of this amount, \$3,626 (2010 - \$2,943) was recorded as deferred contributions (note 5), \$7,066 (2010 - \$5,598) was recorded as an increase in deferred capital contributions in connection with the ROM Project (note 6), nil (2010 - \$292) was recorded as other deferred capital contributions for other assets (note 5) and \$3,116 (2010 - \$2,257) was recorded as deferred contributions for purposes other than the ROM Project (note 5).

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

10. 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:

	2011	2010
Defined benefit plan	\$ 1,711	\$ 585
Other post-employment benefits	764	498
	<u>\$ 2,475</u>	<u>\$ 1,083</u>

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2011

10. Employee benefits (continued):

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	
	2011	2010	2011	2010
Accrued liabilities	\$ 78,268	\$ 70,563	\$ 6,227	\$ 5,533
Market value of plan assets	72,162	63,599	–	–
Funded status - plan deficit	(6,106)	(6,964)	(6,227)	(5,533)
Unamortized transitional obligation (asset)	(1,619)	(2,205)	308	1,152
Unrecognized past service costs	(2,229)	(2,653)	–	–
Unrecognized net actuarial gain	27,612	26,473	989	94
Balance sheet asset (liability)	\$ 17,658	\$ 14,651	\$ (4,930)	\$ (4,287)

Included in the balance sheet asset related to the defined benefit pension plan is a liability of \$1,138 (2010 - \$1,058) in connection with supplementary pension arrangements.

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	
	2011	2010	2011	2010
Discount rate	6.00%	8.00%	6.00%	8.25%
Expected long-term rate of return on plan assets	7.00%	7.00%	–	–
Rate of compensation increase	3.00%	3.00%	–	–

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2011

10. Employee benefits (continued):

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	
	2011	2010	2011	2010
Discount rate	5.75%	6.00%	5.75%	6.00%
Rate of compensation increase	3.00%	3.00%	—	—

For measurement purposes as at March 31, 2011, an initial weighted average increase in the cost of health care and dental benefits of 6.45% in 2011 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:

	2011	2010
Cash and cash equivalents	1%	1%
Bonds	44%	48%
Canadian equities	32%	29%
U.S. equities	7%	8%
Other foreign equities	16%	14%
	100%	100%

Other information about the Museum's pension and non-pension plans is as follows:

	Pension		Non-pension	
	2011	2010	2011	2010
Employee contributions	\$ 719	\$ 924	\$ —	\$ —
Employer contributions	4,718	4,310	121	110
Benefits paid	3,178	2,645	121	110

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2011

10. Employee benefits (continued):

The Museum's 2010 and 2011 contributions to date were made in accordance with the January 1, 2010 actuarial valuation report for funding purposes. The Museum's final 2011 contributions will be made in accordance with the January 1, 2011 actuarial valuation for funding purposes that must be filed by September 30, 2011. The measurement date for the benefit plans was March 31, 2011.

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, 2011 were \$50 (2010 - \$45).

11. 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 (2011 - 2.90%; 2010 - 2.15%). As at March 31, 2011, the outstanding balance in connection with this facility was \$4,178 (2010 - \$3,904).
- (ii) \$2,000 letter of credit facility. As at March 31, 2011 and 2010, 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, 2011

11. Credit facilities (continued):

- (b) Due to a realized shortfall in making a full payment to the Ontario Financing Authority ("OFA") on March 31, 2011, as per the agreement dated October 17, 2007, the ROM entered into discussions with the OFA to reschedule its debt. On June 29, 2011, the Museum and the OFA executed an amended agreement that includes a revised payment schedule through March 31, 2027. Under the terms of the agreement, the loan consists of fixed rate and floating rate portions. The fixed rate portion bears an interest rate of 5.04% with minimum payments as follows:

The minimum payments are due as follows:

2012	\$ 7,283
2013	4,414
2014	4,999
2015	2,162
2016	1,004
Thereafter	2,678

The floating rate portion of \$19,660 bears interest at the Province of Ontario's one-year cost of funds plus 150 basis points, reset annually. The floating rate for 2011-2012 has been set at 2.77%. Under the terms of the facility, there is no minimum payment requirement providing the facility is fully paid by March 31, 2027.

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 portion approximates its carrying value due to the fact that interest rate on the credit agreement represents the interest rate that is currently available to the Museum. As at March 31, 2010, the fair value of the fixed rate debt was \$42,403.

The fair value of the floating rate portion 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, 2011

12. Financial instruments:

The carrying values of bank indebtedness, due from The Royal Ontario Museum Foundation, other 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 11.

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.

13. 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, 2011, the Museum has met its objective of having sufficient liquid resources to meet its current obligations.

THE ROYAL ONTARIO MUSEUM

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

Year ended March 31, 2011

14. Commitments:

The Museum's future commitments under long-term leases for equipment are as follows:

2012	\$ 209
2013	209
2014	52



Management's Responsibility for the Financial Statements

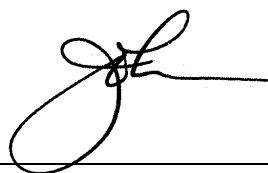
June 29, 2011

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 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 auditor, 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, the independent external auditor appointed by the Board of Directors. The accompanying Independent Auditor's Report outlines Management's responsibilities, the auditor's responsibilities, the scope of its examination and its opinion on the Corporation's financial statements.



President and CEO



Chief Financial Officer

Deloitte & Touche LLP
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Independent Auditor's Report

To the Board of Directors of the
Toronto Waterfront Revitalization Corporation

We have audited the accompanying financial statements of the Toronto Waterfront Revitalization Corporation, which comprise the statement of financial position as at March 31, 2011, and the statements of financial activities and net assets and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Toronto Waterfront Revitalization Corporation as at March 31, 2011, 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 29, 2011

Toronto Waterfront Revitalization Corporation

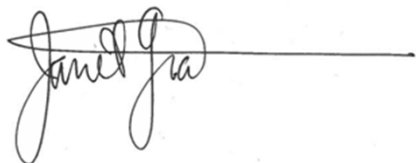
Statement of financial position as at March 31, 2011

	2011	2010
	\$	\$
Assets		
Current assets		
Cash	33,067,712	85,045,263
Short-term investments	59,393,870	-
HST/GST receivable	2,127,453	1,119,598
Deposits, prepaid expenses, rent receivable and other assets (Note 4)	10,140,455	8,889,300
	104,729,490	95,054,161
Restricted cash (Note 5)	4,770,156	4,731,400
Capital assets (Note 6)	108,471,835	110,136,630
Other assets (Note 7)	287,798	3,042,814
	218,259,279	212,965,005
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	54,133,067	27,299,693
Deferred contributions and grants (Note 10)	58,449,736	80,605,161
Other liabilities and settlements (Note 9)	1,547,154	16,091
	114,129,957	107,920,945
Accrued benefit liability (Note 13)	65,356	103,001
Other liabilities and settlements (Note 9)	997,738	1,898,725
	115,193,051	109,922,671
Commitments (Note 14)		
Net assets (Note 11)	103,066,228	103,042,334
	218,259,279	212,965,005

Approved by the Board



Director



Director

Toronto Waterfront Revitalization Corporation

Statement of financial activities and net assets year ended March 31, 2011

	2011	2010
	\$	\$
Revenue		
Government contributions		
Government of Canada	53,558,686	107,724,351
Province of Ontario	63,979,803	13,840,237
City of Toronto	4,623,640	34,373,817
	122,162,129	155,938,405
Less:		
Contributions for land acquisition	(23,894)	(8,599,010)
Decrease (increase) in deferred contributions and grants related to future periods	22,155,425	(51,932,460)
Net government contributions	144,293,660	95,406,935
Rent	2,706,157	3,005,599
Interest and other	550,229	126,642
	147,550,046	98,539,176
Expenses (Note 12)		
Construction/implementation (Note 6)	110,348,852	64,356,683
Design and contract management	15,902,856	17,652,942
Planning and approvals	7,376,911	7,626,127
Project management	11,212,153	6,703,644
Land holding expenses	2,709,274	2,199,780
	147,550,046	98,539,176
Excess of revenue over expenses	-	-
Net assets, beginning of year	103,042,334	94,443,324
Add government contributions for land acquisition	23,894	8,599,010
Net assets, end of year	103,066,228	103,042,334

Toronto Waterfront Revitalization Corporation

Statement of cash flows year ended March 31, 2011

	2011	2010
	\$	\$
Operating activities		
Excess of revenue over expenses	-	-
Items that do not involve cash		
Amortization of capital assets	1,970,452	1,746,388
Capital assets written off (Note 6)	623,183	-
	2,593,635	1,746,388
Changes in non-cash operating items		
Decrease in contributions receivable	-	5,250,000
Increase in HST/GST receivable	(1,007,855)	(408,837)
Decrease (increase) in deposits, prepaid expenses, rent receivable and other assets	1,503,861	(8,396,605)
Increase in accounts payable and accrued liabilities	26,833,374	6,697,914
Increase in other liabilities and settlements	630,076	340,487
(Decrease) increase in accrued benefit liability	(37,645)	2,750
(Decrease) increase in deferred contributions and grants	(22,155,425)	51,932,460
	8,360,021	57,164,557
Investing activities		
Acquisition of capital assets	(928,840)	(11,015,805)
Purchase of short-term investments	(59,393,870)	-
Increase in restricted cash	(38,756)	(4,731,400)
	(60,361,466)	(15,747,205)
Financing activity		
Government contributions for non-amortized capital assets	23,894	8,599,010
Net (outflow) inflow of cash	(51,977,551)	50,016,362
Cash, beginning of year	85,045,263	35,028,901
Cash, end of year	33,067,712	85,045,263

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2011

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 contained in Part V of the Canadian Institute of Chartered Accountants (CICA) handbook.

(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 and short-term investments	Held for trading	Fair value
Contributions receivable	Loans and receivables	Amortized cost
Rent receivable	Held for trading	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Other liabilities and settlements	Other financial liabilities	Amortized cost

Short term investments are comprised of guaranteed investment certificates.

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, short-term investments, contributions receivable, rent receivable, accounts payable and accrued liabilities and other liabilities approximate their fair values due to the relatively short term to their maturity.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2011

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

Other accounts noted on the Statement of Financial Position, such as HST/GST receivable, 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 agreements, contributions from the Governments can only be applied towards payments of eligible costs in respect of project activities, as defined in the contribution 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 as well as an allocation of all other employees' payroll costs, which are disclosed in "Salaries, fees and benefits" in Note 12.

(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
Energy Distribution System	40 years

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2011

2. Significant accounting policies (continued)

(g) Capital assets (continued)

Construction in progress, which is not amortized, 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.

(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 rebate of approximately 86.5% for HST paid on property and services acquired pursuant to Section 123(1)(b) of the Excise Tax Act.

(i) Allocation of general support expenses

The Corporation incurs a number of general support expenses that are common to the administration of the organization and each of its projects. General support expenses are incurred to support the functional areas of construction/implementation, design and contract management, planning and approvals and project management. The expenses are allocated proportionately on the basis of the total costs of the functional area excluding support expenses.

(j) Executive pension plan

The Corporation accrues its obligations under the Pension Plan for Presidents of TWRC (the "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.

(k) 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 the amortization of capital assets, accrued liabilities, deferred revenue and accrued benefit liability.

3. Future accounting changes

In December 2010, the CICA issued a new accounting framework applicable to Not-for-Profit Organizations. Effective for fiscal years beginning on or after January 1, 2012, government Not-for-Profit Organizations must adopt Public Sector Accounting (PSA) Standards as their new underlying accounting framework and will have to choose between (a) the Not-for-Profit accounting standards which are incorporated into the CICA PSA Handbook; or (b) the CICA PSA Handbook without the Not-for-Profit accounting standards. The Corporation currently plans to apply the Not-for-Profit accounting standards which are incorporated into the CICA PSA Handbook (for its fiscal year beginning on April 1, 2012). The impact of transitioning to these new standards has not been determined at this time.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2011

4. Deposits, prepaid expenses, rent receivable and other assets

	2011	2010
	\$	\$
Construction deposits	7,840,065	7,840,065
Prepaid expenses	145,700	165,177
Rent receivable	559,035	825,846
Advance to the Toronto and Region Conservation Authority (the "TRCA") and current portion of environmental liability insurance and rent receivable (Note 7)	1,595,655	58,212
	10,140,455	8,889,300

The Corporation has provided the City of Toronto (the "City") 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. The construction deposits paid to the City are non-interest bearing and the construction deposits paid to Toronto Hydro of \$5,658,866 will be returned to TWRC including interest at the Prime Business Rate set by the Bank of Canada, less two percent.

5. Restricted cash

The Corporation has \$4,770,156 (2010 - \$4,731,400) 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 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

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	103,066,228	-	103,066,228	103,042,334
Leasehold improvements	611,747	513,794	97,953	193,764
Furniture and fixtures	637,698	561,039	76,659	155,441
Computer hardware and software	2,083,752	1,215,588	868,164	729,318
Office equipment	253,267	160,564	92,703	139,505
District Energy				
Interim Plant	5,651,324	2,637,439	3,013,885	4,291,074
Energy Transfer Stations	579,882	32,271	547,611	533,060
Energy Distribution System	740,484	31,852	708,632	-
Construction in progress	-	-	-	1,052,134
	113,624,382	5,152,547	108,471,835	110,136,630

Included in construction/implementation expenses for the year ended March 31, 2011 is an amount of \$623,183 (2010 - \$Nil), representing the net book value of capital assets relating to District Energy which were written off during the year.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2011

6. Capital assets (continued)

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 environmental remediation, which depends on the ultimate use of the lands, will be recognized in the period when an obligation arises.

The Corporation owns buildings on a number of its properties. As none of the buildings are intended for use other than on a temporary rental basis and all will ultimately be demolished, they have been recorded at a carrying value of \$Nil (2010 - \$Nil).

7. Other assets

	2011	2010
	\$	\$
Advance to the TRCA	1,500,000	2,650,000
Environmental impairment liability insurance	230,562	288,774
Rent receivable	152,891	162,252
Total other assets	1,883,453	3,101,026
Less: current portion (Note 4)	1,595,655	58,212
	287,798	3,042,814

The advance given to the TRCA is to be applied to various projects expected to continue until December 2011.

8. Accounts payable and accrued liabilities

	2011	2010
	\$	\$
Accounts payable	4,296,779	4,898,736
Accrued liabilities	44,736,856	18,540,504
Holdbacks payable	5,099,432	3,860,453
	54,133,067	27,299,693

9. Other liabilities and settlements

Other liabilities and settlements at March 31, 2011 total \$2,544,892 (2010 - \$1,914,816) and represent a tenants leasehold improvement allowance, future obligations related to business relocation and District Energy operating receipts for which the Corporation does not yet have the authority to earn, and therefore cannot recognize as revenue.

	2011	2010
	\$	\$
Tenant leasehold improvement allowance	4,021	20,105
Business relocation future obligations	1,543,133	1,543,133
District Energy operating receipts	997,738	351,578
Total other liabilities	2,544,892	1,914,816
Less: current portion	1,547,154	16,091
	997,738	1,898,725

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2011

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, 2011, as well as contributions received for the acquisition of capital assets.

	2011	2010
	\$	\$
Expenses of future periods		
Balance, beginning of period	73,530,965	22,268,912
Additional contributions received/receivable	121,213,189	144,922,600
Less amounts recognized as revenue	(141,700,025)	(93,660,547)
Balance, end of period	53,044,129	73,530,965
Capital contributions		
Balance, beginning of period	7,074,196	6,403,789
Contributions for acquisition of capital assets	948,940	11,015,805
Less direct contribution to net assets	(23,894)	(8,599,010)
Less amount amortized to revenue	(2,593,635)	(1,746,388)
Balance, end of period (Note 11b)	5,405,607	7,074,196
	58,449,736	80,605,161

11. Net assets

a) Net assets recorded on the Statement of Financial Position are comprised of the following:

	2011	2010
	\$	\$
Invested in capital assets (Note 11b)	103,066,228	103,042,334
Unrestricted	-	-
	103,066,228	103,042,334

b) Invested in capital assets represents the following:

	2011	2010
	\$	\$
Capital assets	108,471,835	110,136,630
Less:		
Amount financed by deferred capital contributions (Note 10)	(5,405,607)	(7,074,196)
Amount financed by accounts payable and accrued liabilities	-	(20,100)
	103,066,228	103,042,334

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2011

12. Allocation of general support expenses

	2011				2010	
	Construction/ implementation	Design and contract management	Planning and approvals	Project management	Total	Total
	\$	\$	\$	\$	\$	\$
Salaries, fees and benefits	3,147,594	453,614	210,419	319,816	4,131,443	5,030,392
Legal fees	1,772,114	255,387	118,467	180,059	2,326,027	2,561,778
Office and other	2,467,190	355,558	164,934	250,682	3,238,364	1,937,194
Audit, finance and other professional fees	299,040	43,096	19,991	30,384	392,511	735,978
Amortization	1,501,215	216,347	100,357	152,533	1,970,452	1,746,388
	9,187,153	1,324,002	614,168	933,474	12,058,797	12,011,730
Direct expenses	101,161,699	14,578,854	6,762,743	10,278,679	132,781,975	84,327,666
Land holding expenses	-	-	-	-	2,709,274	2,199,780
Total	110,348,852	15,902,856	7,376,911	11,212,153	147,550,046	98,539,176

13. Executive pension plan

The Corporation maintains a registered pension 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, 2011. The last valuation for funding purposes was as of January 1, 2009.

A reconciliation of the funded status of the Plan to the amount recorded in the financial statements is as follows:

	2011	2010
	\$	\$
Accrued benefit obligation	1,399,000	1,256,275
Fair value of plan assets	1,396,029	1,281,481
Funded status - plan (deficit) surplus	(2,971)	25,206
Unamortized net actuarial gain	(62,385)	(128,207)
Accrued benefit liability	(65,356)	(103,001)

Details of the accrued benefit obligation are as follows:

	2011	2010
	\$	\$
Accrued benefit obligation, beginning of year	1,256,275	1,182,078
Current service cost	31,695	30,595
Interest cost on accrued benefit obligation	77,278	72,760
Actuarial loss (gain) on accrued benefit obligation	33,752	(29,158)
Accrued benefit obligation, end of year	1,399,000	1,256,275

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2011

13. Executive pension plan (continued)

The Plan expense for the year is determined as follows:

	2011	2010
	\$	\$
Current service cost	31,695	30,595
Interest cost on accrued benefit obligation	77,278	72,760
Expected return on plan assets	(78,919)	(71,328)
Amortization of net actuarial gain	(30)	-
Plan expense	30,024	32,027

The significant actuarial assumptions adopted in measuring the accrued benefit obligation are as follows:

	2011	2010
	%	%
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

14. Commitments

The Corporation is committed to payments under operating leases for equipment and office space through 2017 in the amount of \$3,448,491. Annual payments are as follows:

	\$
2012	769,493
2013	774,771
2014	763,746
2015	672,667
2016	374,251
2017	93,563
	3,448,491

In addition, the Corporation has other commitments of \$89,472,509. These commitments comprise contracts directly entered into by the Corporation, 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 for road realignment.

15. 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, 2011, the Corporation believes it 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, 2011

16. Contingent liabilities

- (a) Under the terms and conditions of the Contribution Agreements, the Corporation provides an indemnity to the City, Province of Ontario (the "Province") 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, Province 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 representations based on specific Corporation development obligations. The representations primarily relate to schedule delays. The maximum potential future liability related to these representations is \$7.5 million under one development agreement with one builder 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. No amount for these representations has been accrued in these financial statements. Management attempts to limit the Corporation's potential exposure under these guarantees through appropriate schedule, cost and scope management practices.
- (d) During the year, the Corporation recorded an accrued expense for \$1.3 million relating to the potential future removal costs of capital assets which were written off during the year. The Corporation believes that removal is likely and has measured this liability as at March 31, 2011.

17. Comparatives

Certain comparative amounts have been reclassified to conform with the current year's presentation.

GOVERNMENT BUSINESS ENTERPRISES

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 10, 2011.

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 evaluates the effectiveness of these internal controls consistent with its annual audit plan and reports its findings to management and the Audit and Finance Committee of the Hydro One Board of Directors, as required.

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 Independent Auditors' Report, which appears on page 43, outlines the scope of their examination and their opinion.

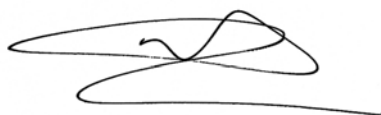
The Hydro One Board of Directors, through its Audit and Finance Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Finance Committee of Hydro One met periodically with management, the internal auditors and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

The Company's President and Chief Executive Officer and Executive Vice-President and Chief Financial Officer have certified Hydro One's annual Consolidated Financial Statements and annual MD&A filed under provincial securities legislation, related disclosure controls and procedures and the design and effectiveness of related internal controls over financial reporting pursuant to National Instrument 52-109.

On behalf of Hydro One Inc.'s management:



Laura Formosa
President and Chief Executive Officer



Sandy Struthers
Executive Vice-President and Chief Financial Officer

**HYDRO ONE INC.
INDEPENDENT AUDITORS' REPORT**

To the Shareholder of Hydro One Inc.

We have audited the accompanying consolidated financial statements of Hydro One Inc., which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of operations and comprehensive income, retained earnings and accumulated other comprehensive income, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hydro One Inc. as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 10, 2011

HYDRO ONE INC.**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

<i>Year ended December 31 (Canadian dollars in millions, except per share amounts)</i>	2010	2009
Revenues		
Transmission (Note 16)	1,307	1,147
Distribution (Note 16)	3,754	3,534
Other	63	63
	<u>5,124</u>	<u>4,744</u>
Costs		
Purchased power (Note 16)	2,474	2,326
Operation, maintenance and administration (Note 16)	1,078	1,057
Depreciation and amortization (Note 3)	583	537
	<u>4,135</u>	<u>3,920</u>
Income before financing charges and provision for payments in lieu of corporate income taxes	989	824
Financing charges (Note 4)	342	308
Income before provision for payments in lieu of corporate income taxes	647	516
Provision for payments in lieu of corporate income taxes (Notes 5 and 16)	56	46
Net income	<u>591</u>	<u>470</u>
Other comprehensive income	-	-
Comprehensive income	<u>591</u>	<u>470</u>
Basic and fully diluted earnings per common share (Canadian dollars) (Note 15)	<u>5,727</u>	<u>4,528</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>Year ended December 31 (Canadian dollars in millions)</i>	2010	2009
Retained earnings, January 1	1,791	1,497
Change in accounting policy for the recognition of future income tax assets and liabilities (Note 2)	-	12
Net income	591	470
Dividends (Note 15)	(28)	(188)
Retained earnings, December 31	<u>2,354</u>	<u>1,791</u>

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

<i>Year ended December 31 (Canadian dollars in millions)</i>	2010	2009
Accumulated other comprehensive income, January 1	(10)	(10)
Other comprehensive income	-	-
Accumulated other comprehensive income, December 31	<u>(10)</u>	<u>(10)</u>

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC. CONSOLIDATED BALANCE SHEETS

<i>December 31 (Canadian dollars in millions)</i>	2010	2009
Assets		
Current assets:		
Cash	33	-
Short-term investments (Note 17)	139	-
Accounts receivable (net of allowance for doubtful accounts - \$25 million; 2009 - \$25 million) (Note 16)	911	843
Regulatory assets (Note 8)	42	72
Materials and supplies	21	21
Future income tax assets (Note 5)	35	21
Other	8	16
	1,189	973
Fixed assets (Note 6):		
Fixed assets in service	19,767	18,407
Less: Accumulated depreciation	7,247	6,815
	12,520	11,592
Construction in progress	1,402	1,256
Future use land, components and spares	139	150
	14,061	12,998
Other long-term assets:		
Regulatory assets (Notes 8 and 22)	1,013	858
Deferred pension asset (Note 12)	460	424
Long-term investment (Note 9)	249	-
Intangible assets (net of accumulated amortization) (Notes 2 and 7)	189	218
Goodwill	133	133
Future income tax assets (Notes 2 and 5)	19	18
Other	9	13
	2,072	1,664
Total assets	17,322	15,635

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (continued)

<i>December 31 (Canadian dollars in millions)</i>	2010	2009
Liabilities		
Current liabilities:		
Bank indebtedness	-	26
Accounts payable and accrued charges (Notes 13 and 16)	884	800
Regulatory liabilities (Note 8)	72	100
Accrued interest	84	74
Short-term notes payable	-	55
Long-term debt payable within one year (Note 9)	500	600
	<u>1,540</u>	<u>1,655</u>
Long-term debt (Note 9)	7,278	6,281
Other long-term liabilities:		
Employee future benefits other than pension (Note 12)	980	940
Regulatory liabilities (Notes 8 and 22)	540	489
Future income tax liabilities (Notes 5 and 22)	693	533
Environmental liabilities (Note 13)	287	303
Asset retirement obligations (Note 14)	11	-
Long-term accounts payable and other liabilities	12	16
	<u>2,523</u>	<u>2,281</u>
Total liabilities	11,341	10,217
Contingencies and commitments (Notes 18 and 19)		
Shareholder's equity (Note 15)		
Preferred shares (authorized: unlimited; issued: 12,920,000)	323	323
Common shares (authorized: unlimited; issued: 100,000)	3,314	3,314
Retained earnings	2,354	1,791
Accumulated other comprehensive income	(10)	(10)
Total shareholder's equity	5,981	5,418
Total liabilities and shareholder's equity	17,322	15,635

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:



James Arnett
Chair



Michael J. Mueller
Chair, Audit and Finance Committee

HYDRO ONE INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Year ended December 31 (Canadian dollars in millions)</i>	2010	2009
Operating activities		
Net income	591	470
Environmental expenditures	(17)	(9)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	526	487
Regulatory asset and liability accounts	(10)	(34)
Future income taxes	(8)	16
Asset retirement obligation	4	-
Other	1	-
	1,087	930
Changes in non-cash balances related to operations (Note 17)	77	(38)
Net cash from operating activities	1,164	892
Financing activities		
Long-term debt issued	1,500	1,150
Long-term debt retired	(600)	(400)
Short-term notes payable	(55)	55
Dividends paid	(28)	(188)
Other	-	2
Net cash from financing activities	817	619
Investing activities		
Capital expenditures		
Fixed assets	(1,557)	(1,473)
Intangible assets	(13)	(93)
	(1,570)	(1,566)
Long-term investments	(250)	-
Other assets	37	13
Net cash used in investing activities	(1,783)	(1,553)
Net change in cash and cash equivalents	198	(42)
Cash and cash equivalents, January 1	(26)	16
Cash and cash equivalents, December 31 (Note 17)	172	(26)

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries: Hydro One Networks Inc. (Hydro One Networks), Hydro One Remote Communities Inc. (Hydro One Remote Communities), Hydro One Brampton Networks Inc. (Hydro One Brampton), Hydro One Telecom Inc., Hydro One Lake Erie Link Management Inc. and Hydro One Lake Erie Link Company Inc.

Basis of Accounting

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

Rate-setting

The rates of the Company's electricity Transmission and Distribution Businesses are subject to regulation by the OEB.

Transmission

On August 16, 2007, the OEB issued its decision in respect of Hydro One Networks' 2007 and 2008 transmission rate application. As part of that decision the OEB approved the disposition of export and wheeling fees liability and the transmission market-ready regulatory asset, which was factored into rates and refunded to customers over the four-year period ending December 31, 2010.

On May 30, 2008, Hydro One Networks submitted an application to the OEB to adjust Uniform Transmission Rates (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 Earnings Sharing Mechanism and the Revenue Difference Deferral Account 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 requirements 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 reduced revenue requirements 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 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.

On May 19, 2010 Hydro One Networks submitted an application for 2011 and 2012 transmission rates in continued support of its aging critical infrastructure and the supply mix objectives for generation, including off-coal initiatives and initiation of investments in support of the Green Energy Act (GEA). This application sought the approval of revenue requirements of approximately \$1,446 million for 2011 and \$1,547 million for 2012.

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

On December 23, 2010, the OEB issued its decision effective January 1, 2011 which resulted in revenue requirements of \$1,346 million for 2011 and \$1,658 million for 2012. The change in our 2012 revenue requirement resulted in a higher revenue requirement than originally submitted due to the OEB directing Hydro One to adopt IFRS accounting for overheads capitalized resulting in a \$200 million increase in 2012.

Distribution

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 (Rider 4) to record the revenue differential between existing distribution rates and new rates. Rider 4 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 Incentive Regulation Mechanism (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.

In 2009, Hydro One Networks filed a cost-of-service application with the OEB for 2010 and 2011 distribution rates reflecting the Company's plan to invest in its network assets to meet objectives regarding public and employee safety; regulatory and legislative compliance; maintenance of system security and reliability of system growth requirements; and investments required by the GEA. The application sought OEB approval of revenue requirements of approximately \$1,150 million and \$1,264 million for 2010 and 2011, respectively.

On April 9, 2010, the OEB released its decision approving revenue requirements of \$1,146 million for 2010 and \$1,236 million for 2011 to support the necessary work programs, the implementation of the GEA and the installation of smart meters. The OEB also approved certain distribution-related deferral account balances sought by Hydro One Networks in its application including retail settlement variance accounts, regulatory asset recovery account I, retail cost variance accounts and smart meters. The OEB ordered that the approved balances be aggregated into a single regulatory account (Rider 6) to be recovered over an 18-month period from May 1, 2010 to December 31, 2011.

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 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 its 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 November 6, 2009, Hydro One Brampton filed an application for 2010 distribution rates on the basis of the OEB's second-generation IRM process. On April 13, 2010, the OEB released its decision regarding this rate application approving our submission on the basis of the OEB's cost-of-capital and second-generation IRM policies. The revised rates had an implementation date of May 1, 2010.

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.

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

On November 4, 2009, Hydro One Remote Communities filed an application for 2010 distribution rates under the OEB's third-generation IRM, seeking approval of an increase to basic rates for the distribution and generation of electricity effective May 1, 2010. The increase reflects the standard inflationary adjustments incorporated in the third-generation IRM applications. On April 14, 2010, the OEB issued a decision regarding this rate application under the OEB's third-generation IRM policies. The revised rates were approved for implementation on May 1, 2010.

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 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, 2010 amounted to \$493 million (2009 - \$434 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 *Taxation Act, 2007* (Ontario) (*Corporations Tax Act* (Ontario), prior to 2009) 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.

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

Adjustments to retained earnings were recorded on January 1, 2009 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.

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 will 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 that they will be 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, 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.

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 other minor fixed assets.

Easements

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

Intangible Assets

Intangible assets represent computer applications software and other assets. These assets are capitalized at cost, which comprises materials, purchased software, labour and consulting, engineering, overheads and the OEB-approved allowance for funds used during construction applicable to capital construction activities within regulated businesses.

Construction and Development in Progress

Overhead costs, including shared corporate functions and services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology. Financing costs are capitalized on rate-regulated fixed assets under construction and intangible assets under development, based on the OEB's approved allowance for funds used during construction (2010 – 4.34%; 2009 – 5.89%).

Depreciation and Amortization

The capital costs of fixed assets and intangible assets, primarily consisting of applications software, are depreciated or amortized on a straight-line basis, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external review of its fixed asset and intangible asset 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%	9%

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 intangible 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 fixed assets that are normally retired is charged to accumulated depreciation or amortization, with no gain or loss reflected in current 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 where no asset retirement obligation has been recorded.

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

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 electricity rates.

Goodwill

Goodwill represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is evaluated for impairment on an annual basis, or more frequently if circumstances require. Goodwill impairment is assessed based on a comparison of the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill, with any write-down of the carrying value of goodwill being charged against the results of operations. The Company has determined that goodwill is not impaired. All of the goodwill is attributable to the Distribution Business segment.

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 comprised 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
Long-term investment	Held-to-maturity/Held-for-trading
Fixed-to-floating interest rate swaps	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
\$500 million of MTN Series 19 Note	Not classified

Short-term investments are generally classified as held-to-maturity; however, certain short-term investments are classified as held-for-trading when the Company has no intent to hold 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 and \$500 million of the MTN Series 19 Note, the long-term debt, and related hedging instrument, are not classified.

All financial instrument transactions are recorded at trade date.

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)***Derivative Instruments 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 gain or loss related to the ineffective portion, if any, is recorded in financing charges.

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 formally documents the hedging relationship between the hedged item and the hedging instrument, its risk management objective for establishing the hedging relationship, 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

The fair market value of the Company's long-term debt is determined using the fair value hierarchy levels 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.

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

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

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.

Asset Retirement Obligations

When required by force of law or regulation, Hydro One records an asset retirement obligation based on the present value of the estimated fair value expenditures to remove certain assets and mitigate related sites. Where the Company anticipates that the related expenditures will be recoverable in future rates, a corresponding amount is capitalized as a cost of the related fixed assets. 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 facilities in perpetuity, no asset retirement obligation currently exists. If, at some future date, a particular facility is shown not to meet the perpetuity criterion, it will be reviewed to determine whether a measurable asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time.

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 (AcSB) 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. On September 10, 2010, the AcSB decided to permit rate-regulated entities to defer their IFRS implementation date to January 1, 2012. As such, the Company will apply IFRS to its financial statements ending December 31, 2012 with restatement of the amounts recorded on the opening IFRS balance sheet as at January 1, 2011, for comparative purposes. The Company continues to assess the impact of conversion to IFRS on its results of operations.

3. DEPRECIATION AND AMORTIZATION

<i>Year ended December 31 (Canadian dollars in millions)</i>	2010	2009
Depreciation of fixed assets in service	456	418
Amortization of intangible assets	43	36
Fixed asset removal costs	57	50
Amortization of regulatory and other assets	27	33
	583	537

4. FINANCING CHARGES

<i>Year ended December 31 (Canadian dollars in millions)</i>	2010	2009
Interest on long-term debt payable	409	369
Less: Interest capitalized on construction and development in progress	(54)	(58)
Interest earned on investments	(3)	(1)
Other	(10)	(2)
	342	308

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

<i>(Canadian dollars in millions)</i>	2010	2009
Income before provision for PILs	647	516
Federal and Ontario statutory income tax rate	31.00%	33.00%
Provision for PILs at statutory rate	201	170
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(82)	(74)
Retail settlement variance accounts	-	4
Pension contributions in excess of pension expense	(18)	(15)
Overheads capitalized for accounting but deducted for tax purposes	(13)	(14)
Interest capitalized for accounting but deducted for tax purposes	(17)	(19)
Employee future benefits other than pension expense in excess of cash payments	3	1
Environmental expenditures	(5)	(3)
Other	(15)	(6)
Net temporary differences	(147)	(126)
Net permanent differences	2	2
Total income tax provision for PILs	56	46
Current income tax provision for PILs	64	30
Future income tax provision for PILs	(8)	16
Total income tax provision for PILs	56	46
Effective income tax rate	8.66%	8.91%

The provision for payments in lieu of current income taxes of \$64 million represents the amount payable to the OEFC with respect to current year earnings. The outstanding balance due to the OEFC at December 31, 2010 is \$17 million (2009 - \$6 million recoverable).

The payments in lieu of future income taxes recoverable of \$8 million reflects the decrease 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 decrease 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 a decrease in regulatory assets.

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:

<i>December 31 (Canadian dollars in millions)</i>	2010	2009
Future income tax assets		
Depreciation and amortization in excess of capital cost allowance	9	6
Employee future benefits other than pension expense in excess of cash payments	5	4
Retail settlement variance accounts	-	3
Environmental expenditures	3	3
Other	5	3
Total future income tax assets	22	19
Less: current portion	3	1
	19	18

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

<i>December 31 (Canadian dollars in millions)</i>	2010	2009
Future income tax liabilities		
Capital cost allowance in excess of depreciation and amortization	(1,004)	(825)
Employee future benefits other than pension expense in excess of cash payments	337	314
Environmental expenditures	76	82
Transmission and Distribution amounts received but not recognized for accounting purposes	(69)	(68)
Goodwill	(17)	(18)
Retail settlement variance accounts	5	5
Other	11	(3)
Total future income tax liabilities	(661)	(513)
Less: current portion	32	20
	(693)	(533)

As at December 31, 2010, payments in lieu of future income tax assets of \$574 thousand (2009 – \$461 thousand), 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

<i>December 31 (Canadian dollars in millions)</i>	Fixed Assets	Accumulated Depreciation	Construction in Progress	Total
2010				
Transmission	10,204	3,626	1,070	7,648
Distribution	7,230	2,556	262	4,936
Communication	892	426	37	503
Administration and service	1,089	554	33	568
Easements	491	85	-	406
	19,906	7,247	1,402	14,061
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

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 \$54 million in 2010 (2009 - \$55 million).

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

<i>December 31 (Canadian dollars in millions)</i>	<i>Intangible Assets</i>	<i>Accumulated Amortization</i>	<i>Development in Progress</i>	<i>Total</i>
2010				
Computer applications software	395	209	1	187
Other assets	5	3	-	2
	400	212	1	189
2009				
Computer applications software	379	166	3	216
Other assets	5	3	-	2
	384	169	3	218

Financing costs are capitalized on intangible assets under development, including allowance for funds used during construction on regulated assets, and were \$nil in 2010 (2009 - \$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:

<i>December 31 (Canadian dollars in millions)</i>	2010	2009
Regulatory assets:		
Regulatory future income tax asset	674	523
Environmental	309	327
Pension cost variance account	27	7
Rider 2 (Regulatory asset recovery account II)	11	19
Rural and remote rate protection variance account	7	24
Long-term project development cost account	7	2
Rider 4 (Revenue Recovery Account)	5	18
Other	15	10
Total regulatory assets	1,055	930
Less: current portion	42	72
	1,013	858
Regulatory liabilities:		
Deferred pension	460	424
External revenue variance account	29	12
Regulatory future income tax liability	30	32
Retail settlement variance accounts	22	-
Rider 3 (regulatory liability refund account)	19	49
Rider 6	19	31
Rider 8	9	-
Hydro One Brampton rider	6	9
Export and wheeling fees	3	15
Other	15	17
Total regulatory liabilities	612	589
Less: current portion	72	100
	540	489

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)*****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 established for taxes to be recovered through future rates. As a result the provision for PILs would have been higher by approximately \$104 million (2009 - \$127 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 2010, this regulatory asset decreased by \$15 million (2009 – increased by \$30 million) to reflect related changes in the Company's PCB liability and decreased by \$1 million (2009 – increased by \$40 million) for a change 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 lower by \$16 million (2009 - higher by \$70 million). In addition, amortization expense in 2010 would have been lower by \$17 million (2009 - \$9 million) and financing charges would have been higher by \$15 million (2009 - \$13 million).

Pension Cost Variance Account

The pension cost variance account was established for Hydro One Networks' Transmission and Distribution Businesses to track the difference between the actual pension costs incurred by the Company and estimated pension costs approved by the OEB. The balance in this account reflects the excess of pension costs paid compared to OEB-approved amounts. On May 28, 2009, the OEB announced its decision regarding the Company's rate application in respect of the Transmission Business of Hydro One Networks for 2009 and 2010 rates. As part of this decision, the OEB approved recovery of the proposed balance in this account plus accrued interest for recovery over 18 months ending December 31, 2010. In the December 23, 2010 decision on 2011 and 2012 transmission rates, the OEB approved the December 31, 2009 balance, including accrued interest, to be recovered over a one-year period from January 1, 2011 to December 31, 2011. In the absence of rate-regulated accounting, revenue would have been lower by \$20 million in 2010 (2009 - \$7 million).

Rider 2 or Regulatory Asset Recovery Account II (RARA II)

On April 12, 2006, the OEB announced its decision regarding the Company's rate application in respect of the Distribution Business of Hydro One Networks. As part of this decision, the OEB also approved the distribution-related deferral account balances sought by Hydro One. The 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 2010 would have been lower by \$8 million (2009 - \$23 million). In addition, related financing charges would have remained the same in both years.

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.

Long-term Project Development Cost Account

On May 28, 2009 the OEB approved the creation of a deferral account to record Hydro One's costs of preliminary work to advance certain transmission projects identified in its 2009 and 2010 transmission rate application. On

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

March 25, 2010, the OEB issued a decision amending the scope of the account to include the 20 major transmission projects identified in the September 21, 2009 request from the Government of Ontario. In its December 23, 2010 decision, the OEB approved the recovery of the December 31, 2009 balance, including accrued interest, over a one-year period from January 1, 2010 to December 31, 2011. The Company anticipates that it will seek recovery for the remaining balance in its next transmission rate application. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been higher by \$5 million (2009 - \$2 million).

Rider 4 or Revenue Recovery Account

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 Rider 4 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 lower by \$22 million (2009 - higher by \$9 million).

External Revenue Variance Account

In its May 28, 2009 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 approved forecast and actual revenues from these sources of external revenue. The balance reflects the excess of external revenue compared to the OEB-approved forecast. The OEB's December 23, 2010 decision approved the disposition of the December 31, 2009 balance, including accrued interest, over a one-year period from January 1, 2010 to December 31, 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 18, 2008 decision allowed for the disposition of RSVA accumulated since May 1, 2006 through to April 30, 2008, inclusive of interest, within the Regulatory Liability Refund Account (RLRA). Hydro One Networks accumulated a net liability in its RSVA from May 1, 2008 to December 31, 2009. On April 9, 2010, the OEB announced its decision regarding Hydro One Networks' distribution rate application which included the allowance to dispose of the RSVA accumulated during that period, inclusive of interest, within Rider 6. Hydro One Networks has accumulated a net liability in its RSVA account since December 31, 2009.

RLRA

The OEB's December 18, 2008 decision approved certain distribution-related deferral account balances sought by Hydro One in its application including RSVA amounts, deferred tax changes, OEB costs and smart meters. Amounts approved for recovery 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.

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)***Rider 6*

As part of the April 9, 2010 decision, the OEB approved certain distribution-related deferral account balances sought by Hydro One in its application including retail settlement variance accounts, regulatory asset recovery account I, retail cost variance accounts and smart meters. The OEB ordered that the approved balances be aggregated into a single regulatory account to be recovered over an 18-month period from May 1, 2010 to December 31, 2011.

Rider 8

As part of the April 9, 2010 decision, the OEB also requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and actual recoveries received.

Hydro One Brampton Rider

On April 13, 2010, the OEB issued a decision regarding the 2010 distribution rates of Hydro One Brampton. Included in the OEB's decision was the approval of certain deferral account balances, primarily RSVA, sought by Hydro One Brampton in its application. The OEB ordered that the approved balances be aggregated into a single regulatory account to be disposed of over a two-year period from May 1, 2010 to April 30, 2012.

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 and wheeling fees. The export and wheeling fees were factored into rates over a four-year period ending December 31, 2010.

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

<i>December 31 (Canadian dollars in millions)</i>	2010	2009
Long-term debt:		
7.15% debentures due 2010	-	400
3.89% notes due 2010	-	200
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	600
3.13% notes due 2014 ¹	750	250
2.95% notes due 2015	250	-
4.64% notes due 2016	450	450
5.18% notes due 2017	600	600
4.40% notes due 2020	300	-
7.35% debentures due 2030	400	400
6.93% notes due 2032	500	500
6.35% notes due 2034	385	385
5.36% notes due 2036	600	600
4.89% notes due 2037	400	400
6.03% notes due 2039	300	300
5.49% notes due 2040	500	300
6.59% notes due 2043	315	315
5.00% notes due 2046	325	75
	7,775	6,875
Add: Unrealized hedged loss ¹	8	11
Less: Long-term debt payable within one year	(500)	(600)
Net unamortized premiums	27	24
Unamortized debt issuance costs	(32)	(29)
Long-term debt	7,278	6,281

¹ The unrealized hedged loss relates to the MTN Series 14 Note, and \$500 million of the MTN Series 19 Note issued in January of 2010, which are accounted for as fair value hedges. The unrealized hedged loss is offset by the \$8 million (2009 - \$11 million) unrealized gain on the related fixed-to-floating interest rate swap agreements.

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 2010, the notes had a weighted average interest rate of 0.05%.

Hydro One has a \$1,250 million committed and unused revolving standby credit facility with a syndicate of banks maturing in June 2013. If used, interest on the facility would apply based on Canadian benchmark rates. This credit facility supports the Company's Commercial Paper Program. In addition, the Company holds \$250 million of Province of Ontario Floating Rate Notes.

The Company issues notes for long-term financing under the Medium-Term Note (MTN) Program. The maximum authorized principal amount of medium-term notes issuable under this program is \$3,000 million, of which \$1,250 million was remaining and available as at December 31, 2010.

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, 2010 is as follows:

<i>(Canadian dollars in millions)</i>	Derivatives Used for Hedging	Other Financial Instruments Used for Hedging	Held-for- Trading	Loans and Receivables	Other Financial Liabilities
Financial Assets					
Cash	-	-	33	-	-
Accounts receivable	-	-	-	911	-
Short-term investments	-	-	139	-	-
Long-term investment	-	-	249	-	-
Other assets	8	-	-	1	-
Financial Liabilities					
Accounts payable and accrued charges ¹	-	-	-	-	861
Long-term debt	-	758	-	-	7,020

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.

<i>December 31 (Canadian dollars in millions)</i>	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt ¹	7,775	8,555	6,875	7,302

¹ The carrying value of long-term debt represents the par value of the notes and debentures, other than the MTN Series 14 Note and \$500 million of the MTN Series 19 Note, which are designated as part of hedging relationships.

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 would 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 forecasted 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 \$16 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, 2010, 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, 2010, there were no significant balances of accounts receivable due from any single customer.

In the year, the Company's provision for bad debts remained unchanged at \$25 million (2009 - \$25 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, 2010, approximately 3% 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 counter-parties 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 counter-parties. 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, 2010.

Derivative financial instruments result in exposure to credit risk since there is a risk of counter-party default. As at December 31, 2010, the derivative instruments held by Hydro One include 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 and two \$250 million fixed-to-floating interest rate swap agreements to convert \$500 million of the 3.13% coupon note maturing November 19, 2014 into a three-month variable rate debt. The counter-party credit risk exposure on the fair value of the three interest rate swap contracts is \$11 million as at December 31, 2010.

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, 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, our revolving credit facility and through our holdings of Province of Ontario Floating Rate Notes. The Commercial Paper Program is supported by a total of \$1,500 million in liquidity facilities comprised of a \$1,250 million committed revolving credit facility with a syndicate of banks maturing June 1, 2013 and the holding of \$250 million of Province of Ontario Floating Rate Notes. The short-term liquidity under this program and anticipated levels of funds from operations should be sufficient to fund our normal operating requirements.

As at December 31, 2010, accounts payable and accrued charges in the amount of \$861 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 \$500 million. Interest payments over the next 12 months on the Company's outstanding long-term debt amount to \$405 million.

As at December 31, 2010, Hydro One has issued long-term debt in the amount of \$7,775 million and the Company is required to make interest payments in the amount of \$6,599 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	500	405	5.2
2 years	600	383	5.8
3 years	600	349	5.0
4 years	750	319	3.1
5 years	250	295	3.0
	2,700	1,751	4.5
6 – 10 years	1,350	1,246	4.8
Over 10 years	3,725	3,602	6.0
	7,775	6,599	5.3

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, 2010 and December 31, 2009 was as follows:

<i>(Canadian dollars in millions)</i>	2010	2009
Short-term notes payable	-	55
Long-term debt payable within one year	500	600
Less: Cash and cash equivalents	33	(26)
	467	681
Long-term debt	7,278	6,281
Preferred Shares	323	323
Common Shares	3,314	3,314
Retained Earnings	2,354	1,791
	5,991	5,428
Total Capital	13,736	12,390

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, 2010, 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, 2010 and 2009 was as follows:

<i>December 31</i>	% of Plan Assets	
	2010	2009
Equity securities	63.5	63.3
Debt securities	30.7	32.9
Other	5.8	3.8
	100.0	100.0

Supplementary Information

The Hydro One pension plan holds \$14 million of Hydro One Inc. corporate bonds (2009 - \$9 million) and holds debt securities of the Province of \$70 million at December 31, 2010 (2009 - \$88 million).

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) in September 2010, effective for December 31, 2009, the Company contributed \$193 million to its pension plan in respect of 2010 (2009 - \$112 million), \$145 million of which is required to satisfy minimum funding requirements. The Company made an additional payment of \$48 million in December 2010. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash. Contributions after 2012 will be based on an actuarial valuation effective December 31, 2012 and will depend on future investment returns, and changes in benefits or actuarial assumptions.

Total cash payments for employee future benefits made in 2010, 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 \$233 million (2009 - \$155 million).

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

<i>Year ended December 31 (Canadian dollars in millions)</i>	Pension		Employee Future Benefits other than Pension	
	2010	2009	2010	2009
Change in accrued benefit obligation				
Accrued benefit obligation, January 1	4,566	4,007	1,004	874
Current service cost	94	73	24	19
Interest cost	294	286	65	63
Reciprocal transfers	4	-	-	-
Benefits paid	(262)	(270)	(42)	(43)
Net actuarial loss (gain)	300	470	127	91
Accrued benefit obligation, December 31	4,996	4,566	1,178	1,004
Change in plan assets				
Fair value of plan assets, January 1	4,336	3,836	-	-
Actual return on plan assets	421	642	-	-
Reciprocal transfers	4	6	-	-
Benefits paid	(262)	(270)	-	-
Employer's contributions ¹	191	112	-	-
Employees' contributions	24	21	-	-
Administrative expenses	(15)	(11)	-	-
Fair value of plan assets, December 31	4,699	4,336	-	-
Funded status				
Unfunded benefit obligation	(297)	(230)	(1,178)	(1,004)
Unamortized net actuarial losses (gains)	746	640	144	10
Unamortized past service costs	11	14	11	14
Deferred pension asset (accrued benefit liability)	460	424	(1,023)	(980)
Less: Current portion	-	-	43	40
Deferred pension asset (long-term liability)	460	424	(980)	(940)

¹ In January 2011, the Company made a contribution of \$13 million in respect of 2010 (\$10 million in respect of 2009).

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

<i>Year ended December 31 (Canadian dollars in millions)</i>	Pension		Employee Future Benefits Other Than Pension	
	2010	2009	2010	2009
Components of net periodic benefit cost				
Current service cost, net of employee contributions	70	52	24	19
Interest cost	294	286	65	63
Actual return on plan assets net of expenses	(406)	(631)	-	-
Actuarial loss (gain)	300	470	127	91
Other	(1)	(1)	-	-
Costs arising in the period	257	176	216	173
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	129	359	-	-
Actuarial (gain) loss	(236)	(410)	(134)	(101)
Plan amendments	4	4	4	4
Net periodic benefit cost	154	129	86	76
Charged to results of operations²	134	68	51	46

Effect of a 1% increase in health care cost trends on:

Accrued benefit obligation, December 31	-	-	185	141
Service cost and interest cost	-	-	15	13

Effect of a 1% decrease in health care cost trends on:

Accrued benefit obligation, December 31	-	-	(146)	(113)
Service cost and interest cost	-	-	(12)	(10)

Significant assumptions

For net periodic benefit cost:

Expected rate of return on plan assets	6.50%	7.25%	-	-
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%
Average remaining service life of employees (years)	10	10	11	11
Rate of increase in health care cost trend ³	-	-	4.81%	4.81%

For accrued benefit obligation, December 31:

Weighted average discount rate	5.75%	6.50%	5.75%	6.50%
Rate of compensation scale escalation (without merit)	2.50%	2.50%	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%	2.00%	2.00%
Rate of increase in health care cost trend ⁴	-	-	4.86%	4.81%

² The Company follows the cash basis of accounting. During 2010, pension costs of \$191 million (2009 - \$113 million) were attributed to labour, of which \$134 million (2009 - \$68 million) was charged to operations and \$57 million (2009 - \$45 million) was capitalized as part of the cost of fixed assets.

³ 8.57% in 2010 grading down to 4.81% per annum in and after 2029 (2009 - 8.81% in 2009 grading down to 4.81% per annum in and after 2029).

⁴ 8.31% in 2011 grading down to 4.86% per annum in and after 2029 (2009 - 8.57% in 2010 grading down to 4.81% per annum in and after 2029).

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. ENVIRONMENTAL LIABILITIES**

<i>December 31 (Canadian dollars in millions)</i>	Polychlorinated Biphenyls (PCB)	Land Assessment and Remediation (LAR)	Total
2010			
Opening balance, January 1	262	65	327
Interest accretion	13	2	15
Expenditures	(9)	(8)	(17)
Revaluation adjustment	(15)	(1)	(16)
Ending balance, December 31	251	58	309
Less: Current portion	(15)	(7)	(22)
	236	51	287
2009			
Opening balance, January 1	225	28	253
Interest accretion	12	1	13
Expenditures	(4)	(5)	(9)
Revaluation adjustment	29	41	70
Ending balance, December 31	262	65	327
Less: Current portion	(14)	(10)	(24)
	248	55	303

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2010 and in total thereafter are as follows: 2011 - \$22 million; 2012 - \$23 million; 2013 - \$34 million; 2014 - \$40 million; 2015 - \$33 million and thereafter - \$217 million. Of the total estimated future expenditures, \$308 million relate to PCB (2009 - \$320 million) and \$61 million to LAR (2009 - \$69 million).

Consistent with its accounting policy for environmental costs, Hydro One records a liability for the estimated future expenditures associated with the removal and destruction of PCB-contaminated insulating oils and related electrical equipment and for the assessment and remediation of chemically-contaminated lands. The Company's recorded 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 changes in 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 present value cost 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.

PCBs

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

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

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 for 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 the removal of PCBs from certain station equipment that could potentially 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 greater than 50 ppm for pole-top transformers, pole-top auxiliary electrical equipment and light ballasts must be disposed of by the end of 2025.

Management judges that the Company currently has very few 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 replaced or will be decontaminated by removing PCB-contaminated insulating oil and retrofilling with replacement oil that is less than 2 ppm.

Management's best estimate of the total estimated future expenditures to comply with PCB regulations is about \$308 million. These expenditures are expected to be incurred over the period from 2011 to 2025. As a result of its most recent cost estimate to comply with existing PCB regulations, the Company reduced its December 31, 2010 PCB liability by approximately \$15 million compared to September 30, 2010.

LAR

As part of its annual review of environmental liabilities, the Company also reviewed its liability for LAR. As a result of this review, the Company reduced its December 31, 2010 liability by approximately \$1 million compared to September 30, 2010. The Company's best estimate of the total future expenditures to complete its LAR program is about \$61 million.

14. ASSET RETIREMENT OBLIGATIONS

Consistent with the Company's accounting policy for asset retirement obligations, Hydro One records a liability for the present value of the estimated future expenditures associated with the retirement of tangible long-lived assets that the Company is legally required to remove. A corresponding amount is recorded as an asset retirement cost that is capitalized as part of the carrying amount of the related fixed asset.

There are uncertainties in estimating future expenditures due to potential external events such as changing legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's asset retirement obligations 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. Asset retirement obligations 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 asset retirement obligations, the Company estimates the current fair value for completing required removal and remediation 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 expenditures have been discounted using factors ranging from approximately 3% to 5%, depending on the appropriate rate for the period when expenditures are expected to be incurred.

Hydro One has recorded a liability for the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The Company's liability is based on management's best estimate of the present value of the estimated future expenditures to comply with existing regulations. During the year, the Company completed a study with the aid of an expert external consultant to estimate the future expenditures required to remove asbestos prior to facility demolition. The Company has recorded a \$7 million

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

liability in respect of this obligation as at December 31, 2010 based on the net present value of the Company's best estimate of the total future expenditures of \$18 million to complete its asbestos removal activities.

Hydro One has also recorded a \$4 million asset retirement obligation related to the decommissioning and removal of its switching station located at Ontario Power Generation's Abitibi Canyon Generating Station.

15. 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, maintenance of the deemed regulatory capital structure, financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations.

In 2010, preferred dividends in the amount of \$18 million (2009 - \$18 million) and common dividends in the amount of \$10 million (2009 - \$170 million) were declared.

Earnings per Share

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

16. 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 2010 includes \$1,277 million (2009 - \$1,121 million) related to these services. Hydro One receives amounts for rural rate protection from the IESO. Distribution revenue for 2010 includes \$127 million (2009 - \$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 2010 includes \$28 million (2009 - \$31 million) related to these services.

In 2010, Hydro One purchased power in the amount of \$2,361 million (2009 - \$2,265 million) from the IESO administered electricity market, \$19 million (2009 - \$19 million) from OPG and \$13 million (2009 - \$11 million) from OEFC.

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

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 2010, Hydro One incurred \$11 million (2009 - \$10 million) in OEB fees.

Hydro One has service level agreements with the other successor corporations. These services include field, engineering, logistics and telecommunications services. Revenues related to the provision of construction and equipment maintenance services to the other successor corporations were \$14 million (2009 - \$13 million), primarily for the Transmission Business. Operation, maintenance and administration costs related to the purchase of services from the other successor corporations were less than \$2 million in each of 2010 and 2009.

The OPA funds substantially all of our Conservation Demand Management (CDM) programs. The funding includes program costs, incentives, management fees and bonuses. In 2010, Hydro One received \$36 million from the OPA in respect of the CDM programs (2009 - \$23 million) and had a net accounts receivable of \$1 million in both 2010 and 2009.

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:

<i>December 31 (Canadian dollars in millions)</i>	2010	2009
Accounts receivable	111	108
Accounts payable and accrued charges	(283)	(254)

Included in accounts payable and accrued charges are amounts owing to the IESO in respect of power purchases of \$222 million (2009 - \$211 million).

17. 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”, “short-term investments” and “bank indebtedness.” The changes in non-cash balances related to operations consist of the following:

<i>Year ended December 31 (Canadian dollars in millions)</i>	2010	2009
Accounts receivable increase	(68)	(89)
Materials and supplies increase	-	(2)
Accounts payable and accrued charges increase	87	-
Accrued interest increase	10	10
Long-term accounts payable and other liabilities (decrease) increase	(3)	4
Employee future benefits other than pension increase	40	32
Other	11	7
	77	(38)

Supplementary information:

Interest paid	409	361
Payments in lieu of corporate income taxes	48	77

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. 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 will not have a material 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 our Company. On May 24, 2001, the Whitesand First Nation Band issued an almost identical claim against the same parties. The Red Rock First Nation Band commenced a similar claim on September 7, 2001 against the same parties. In 2004, the various claims were consolidated. These actions sought declaratory relief, injunctive relief and damages in an unspecified amount. The claims arose out of flooding activities of Ontario Hydro and the alleged effects of flooding on lands in which the two First Nations claim an interest. In May 2009, all parties entered into an agreement to dismiss all actions against Hydro One on a without costs basis. On July 27, 2010, by court order, the consolidated action and the cross claim of the Attorney General of Canada against Hydro One were dismissed 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 more than the \$761,500 that we paid to these Indian bands and bodies in 2010. 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.

19. COMMITMENTS***Agreement with Inergi***

Effective March 1, 2002, Inergi LP (Inergi) (a wholly owned subsidiary of Cap Gemini Canada Inc.) began providing services to Hydro One. On May 1, 2010, consistent with the terms of the contract, the Company extended the Master Services Agreement with Inergi for a further three-year period to expire on February 28, 2015. As a result of this agreement, Hydro One receives from Inergi a range of services including business processing and information technology outsourcing services, as well as core system support related primarily to SAP implementation and optimization. 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, 2010, and in total thereafter are as follows: 2011 - \$143 million; 2012 - \$139 million; 2013 - \$135 million; 2014 - \$130 million; 2015 - \$22 million; and thereafter - \$nil. The agreement expires on February 28, 2015.

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, 2010 and December 31, 2009, 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. Prudential support at December 31, 2010 and December 31, 2009 was also

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

provided on behalf of two distributors using guarantees of \$660 thousand. 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 corporate 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, 2010, Hydro One had bank letters of credit of \$113 million (2009 - \$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, 2010, and in total thereafter are as follows: 2011 - \$5 million; 2012 - \$8 million; 2013 - \$6 million; 2014 - \$7 million; 2015 - \$2 million; and thereafter - \$25 million.

20. 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, the operations of which primarily consist of those of the telecommunications business.

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

<i>Year ended December 31 (Canadian dollars in millions)</i>	Transmission	Distribution	Other	Consolidated
2010				
Segment profit				
Revenues	1,307	3,754	63	5,124
Purchased power	-	2,474	-	2,474
Operation, maintenance and administration	416	602	60	1,078
Depreciation and amortization	273	300	10	583
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	618	378	(7)	989
Financing charges				342
Income before provision for payments in lieu of corporate income taxes				647
Capital expenditures	936	629	5	1,570

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

<i>Year ended December 31 (Canadian dollars in millions)</i>	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

<i>December 31 (Canadian dollars in millions)</i>	2010	2009
Total assets		
Transmission	9,805	8,993
Distribution	6,908	6,481
Other	609	161
	17,322	15,635

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

21. SUBSEQUENT EVENTS

On February 2, 2011, the Power Workers' Union (PWU) requested that the Ministry of Labour appoint a Conciliation Officer to assist Hydro One and the PWU in finalizing a new collective agreement. Negotiations on the new agreement began on January 10, 2011.

On January 24, 2011, Hydro One issued notes under the Company's MTN Program. The issue consisted of \$50 million floating-rate notes with a maturity date of July 24, 2015.

On January 19, 2011, Hydro One issued \$250 million in notes under the Company's MTN Program. The issue has an additional offering of 2.95% notes maturing on September 11, 2015, originally issued on September 13, 2010. The total amount outstanding for this issue is now \$500 million.

On January 19, 2011, Hydro One entered into two \$125 million notional principal amount fixed-to-floating interest rate swaps to convert \$250 million of Hydro One's 2.95% coupon note maturing September 11, 2015, into three-month variable rate debt.

On January 17, 2011, the PWU made an appeal to the Divisional Court of the Supreme Court of Canada under the *Ontario Energy Board Act, 1998* in regard to the OEB's December 23, 2010 decision approving Hydro One Networks' transmission rates for 2011 and 2012. The PWU submitted the appeal on the grounds that the decision failed to identify operations, maintenance and administration costs that the OEB considers imprudent and were therefore omitted in the calculation of the approved revenue requirement. The PWU is requesting that the OEB's determination regarding the revenue requirement and related rates be set aside and that the matter be remitted to a differently constituted panel of the OEB for a new hearing with respect to these issues. The appeal is not anticipated to impact upon the collection of the new 2011 transmission rates during the proceeding. The outcome of this appeal is not determinable at this time.

HYDRO ONE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****22. COMPARATIVE FIGURES**

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2010 Consolidated Financial Statements.

In the third quarter, the Company changed the presentation of tax balances associated with certain temporary differences related to intangible assets and other regulatory account balances, to reflect how these balances will ultimately be settled. As a result, the Company reclassified the tax balances associated with these temporary differences, such that the amount of future income tax liabilities and the related net regulatory asset in the interim period balance sheet, and in the comparative December 31, 2009 balance sheet, have been reduced by \$160 million. The change in presentation has no impact on revenue or operating cash flow.

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

<i>Year ended December 31 (Canadian dollars in millions)</i>	2010	2009	2008	2007	2006
Statement of operations data					
Revenues					
Transmission	1,307	1,147	1,212	1,242	1,245
Distribution	3,754	3,534	3,334	3,382	3,273
Other	63	63	51	31	27
	5,124	4,744	4,597	4,655	4,545
Costs					
Purchased power	2,474	2,326	2,181	2,240	2,221
Operation, maintenance and administration	1,078	1,057	965	995	880
Depreciation and amortization	583	537	548	521	515
	4,135	3,920	3,694	3,756	3,616
Income before financing charges and provision for payments in lieu of corporate income taxes	989	824	903	899	929
Financing charges	342	308	292	295	295
Income before provision for payments in lieu of corporate income taxes	647	516	611	604	634
Provision for payments in lieu of corporate income taxes	56	46	113	205	179
Net income	591	470	498	399	455
Basic and fully diluted earnings per common share (Canadian dollars)	5,727	4,528	4,797	3,809	4,366
<i>December 31 (Canadian dollars in millions)</i>					
Balance sheet data					
Assets					
Transmission	9,805	8,993	7,877	7,273	6,950
Distribution	6,908	6,481	5,873	5,407	5,161
Other	609	161	128	106	99
Total assets	17,322	15,635	13,878	12,786	12,210
Liabilities					
Current liabilities (including current portion of long-term debt)	1,540	1,655	1,300	1,452	1,194
Long-term debt	7,278	6,281	5,733	5,063	4,848
Other long-term liabilities	2,523	2,281	1,721	1,385	1,347
Shareholder's equity					
Share capital	3,637	3,637	3,637	3,637	3,637
Retained earnings	2,354	1,791	1,497	1,258	1,184
Accumulated other comprehensive income	(10)	(10)	(10)	(9)	-
Total liabilities and shareholder's equity	17,322	15,635	13,878	12,786	12,210

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

<i>Year ended December 31 (Canadian dollars in millions)</i>	2010	2009	2008	2007	2006
Other financial data					
Capital expenditures					
Transmission	936	918	704	560	402
Distribution	629	643	570	511	417
Other	5	5	10	20	4
Total capital expenditures	1,570	1,566	1,284	1,091	823
Ratios					
Net asset coverage on long-term debt ¹	1.77	1.79	1.84	1.87	1.92
Earnings coverage ratio ²	2.39	2.15	2.63	2.67	2.67
Operating statistics					
Transmission					
Units transmitted (TWh) ³	142.2	139.2	148.7	152.2	151.1
Ontario 20-minute system peak demand (MW) ³	25,145	24,477	24,231	25,809	27,056
Ontario 60-minute system peak demand (MW) ³	25,075	24,380	24,195	25,737	27,005
Total transmission lines (circuit-kilometres)	28,951	28,924	29,039	28,915	28,600
Distribution					
Units distributed to Hydro One customers (TWh) ³	29.1	28.9	29.9	30.2	29.0
Units distributed through Hydro One lines (TWh) ^{3,4}	42.5	43.5	44.7	45.7	44.7
Total distribution lines (circuit-kilometres)	123,552	123,528	123,260	122,933	122,460
Customers	1,345,177	1,333,920	1,325,745	1,311,714	1,293,396
Total regular employees	5,717	5,427	5,032	4,602	4,295

¹ 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).

² 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.

³ System-related statistics include preliminary figures for December.

⁴ Units distributed through Hydro One lines represent total distribution system requirements and include electricity distributed to consumers who purchased power directly from the IESO.

Liquor Control Board of Ontario

Responsibility for Financial Reporting

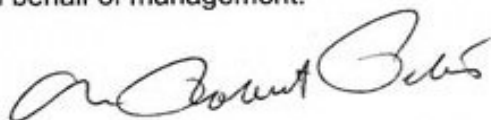
The preparation, presentation and integrity of the financial statements are the responsibility of management. The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with Canadian generally accepted accounting principles and include amounts that are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

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

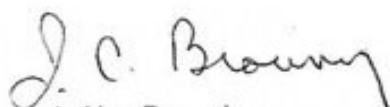
The Board, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, composed of four Members who are not employees/officers of the LCBO, generally meets periodically with management, the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

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

On behalf of management:



N. Robert Peter
President & Chief Executive Officer



J. Alex Browning
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 28, 2011



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

Independent Auditor's Report

To the Liquor Control Board of Ontario
and to the Minister of Finance

I have audited the accompanying financial statements of the Liquor Control Board of Ontario, which comprise the balance sheet as at March 31, 2011, and the statement of income and retained income, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Liquor Control Board of Ontario as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 28, 2011

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

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Liquor Control Board of Ontario

Balance Sheet

As at March 31, 2011

	2011 (\$ 000)	2010 (\$ 000)
ASSETS		
Current		
Cash and cash equivalents	222,060	217,791
Accounts receivable, trade and others	25,090	23,705
Inventories (Note 3)	374,490	344,534
Prepaid expenses	26,963	13,574
	<u>648,603</u>	<u>599,604</u>
Long-term		
Capital assets & intangible assets (Note 4)	297,504	294,446
	<u>946,107</u>	<u>894,050</u>
LIABILITIES AND RETAINED INCOME		
Current		
Accounts payable and accrued liabilities	474,648	436,397
Current portion of non-pension employee future benefits (Note 5)	7,583	5,925
	<u>482,231</u>	<u>442,322</u>
Long-term		
Non-pension employee future benefits (Note 5)	71,781	71,942
Retained income	392,095	379,786
	<u>946,107</u>	<u>894,050</u>

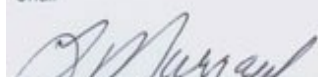
Commitments and Contingencies (Notes 6 and 9)

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, 2011

	2011 (\$000)	2010 (\$000)
Sales and other income	4,576,871	4,344,099
Cost and expenses		
Cost of sales	2,279,072	2,198,920
Retail stores and marketing	484,632	477,517
Warehousing and distribution	87,192	85,913
Administration	110,554	97,424
Amortization	53,112	48,716
	<u>3,014,562</u>	<u>2,908,490</u>
Net income for the year	1,562,309	1,435,609
Retained income, beginning of year	379,786	354,177
	<u>1,942,095</u>	<u>1,789,786</u>
Deduct		
Dividend paid to the Province of Ontario	1,550,000	1,410,000
	<u>1,550,000</u>	<u>1,410,000</u>
Retained income, end of year	<u>392,095</u>	<u>379,786</u>

See accompanying notes to financial statements.

Liquor Control Board of Ontario

Statement of Cash Flows

Year Ended March 31, 2011

	2011 (\$000)	2010 (\$000)
Cash provided from operations		
Net income	1,562,309	1,435,609
Amortization	53,112	48,716
(Gain) Loss on sale of capital assets	(342)	318
	<u>1,615,079</u>	<u>1,484,643</u>
Net change in non-cash items increase/(decrease)		
Accounts receivable, trade and others	(1,385)	(2,093)
Inventories	(29,956)	(1,674)
Prepaid expenses	(13,389)	3,315
Accounts payable and accrued liabilities	38,251	46,595
Employee Future Benefits	1,497	18,400
	<u>1,610,097</u>	<u>1,549,186</u>
Cash used for investment activities		
Purchase of capital assets	(57,477)	(84,148)
Proceeds from sale of capital assets	1,649	655
	<u>(55,828)</u>	<u>(83,493)</u>
Cash used for financing activities		
Dividend paid to the Province of Ontario	(1,550,000)	(1,410,000)
	<u>(1,550,000)</u>	<u>(1,410,000)</u>
Increase in cash during the year	4,269	55,693
Cash and cash equivalents, beginning of year	217,791	162,098
Cash and cash equivalents, end of year	<u>222,060</u>	<u>217,791</u>

See accompanying notes to financial statements.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2011

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

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. See Note 7 for the resulting disclosures.

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.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2011

(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

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.

(f) Capital Assets

Major capital expenditures with a future useful life beyond the current year are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Amortization is recognized in the Statement of Income and Retained Income on a straight-line basis over the estimated useful lives of each major component of capital assets, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leasehold improvements are amortized over the lesser of the lease term and their useful lives.

The estimated useful lives for capital assets are as follows:

Buildings	5-40 years
Furniture and Equipment	5-20 years
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.

Capital assets are subjected to an impairment test. The impairment test compares the carrying amount of the capital assets with their fair value, and an impairment loss is recognized in an amount equal to the excess, if any.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2011

(g) Intangible Assets

Intangible assets are assets which lack physical substance. Expenditures with a future useful life beyond the current year are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Amortization is recognized in the Statement of Income and Retained Income on a straight-line basis over the estimated useful lives of the intangible assets, since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for intangible assets are as follows:

Computer software	3 years or 4 years

Software in development includes assets not yet available for use which are therefore not amortized.

Intangible assets are subjected to an impairment test. The impairment test compares the carrying amount of the intangible assets with their fair value, and an impairment loss is recognized in an amount equal to the excess, if any.

(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.

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.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2011

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 life of the employee. See Note 5 for the resulting disclosures.

(i) Revenue Recognition

Revenue on the sales of products is recognized upon the sale to customers. Revenue on the sales of services is recognized when the services are rendered.

(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.

(l) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the year-end. Non-monetary assets and liabilities are translated using historical exchange rates. Sales and expense transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. Any exchange gains or losses are included in the Statement of Income and Retained Income.

3. INVENTORIES

The cost of inventories sold during the year and recognized as a Cost of sales expense during the year ended March 31, 2011 was \$2,279 million (2010 - \$2,199 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2011 (2010 – nil).

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2011

4. CAPITAL ASSETS & INTANGIBLE ASSETS

	March 31, 2011 (\$000)			March 31, 2010 (\$000)
<u>Capital Assets</u>	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	12,816	-	12,816	12,895
Buildings	369,889	264,195	105,694	107,123
Furniture and equipment	97,469	74,738	22,731	21,213
Leasehold improvements	321,804	210,363	111,441	106,284
Computer equipment	56,766	45,968	10,798	12,190
Construction in progress	8,341	-	8,341	7,781
	867,085	595,264	271,821	267,486
<u>Intangible Assets</u>				
Computer software	93,877	69,003	24,874	19,144
Software in development	809	-	809	7,816
	94,686	69,003	25,683	26,960
Total Capital and Intangible Assets	961,771	664,267	297,504	294,446

Impairments of Capital assets & intangible assets expensed for the year was \$2.8 million (2010 – nil) and is included in Cost and expenses in the Statement of Income and Retained Income.

5. EMPLOYEE FUTURE BENEFITS

a) Pension Plan

For the year ended March 31, 2011, the expense was \$22.3 million (2010 – \$19.2 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, 2011 the actuarially determined benefit obligation of the contractual severance, executive compensation time banking and unfunded workers compensation obligation was \$88.4 million (2010 – \$85.8 million). The accrued benefit liability as at March 31, 2011, is \$79.4 million (2010 – \$77.9 million) of which \$7.6 million (2010 – \$5.9 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.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2011

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, executive compensation time banking and the unfunded workers compensation was performed as at March 31, 2011. The Board will at a minimum conduct an actuarial valuation of employee future benefits every three years.

	March 31, 2011 (\$000's)	March 31, 2010 (\$000's)
Employee Benefit plan assets	--	--
Employee Benefit plan liabilities	88,356	85,838
Employee Benefit plan deficit	88,356	85,838
Unamortized net actuarial experience gain/(loss)	(8,992)	(7,971)
Accrued Benefit liability	79,364	77,867
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	77,867	59,467
Expense for the year	12,253	27,185
Benefits paid during the year	(10,756)	(8,785)
Benefit obligation, end of year	79,364	77,867

The significant actuarial assumptions used are as follows:

	Contractual Severance and Executive Compensation Time Banking		Unfunded workers compensation	
	2011	2010	2011	2010
Discount rate to determine accrued benefit obligation	4.50%	4.50%	4.50%	4.50%
Discount rate to determine the benefit cost	4.50%	6.00%	4.50%	6.50%
Salary rate increase	3.00%	3.00%	4.00%	4.00%
Health cost rate increase	N/A	N/A	6.50%	6.50%
Average remaining service life	8-11 years	8-11 years	7.5 years	7.5 years

The cost of unused vacation entitlements are accrued and included in Accounts payable and accrued liabilities on the Balance Sheet. As at March 31, 2011, \$9.2 million (2010- \$9.3 million) was accrued.

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2011

6. LEASE COMMITMENTS

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

	(\$000)
2012	58,521
2013	59,037
2014	56,805
2015	53,418
2016	51,232
Thereafter	390,539
	<u>669,552</u>

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, 2011, the Board had no foreign exchange forward contracts (2010 – nil).

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, 2011, the Board recognized a net foreign exchange gain of \$3.1 million (2010 - \$6.3 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, 2011, 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 (2010 – nil).

Liquor Control Board of Ontario

Notes to Financial Statements

March 31, 2011

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, 2011, approximately 64% (2010 – 68%) 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, 2011 (\$000's)	March 31, 2010 (\$000's)
Allowance at beginning of period	100	285
Provision for losses	-	361
Recoveries	189	160
Write-offs	(87)	(706)
Allowance at end of period	202	100

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, 2011

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, 2011 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

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, 2011, the Board contributed \$1.8 million (2010 - \$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, 2011

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, 2011, the Board collected \$57.8 million (2010 – \$56.0 million) of deposits on containers and was invoiced \$45.2 million (2010 - \$43.5 million) for refunds to the customers.

In connection with the program, expenditures related to service fees paid to Brewers Retail Inc. for the year ended March 31, 2011, amounted to \$32.0 million (2010 - \$28.2 million), inclusive of \$2.9 million (2010 – nil) of harmonized sales tax which is unrecoverable by the Board. In addition, the Board incurred expenditures in the amount of \$0.1 million (2010 - \$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, 2011 the Board applied \$11.6 million (2010 - \$16.8 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 2010. 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.



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 VP, Internal Audit and Risk Management, 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.

Rod Phillips
President and Chief Executive Officer

Preet Dhindsa
Executive Vice President,
Chief Administrative Officer
& Chief Financial Officer



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AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Ontario Lottery and Gaming Corporation, which comprise the consolidated balance sheet as at March 31, 2011 and 2010, the consolidated statements of income and comprehensive income, cash flows, and retained earnings for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluation the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated balance sheet of Ontario Lottery and Gaming Corporation as at March 31, 2011 and 2010, and its consolidated statements of income and comprehensive income, cash flows, and retained earnings for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the right end.

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
June 23, 2011

Ontario Lottery and Gaming Corporation**Consolidated Balance Sheet**

As at March 31, 2011, with comparative figures for 2010
(in thousands of dollars)

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 314,572	\$ 324,640
Accounts receivable	69,034	78,239
Prepaid expenses	29,529	32,478
Inventories (Note 2)	18,354	29,695
Cash and short-term investments held for First Nations (Note 5)	8,673	191,696
Current portion of loans receivable (Note 4)	5,685	6,121
	445,847	662,869
Restricted cash (Note 3)	188,388	199,103
Loans receivable (Note 4)	20,033	25,858
Property, plant and equipment (Note 6)	2,402,841	2,492,286
Goodwill	1,776	1,776
	\$ 3,058,885	\$ 3,381,892
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 319,685	\$ 321,817
Due to operators (Note 7)	32,219	37,544
Due to Rama First Nation	1,422	1,577
Due to Government of Canada (Note 17)	16,054	7,421
Deferred revenues	25,831	15,807
Due to First Nations (Note 5)	8,673	191,696
Current portion of long-term debt (Note 8)	55,885	49,313
	459,769	625,175
Long-term debt (Note 8)	139,705	186,077
Accrued future benefit costs (Note 15)	21,252	18,694
Asset retirement obligations (Note 6)	1,553	1,535
Equity		
Retained earnings	2,245,256	2,358,441
Contributed surplus	62,345	62,345
Reserves (Note 3)	129,005	129,625
	2,436,606	2,550,411
	\$ 3,058,885	\$ 3,381,892

Commitments (Notes 3, 4, 7 and 11)

Contingencies (Notes 7 and 12)

Subsequent event (Note 8)

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 Comprehensive Income

Year ended March 31, 2011, with comparative figures for 2010
(in thousands of dollars)

	2011	2010
Revenues		
Lotteries and bingo	\$ 3,320,994	\$ 2,890,258
Resort casinos	1,300,308	1,346,089
OLG casinos and slots	2,064,498	2,035,547
	6,685,800	6,271,894
Operating expenses		
Lotteries and bingo	2,412,518	2,093,341
Resort casinos	1,408,098	1,420,968
OLG casinos and slots	1,155,314	1,100,221
	4,975,930	4,614,530
Income before the undernoted	1,709,870	1,657,364
Interest and other income	32,183	58,612
Interest on long-term debt	(11,157)	(7,218)
Foreign exchange gain	8,435	9,986
Net income and comprehensive income	\$ 1,739,331	\$ 1,718,744

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, 2011, with comparative figures for 2010

(in thousands of dollars)

	2011	2010
Retained earnings, beginning of year	\$ 2,358,441	\$ 2,292,765
Net income	1,739,331	1,718,744
Transfers from reserves, net	620	264
Distribution to First Nations on behalf of the Province of Ontario	(59,079)	(67,184)
Payments to the Province of Ontario	(1,794,057)	(1,586,148)
Retained earnings, end of year	\$ 2,245,256	\$ 2,358,441

See accompanying notes to consolidated financial statements.

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

Year ended March 31, 2011, with comparative figures for 2010
(in thousands of dollars)

	2011	2010
Cash flows from (used in) operating activities		
Net income	\$ 1,739,331	\$ 1,718,744
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of property, plant and equipment and asset retirement obligations (Note 6)	226,489	234,339
Accretion expense	18	36
Loss on disposal of property, plant and equipment	7,150	8,622
Impairment of long-lived assets (Note 6)	5,408	3,997
Accrued future benefit costs	2,558	2,986
Change in non-cash working capital:		
Accounts receivable	9,205	(17,856)
Prepaid expenses	2,949	4,356
Inventories	11,341	(7,972)
Cash and short-term investments held for First Nations	7,582	(340)
Accounts payable and accrued liabilities	(2,132)	(32,282)
Due to operators	(5,325)	(6,920)
Due to Rama First Nation	(155)	(98)
Due to Government of Canada	8,633	2,044
Deferred revenues	10,024	(1,748)
Net cash from operating activities	2,023,076	1,907,908
Cash flows from (used in) financing activities		
Increase in long-term debt	9,513	18,524
Repayments of long-term debt	(47,825)	(87,055)
Payment of capital lease obligations	(1,488)	(92)
Payments to Province of Ontario	(1,794,057)	(1,586,148)
Distributions to First Nations	(66,661)	(66,844)
Net cash used in financing activities	(1,900,518)	(1,721,615)
Cash flows from (used in) investing activities		
Issuance of loans receivable (Note 4)	(477)	(2,034)
Repayment of loans receivable	6,738	6,513
Capital expenditures	(153,522)	(187,328)
Proceeds on disposal of property, plant and equipment	3,920	3,460
Decrease (increase) in restricted cash	10,715	(6,216)
Net cash used in investing activities	(132,626)	(185,605)
Increase (decrease) in cash and cash equivalents	(10,068)	688
Cash and cash equivalents, beginning of year	324,640	323,952
Cash and cash equivalents, end of year	\$ 314,572	\$ 324,640
Cash and cash equivalents are comprised of:		
Cash	\$ 314,572	\$ 323,240
Cash equivalents	-	1,400
	\$ 314,572	\$ 324,640
Supplemental cash flow information:		
Cash interest received	\$ 3,040	\$ 3,042
Cash paid for interest	7,336	6,808
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, 2011, with comparative figures for 2010

(tabular amounts in thousands of dollars)

The Ontario Lottery and Gaming Corporation (OLG or the Corporation) was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is a Crown agency of the Ontario government and is responsible for conducting and managing lottery games, five casinos and the Great Blue Heron Slot Machine Facility, seventeen slot operations at racetracks and four Resort Casinos (comprising 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 operating results of the Great Blue Heron Slot Machine Facility are included with the results of the OLG Casinos and Slots. These consolidated financial statements do not include other operations carried out at the Great Blue Heron Charity Casino.

b. Revenue recognition

Lottery and bingo games are sold to the public by contracted lottery retailers and bingo service providers. Revenue from tickets sold to customers 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 customer. 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 patron's possession, and for accruals related to the anticipated payout of progressive jackpots. Incentives related to gaming play and points earned in loyalty programs are recognized as promotional allowances as described in Note 1 (c)(i).

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. Revenue related to incentives provided to patrons on a complimentary basis is recorded at the retail value of accommodations, food and beverage, and other goods and services and is recognized as described in Note 1 (c)(ii).

c. Promotional allowances

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

Ontario Lottery and Gaming Corporation

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(i) Loyalty programs

The Corporation has customer loyalty incentive programs whereby patrons are granted points based on the volume of play during gaming transactions. The incentive program points can be redeemed for cash, for free play, or free or discounted goods and services. A financial liability is recognized when the points are granted and a corresponding amount equal to the estimated redemption value is recorded as a promotional allowance which is netted against revenue. The patron's point balance will be forfeited if the patron does not earn additional points over the prior six to twelve-month period. If the points expire or are forfeited, the financial liability is derecognized and a corresponding credit is recorded as income.

(ii) Other incentive programs

The retail value of accommodations, food and beverage, goods and services, and other coupons and incentives provided to patrons on a complimentary basis are included in non-gaming or gaming revenue as applicable and are recorded as promotional allowances netted against revenue as disclosed in the segmented information note to the consolidated financial statements (Note 13). The costs of providing these promotional allowances have been included as expenses in the Consolidated Statement of Income and 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 in which revenue is recognized as described below:

- Prize expense for tickets sold to customers 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 customer.
- 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 in which 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.

e. Commissions and bonuses

Lottery retailers receive a commission of eight per cent on all instant tickets and a commission of five per cent on all online tickets sold. Where a commission has been paid to retailers for ticket sales relating to future draws, the commission fee is recorded as a prepaid expense until the related revenue is recognized, at the time commission expense is recognized. Lottery retailers also receive a three per cent commission on instant ticket redemptions and a commission of two per cent on online ticket redemptions. A \$1,000 bonus is paid to any retailer who sells a major prizewinning online ticket, excluding sports and daily games. A bonus amount that is paid to a retailer for selling a major prize is recorded as an expense when the ticket is redeemed.

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

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Bingo service providers receive a commission based on either a) a percentage of total gaming revenue, plus or minus incentive adjustments for achieving sales, prize payout, and cost of goods sold targets or b) a percentage of total gaming revenue less total prize payout. Municipalities that host the Corporation's bingo centres 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 that host an OLG Casino or Slots at Racetrack facility receive five per cent of revenue from slots up to 450 machines and two per cent of revenue from slot machines over 450. As the host community of the slot machines at Great Blue Heron Charity Casino, the Mississaugas of Scugog Island First Nation receives five 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, 2011, cash and cash equivalents include bank term deposits amounting to \$nil (2010 – \$1,400,000) at an interest rate of nil per cent (2010 – 0.1 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 \$nil (2010 – \$1,512,000) has been recorded on this receivable balance. As at March 31, 2011, the net book value of retailer and bingo service provider accounts receivable was \$48,416,000 (2010 – \$36,407,000).

h. Inventories

Inventories are valued at the lower of cost and 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
Assets under capital lease	Over term of lease

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.

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

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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 assets and liabilities to be disposed of are classified as held for sale and are presented separately in the appropriate asset and liability sections of the Consolidated Balance Sheet.

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 asset exceeds its estimated undiscounted future cash flows in order to assess if the asset is impaired. In the event the estimated undiscounted future cash flows are lower than the carrying value of the asset, a Step II impairment test must be carried out to determine the impairment charge. In Step II, a long-lived asset is written down to its estimated fair value. 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 flows 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.

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 or when the asset is put into use. 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 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.

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

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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, 2011 and March 31, 2010, 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 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 Comprehensive Income in the period in which they arise.

p. Use of estimates

The preparation of consolidated financial statements requires the Corporation to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the year. Significant estimates are used in determining, but are not limited to, the valuation of markers receivable and loans receivable, valuation of inventory, 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 of the Corporation's 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 carrying value of financial instruments depend upon their initial classification.

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The Corporation classified all cash and cash equivalents, restricted cash, cash and short-term investments held for First Nations as held-for-trading assets, which are measured at fair value and the subsequent changes in fair value are recognized in net income. Loans receivable and accounts receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities, due to operators, due to Rama First Nation, 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 using the effective interest method. The Corporation did not have available-for-sale or held-to-maturity assets or liabilities during the years ended March 31, 2011 and March 31, 2010.

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 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 Comprehensive Income. Any hedge ineffectiveness is recognized in net income immediately. The Corporation had no cash flow hedging instruments as at March 31, 2011 and March 31, 2010.

The Corporation provides disclosure of the three-level hierarchy that reflects the significance of the inputs in making the fair value measurements.

The Corporation records all transaction costs and loan fees that are directly attributable to the acquisition of financial assets (except those held-for-trading) 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.

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 manages those risks, as disclosed in Note 9.

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. Recent Canadian accounting pronouncements

i. 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 AcSB 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 will adopt IFRS on April 1, 2011 and 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.

2. Inventories

	2011	2010
Slot machine and table game parts	\$7,200	\$6,821
Lottery tickets and paper	5,306	16,870
Security and surveillance parts	1,206	1,487
Food and beverage	3,153	3,274
Retail	434	609
Other	3,306	2,797
	20,605	31,858
Less allowance	(2,251)	(2,163)
	\$18,354	\$29,695

Inventory costs, included in operating expenses, for the year ended March 31, 2011 were \$98,208,000 (2010 – \$102,489,000). During the year ended March 31, 2011, the Corporation recorded inventory write-downs in operating expenses of \$218,000 (2010 – \$119,000).

3. Restricted cash and reserves

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

	2011	2010
Reserves		
Capital renewals	\$26,967	\$29,728
Operating	58,244	58,466
Severance	43,794	41,431
	129,005	129,625
Less unrestricted capital renewals and operating	(6,860)	(5,013)
Funded reserves balance	122,145	124,612
Prize funds on deposit	37,598	49,391
Term loan proceeds	28,645	25,100
	\$188,388	\$199,103

The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements, or other terms as otherwise agreed to, for the following purposes:

- i) Capital renewals reserves - For property, plant and equipment additions other than normal repairs, and to satisfy specified obligations in the event that cash flows will be insufficient to meet such obligations;
- ii) Operating reserves - To satisfy specified obligations in the event that cash flows will be insufficient to meet such obligations; and
- iii) Severance reserve - To satisfy certain obligations of the Corporation arising from the termination or layoff of employees of an operator in connection with the termination of an operator.

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In fiscal 2011, the Corporation transferred cash of \$75,000,000 (2010 – \$53,000,000) to Caesars Windsor for their working capital requirements. The Corporation has committed to transferring additional amounts of up to \$71,500,000 to Caesars Windsor in fiscal 2012. The Corporation and the operator of Caesars Windsor have agreed that both the operating and capital renewals reserves at Caesars Windsor, totaling \$4,113,000 (2010 - \$5,013,000), 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 \$67,370,000 (2010 - \$79,274,000) less an estimate for prizes not expected to be claimed by customers of \$29,772,000 (2010 - \$29,883,000).

Term loan proceeds represent restricted cash used for construction purposes at Caesars Windsor and for the renovation and expansion at Ajax Downs and Woodbine Racetrack.

4. Loans receivable

	2011	2010
Loans receivable	\$25,718	\$31,979
Less current portion of loans receivable	(5,685)	(6,121)
	\$20,033	\$25,858

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 2011, additional funds were advanced to a site holder for the development and expansion of its property. During the fiscal year \$477,000 (2010 – \$2,034,000) was advanced to a site holder and has been included in loans receivable. The Corporation's maximum remaining commitment as at March 31, 2011 is \$3,988,000 (2010 - \$4,466,000).

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

	2011	2010
Segregated bank account, beginning of year	\$175,441	\$159,490
Distributions to the segregated bank account during the year	8,207	23,397
Distributions from the segregated bank account during the year	(184,232)	(7,952)
Interest earned during the year	584	506
Segregated bank account, end of year	-	175,441
Distribution due to First Nations at March 31	8,673	16,255
	\$8,673	\$191,696

On June 9, 2000, the Corporation, the Ontario First Nations Limited Partnership ("OFNLP") and the Province of Ontario entered into the Casino Rama Revenue Agreement which entitles the OFNLP to the net revenues, as defined, from the operation of Casino Rama. Under the Casino Rama Revenue Agreement, the Corporation is required to distribute the net revenues from the operation on a monthly basis.

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The Casino Rama Revenue Agreement required that, commencing July 31, 2001, the Corporation retain 35 per cent of the net distributions from Casino Rama (the "35% Share") in a segregated bank account if the Corporation had not received a joint direction from the OFNLP and the Chippewas of Rama First Nation, also known as the Chippewas of Mnjikaning First Nation ("Rama First Nation") with respect to a new revenue distribution formula. This matter was the subject of an action brought by Rama First Nation against the Province of Ontario (the "35% Action"). Until the 35% Action was decided by the Courts or, alternatively, Rama First Nation and OFNLP reached an agreement on a new revenue distribution formula, the Corporation was required to retain these funds in the segregated bank account. During fiscal years 2008 to 2010, the Corporation released a total of \$70,393,000 from the segregated bank account to OFNLP, pursuant to orders from the Superior Court Justice of Ontario.

On July 8, 2010, the Supreme Court of Canada dismissed the 35% Action brought by Rama First Nation. Since the dismissal of the 35% Action, disputes have arisen between Rama First Nation and OFNLP concerning whether Rama First Nation are entitled to a formula share of the 35% Share (the "Formula Share") on the same basis as all other First Nations in the Ontario Region (the "Formula Share Claim Dispute"). In addition, the Chiefs of Ontario and OFNLP provided the Corporation with a copy of a resolution passed on July 21, 2010 and directed that the entire 35% Share be distributed to OFNLP. Subsequently, the Corporation applied for a court order permitting the Corporation to interplead the Formula Share into court pending the resolution of the Formula Share Claim Dispute (the "Interpleader Application").

On September 17, 2010, the undisputed portion of the 35% Share as agreed to by OFNLP and Rama First Nation, being \$178,800,000, was released on consent of all interested parties to OFNLP, with OLG retaining the disputed portion. Between October 2010 and January 2011, on consent of the interested parties, OLG similarly released additional accumulated undisputed amounts to OFNLP, while retaining additional accumulated disputed amounts. On January 31, 2011, the total accumulated disputed Formula Share amount, being \$5,432,000, was distributed from this account to OFNLP in connection with an agreement reached by the interested parties and the dismissal of the Interpleader Application, pending final disposition of the Formula Share Claim Dispute. OFNLP provided OLG with a direction to be held in escrow until the Formula Share Claim Dispute is finally resolved. This direction authorizes the payment by OLG of any award to Rama First Nation made in the Formula Share Claim Dispute directly (if Rama First Nation is ultimately successful in the Formula Share Claim Dispute) from future amounts that would be otherwise payable by OLG to OFNLP under the revenue sharing agreements (i.e. Casino Rama Revenue Agreement/Gaming Revenue Sharing and Financial Agreement).

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 "GRSFA").

On January 26, 2010, the Corporation and Rama First Nation 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 GRSFA and Post-2011 Contract are outlined in Note 7(d) and 7 (e), respectively.

Pursuant to the terms of the GRSFA, OFNLP's entitlement to any share of the net revenues under the Casino Rama Revenue Agreement ceased as of April 1, 2011. Similarly, Rama First Nation's entitlement to any share of the net revenues under the Casino Rama Revenue Agreement shall cease as of August 1, 2011 pursuant to the terms of the Post-2011 Contract.

The payment related to the monthly distribution of the net revenues to OFNLP for March 2011 of \$8,673,000 is included above as a current distribution due to First Nations.

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6. Property, plant and equipment

			2011	2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$137,824	\$ -	\$137,824	\$137,824
Buildings	1,943,392	347,330	1,596,062	1,606,138
Furniture and fixtures	671,170	529,434	141,736	141,965
Leasehold improvements	628,942	434,838	194,104	219,384
Lottery gaming assets	98,031	74,894	23,137	26,679
Casino and racetrack slot operation gaming assets	659,905	471,899	188,006	206,214
Assets under capital lease	48,287	3,863	44,424	47,615
Construction in progress and assets not in use	77,548	-	77,548	106,467
	\$4,265,099	\$1,862,258	\$2,402,841	\$2,492,286

Amortization for the year was \$226,489,000 (2010 – \$234,339,000). During the year, net interest of \$379,000 (2010 – \$836,000) was capitalized.

a. Impairment of long-lived assets

During 2011, management performed an impairment analysis on the asset groups at Caesars Windsor, one of the Corporation's Slots at Racetrack facilities, one of the Corporation's casinos, and the Corporation's bingo operations as a result of triggering events described below.

Management performed an impairment analysis on the four asset groups as a result of triggering events, such as significant reduction in future projected cash flows, decrease in operating results and forecasted net operating losses. The Corporation conducted a Step I impairment test on the recoverability of the four asset groups by comparing the carrying value of the asset groups 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 at two of the four asset groups; one of its Slots at Racetrack facilities and its bingo operations. Step II impairment testing was performed on these asset groups to determine the fair value of the long-lived assets and the Corporation recorded a total non-cash impairment charge of \$5,408,000 to reduce the carrying value of the long-lived assets to their estimated fair value. The fair value of the long-lived assets was determined using a discounted cash flow methodology. The charge is included in general and administration expenses on the Consolidated Statement of Income and Comprehensive Income, and under OLG Casinos and Slots and Lotteries and Bingo in Note 13 to the Consolidated Financial Statements for \$1,480,000 and \$3,928,000, respectively. For the other asset groups; one of the Corporation's casinos and Caesars Windsor, 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 no impairment existed at March 31, 2011.

b. Asset retirement obligations

For the year ended March 31, 2011, the Corporation recorded amortization expense of \$54,000 (2010 – \$48,000) in the Consolidated Statement of Income and Comprehensive Income. The Corporation recorded a liability of \$1,553,000 (2010 – \$1,535,000) 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 \$237,000 (2010 – \$291,000).

The gross amount of the obligation is \$1,610,000 (2010 – \$1,610,000), which is expected to be paid out in one to fifteen years. The credit adjusted risk-free rate is 2.4 per cent (2010 – 2.4 per cent). The accretion expense for the year was \$18,000 (2010 – \$36,000).

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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.
- 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, wholly-owned by CAI Ontario Inc., Fantasy Gaming and Sonco Gaming; and Caesars Windsor – Windsor Casino Limited (WCL), which is owned equally by Caesars Entertainment, Inc. and a wholly-owned subsidiary of Hilton Hotels Corporation. As at March 31, 2011, the amount due to operators was \$32,219,000 (2010 - \$37,544,000).

The current development and operating agreement with CHC Casinos Canada Limited with respect to Casino Rama expires on July 31, 2011. The Corporation is currently undergoing a two-stage request for pre-qualification/request for proposals (RFPQ/RFP) procurement process to select a future operator for Casino Rama.

On January 22, 2010, the Corporation entered into a conditional operating agreement with Great Blue Heron Gaming Company, wholly-owned by CAI Ontario Inc., Fantasy Gaming and Sonco Gaming. The agreement commences on the opening of the new casino facility, ends on the earlier of 20 years from the opening and June 28, 2031 and has operating terms substantially similar to those contained in the current development and 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 Comprehensive Income.

- c. Under the terms of the development and operating agreement for Casino Rama, Rama First Nation receives an annual fee, adjusted for inflation, relating to the provision of ongoing operating services. During the year, \$5,867,000 (2010 - \$5,815,000) was expensed. Other Rama First Nation charges amounting to \$7,591,000 (2010 - \$8,210,000) 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 Rama First Nation, \$701,000 (2010 - \$691,000) was expensed. Pursuant to the terms of the Post-2011 Contract (Note 7(e)), a company related to Rama First Nation and the Corporation agreed to enter into a lease for the rental of office space for a term commencing on August 1, 2011 and terminating on July 31, 2014. Also, under the terms of an eight-year lease ending July 2011, an annual rental fee, adjusted for inflation, for warehouse space is paid to a company related to Rama First Nation. During the year, \$355,000 was expensed (2010 - \$350,000). Pursuant to the terms of the Post-2011 Contract, a company related to Rama First Nation and the Corporation agreed to enter into a lease for warehouse space for a term commencing on August 1, 2011 and terminating on March 13, 2021.

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On April 30, 2002, an agreement was signed with Rama First Nation pursuant to which the Corporation and the Operator agreed to reimburse Rama First Nation for 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 Rama First Nation charges noted above. This agreement expires on July 31, 2011. Pursuant to the terms of the Post-2011 Contract (Note 7(e)), Rama First Nation and the Corporation agreed to extend and continue the term of this agreement for the duration of the Post-2011 Contract.

The lands used for the Casino Rama complex are leased by Casino Rama Inc. from Her Majesty the Queen in 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 Rama First Nation in accordance with instructions from Indian and Northern Affairs Canada as representative for Her Majesty the Queen. During the year, \$4,583,000 (2010 – \$4,514,000) was expensed.

The terms of various agreements provide for the designation and leasing of Additional Parking Lands, as defined, by Rama First Nation 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, \$2,056,000 (2010 - \$2,029,000) 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, Rama First Nation contracts directly with the contractors selected by the Corporation. During the year, \$128,000 (2010 - \$19,000) was paid to Rama First Nation under this Letter of Agreement to pay contractors involved in the acquisition of leasehold improvements.

- d. Under the terms of the Casino Rama Revenue Agreement dated June 9, 2000, OFNLP was 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. OFNLP's entitlement to the ongoing net revenues ceased as of April 1, 2011 pursuant to the terms of the GRSFA.

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 the GRSFA. The key terms of the GRSFA, relevant to the Corporation, are as follows:

- i) The Province of Ontario shall pay, or require the Corporation to pay, the OFNLP, commencing in 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. The Corporation is directed to make these payments pursuant to an Order-in-Council. These payments take the place of the net revenues that the OFNLP would otherwise have been entitled to under the Casino Rama Revenue Agreement as discussed in Note 5; 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 (COO) 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.

- e. Casino Rama is located on reserve lands of Rama First Nation under the authority of a 25-year sublease (expiring in March 2021) between the Corporation and Casino Rama Inc., a wholly-owned subsidiary of Rama First Nation.

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On January 26, 2010, the Corporation and Rama First Nation announced that they had entered into an agreement dated July 17, 2009 relating to the basis on which to continue to conduct the business of 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 the Corporation, 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) Rama First Nation 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 upon presentation to and acceptance by the Corporation of a detailed Business Plan and Development Concept.

The Post-2011 Contract shall terminate on March 14, 2021 if Rama First Nation 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: (a) Rama First Nation, the Corporation and the Province agreed to consent to the dismissal without costs of 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 (the "RST Action") and to make best efforts to also obtain OFNLP's consent to such dismissal; (b) Rama First Nation and the Province agreed to consent to the dismissal without costs of certain claims against the Province based on an alleged delay in the construction of Casino Rama, and certain claims related to the payment of 20 per cent of Casino Rama revenues asserted in the 35% Action and to make best efforts to obtain the COO's and OFNLP's consents to such dismissal; and (c) Rama First Nation and the Province agreed to consent to the dismissal without costs of certain claims and crossclaims asserted by Rama First Nation against the Province in the 20% Action, and to use best efforts to obtain the consents to such dismissal from the COO and OFNLP.

In accordance with (a), above, the RST Action was dismissed without costs in June 2010. It is the Corporation's understanding that in accordance with (b) and (c), above, Rama First Nation and the Province are still using best efforts to obtain the consents to dismissal from the COO and OFNLP and that, as a result, such claims have not yet been dismissed.

- f. 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, \$3,755,000 (2010 – \$4,188,000) was paid to the Mississaugas of Scugog Island First Nation.
- g. 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, including an amphitheatre and a people mover, to a maximum contribution of \$30,000,000. As at March 31, 2011, the operator's fees, included an Attractor fee accrual of \$5,057,000 (2010 - \$5,244,000). The Corporation's remaining commitment as at March 31, 2011 is \$17,646,000.
- h. Under the terms of a trademark license agreement for the rebranding of Caesars Windsor, the Corporation pays a license fee calculated as a percentage of the revenue and operating results, as defined, of Caesars Windsor. The trademark license agreement, with a wholly owned indirect subsidiary of Caesars Entertainment, Inc., will terminate on July 31, 2020 or on such earlier date as Caesars Entertainment, Inc. or its subsidiary ceases to be the operator of Caesars Windsor. During the year, the Corporation paid \$959,000 in licensing fees (2010 - \$nil).

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8. Long-term debt

	2011	2010
Caesars Windsor loan (a)	\$125,318	\$169,607
Ajax Downs loan (b)	14,697	18,233
Woodbine loan (c)	9,513	-
Obligation under capital lease (d)	46,062	47,550
	195,590	235,390
Less current portion	(55,885)	(49,313)
	\$139,705	\$186,077

a. 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.

b. 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 the slots facility at 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.

c. Woodbine loan

In October 2010, 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 the slots facility at Woodbine Racetrack (the "Project"). The loan agreement provides a non-revolving construction period loan facility to a maximum of \$92,800,000 consisting of phase A and phase B of the Project of \$35,445,000 and \$57,355,000, respectively.

The interest charged during construction is determined based on the Province of Ontario's 90-day Treasury Bill rate plus 0.38 per cent.

Advances received for phase A during the year were \$9,513,000 (including interest). Subsequent to March 31, 2011, additional advances amounting to \$21,755,957 (including interest) were received. On May 9, 2011, the principal sum for phase A, of \$31,268,957, was converted to a five year, unsecured term loan. The term loan bears interest at a rate of 2.931 per cent per annum.

An advance of \$2,500,000 was also received for phase B subsequent to March 31, 2011.

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 Greenberg 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.

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e. Payments over the next five years and thereafter

Payments related to long-term debt and obligation under capital lease that are expected to be made over the next five years and thereafter are approximately:

	Long-term debt	Obligation under capital lease		Total
	Repayments	Principal	Interest	
2012	\$54,259	\$1,626	\$3,874	\$59,759
2013	55,559	1,771	3,729	61,059
2014	36,145	1,928	3,572	41,645
2015	3,565	2,112	3,400	9,077
2016	-	2,496	3,204	5,700
Thereafter	-	36,129	15,843	51,972

The imputed interest portion of payments with respect to the obligation under capital lease made in fiscal 2011 was \$4,012,000.

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 Finance is required for the Corporation to borrow funds for major capital expenditures. Although the bill passed on May 9, 2011, it will come into force on a future date to be determined; however 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 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, 2011, the Corporation had an allowance for doubtful accounts of \$7,094,000 (2010 – \$6,785,000), which represented approximately 7.0 per cent (2010 – 5.8 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.

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The Corporation limits its exposure to credit risk relative to liquid investments 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 not currently assessed as significant.

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	\$319,685	\$319,685	\$319,685	\$ -	\$ -	\$ -
Due to operators	32,219	32,219	32,219	-	-	-
Due to Rama First Nation	1,422	1,422	1,422	-	-	-
Due to Government of Canada	16,054	16,054	16,054	-	-	-
Due to First Nations	8,673	8,673	8,673	-	-	-
Long-term debt, including obligation under capital lease	195,590	195,590	55,885	57,330	46,246	36,129

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 comprises interest rate risk, foreign currency risk and other market price risk.

i. Interest rate risk

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

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

Loans receivable consist of loans to racetrack 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.

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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 therefore subject to limited interest rate risk.

The amount of cash and cash equivalents was \$314,572,000 (2010 - \$324,640,000) and the loans receivable was \$25,718,000 (2010 - \$31,979,000) as at March 31, 2011. 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, 2011 was \$8,435,000 (2010 - \$9,986,000).

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	
	2011	2010
Cash and cash equivalents	\$22,771	\$15,853
Accounts payable and accrued liabilities	(4,811)	(5,555)
Net exposure	\$17,960	\$10,298

All USD balances are shown in CAD equivalents.

Sensitivity analysis

A 10 per cent increase in the value of the USD at March 31, 2011 would have increased net income by \$1,796,000 CAD (2010 – \$1,030,000). A 10 percent decrease in the value of the USD at March 31, 2011 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.

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iv. Fair values versus carrying amounts

The Corporation's financial instruments classified as held-for-trading are measured subsequent to initial recognition at fair value, grouped into Levels 1, 2 and 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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.

The carrying amounts in the Consolidated Balance Sheet of accounts payable and accrued liabilities, due to operators, due to Rama First Nation, 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.

Loans receivable and accounts 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 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 fair value of obligation under capital lease is based on observable market data other than quoted prices.

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 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.

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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:

2012	\$13,660
2013	9,977
2014	8,946
2015	7,730
2016	7,259
	47,572
Thereafter	40,779
	\$88,351

b. HST on lease commitments

The Corporation and the Resort Casinos have entered into several agreements to lease property, plant and equipment from the Corporation's subsidiary and other external parties. The non-recoverable harmonized sales tax (HST) and the additional imputed tax on the gaming-related assets payable to the Federal Government (with a provincial portion returned to the Province of Ontario), as described in Note 17 (b), on the future lease payments are approximately:

2012	\$41,237
2013	36,906
2014	31,684
2015	24,762
2016	17,982
	152,571
Thereafter	276,474
	\$429,045

c. Suppliers

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

2012	\$16,948
2013	13,966
2014	9,492
2015	1,489
2016	1
	\$41,896

d. 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 compensatory payments over 20 years with payments commencing May 1, 1998 of \$2,600,000 per annum for the first ten years and \$3,000,000 per annum for the last ten years.

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e. Niagara Fallsview Casino Resort

In connection with the terms of an agreement between Fallsview and the City of Niagara Falls, the Corporation agreed to provide the City of Niagara Falls compensation payments commencing December 7, 2000, included in operating expenses, 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.

f. Casino Rama

In connection with the terms of the Post-2011 Contract between the Corporation and Rama First Nation, as outlined in Note 7 (e), the Corporation agreed to pay Rama First Nation 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 Rama First Nation 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.

g. OLG Casinos and Slots

The Corporation is committed to the establishment of an additional Slots at Racetrack operation 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 which commenced 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.

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 amend the horse racing industry payment during the five-year period commencing January 1, 2011 to a predetermined amount of \$8,000,000 per annum in lieu of a predetermined percentage of revenue from slots.

h. Mississaugas of Scugog Island First Nation (MSIFN)

In fiscal 2010, the Corporation and the MSIFN entered into a conditional agreement to construct a new casino facility to replace the existing tent structure, on MSIFN reserve lands, at an estimated total cost of \$165,000,000. 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 agreements to construct and operate the new facility are subject to a number of precedent conditions that are required to be met by an agreed-upon date (currently, July 29, 2011).

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(tabular amounts in thousands of dollars)

12. Contingencies

- a. In August 2004, Chippewas of Rama 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 alleged to be the legal and beneficial owner of all capital assets purchased for use in the development and operation of Casino Rama and required all amounts of retail sales tax that were paid or accrued in respect of purchases of capital assets be reimbursed. The Plaintiff claimed damages in the amount of \$21,000,000 against the defendant parties, excluding CHC Casinos Canada Limited, and claimed 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, Rama First Nation, 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 required Rama First Nation and the Province of Ontario to use best efforts to obtain OFNLP's consent to the dismissal of the action. All consents were obtained and an Order dismissing the action on consent was issued on June 29, 2010. As a consequence of the foregoing, no amounts have been accrued in these consolidated financial statements.
- b. The Corporation has signed six Bingo Centre Service Provider Agreements (the "Service Providers") for Bingo Revitalization Project pilot site operations in Barrie, Peterborough, Kingston, Sudbury and two in 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 Agreements, the Corporation will be required to pay the Service Providers an amount not to exceed \$4,998,000 in respect of the Service Providers' capital investments in the Bingo Centres. No events have taken place to indicate that the pilot sites will not continue, and as such, no amounts have been accrued in these consolidated financial statements.
- c. On April 27, 2007, the Corporation and the Interprovincial Lottery Corporation were served with a statement of claim, related to a class action for general damages of \$1,000,000,000 and punitive damages of \$100,000,000. The statement of claim alleges the Corporation was negligent in the operation and management of its lottery business and that it breached fiduciary and other duties. The action is at a very early stage, no class has been certified by the Courts, and the Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.
- d. On June 10, 2008, the Corporation was served with a statement of claim related to a class action for general damages and punitive damages totaling \$3,500,000,000. The statement of claim alleges that the Corporation was negligent in its duty of care to prohibit self-excluded patrons from gaming at the Corporation's gaming sites. 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. By way of an endorsement dated May 21, 2010, no costs were awarded in OLG's favour due to the public interests involved in the case. On April 14, 2010, lawyers for the plaintiff filed on appeal of the decision. The appeal was heard in Divisional Court on April 5 to 7, 2011. 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 prizes were 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.

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2011, with comparative figures for 2010
(tabular amounts in thousands of dollars)

- 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 \$357,000,000 against the Corporation, its then CEO, and Senior VP Gaming, 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 its 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 \$56,000,000 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 currently in the discovery phase and the Corporation intends to vigorously defend itself. The outcome is undeterminable as at March 31, 2011 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 Comprehensive Income in the period in which the settlement occurs.

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 OLG Casinos and Slots. Lotteries and bingo derives its revenue from the sale of lottery and bingo products, which comprises online, instant and sports products. Resort Casinos are full-service casinos which offer patrons a variety of amenities including accommodations, entertainment and food and beverage services, in addition to slot and table games. The OLG Casinos and Slots 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 services.

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2011, with comparative figures for 2010

(tabular amounts in thousands of dollars)

2011	Lotteries and Bingo	Resort Casinos	OLG Casinos and Slots	Total
Revenues				
Lotteries and bingo	\$3,320,994	\$ —	\$ —	\$3,320,994
Slots	-	907,853	2,056,651	2,964,504
Tables	-	387,143	51,693	438,836
Non-gaming	-	261,214	35,443	296,657
	3,320,994	1,556,210	2,143,787	7,020,991
Less promotional allowances	-	255,902	79,289	335,191
	3,320,994	1,300,308	2,064,498	6,685,800
Operating expenses				
Non-gaming	-	232,293	36,776	269,069
Gaming and lottery operations	118,213	269,613	282,276	670,102
Lottery and bingo prizes	1,835,865	-	-	1,835,865
Commissions	234,527	-	413,185	647,712
Marketing and promotion	59,446	146,031	95,175	300,652
Operators' fees (Note 7b)	-	60,962	3,934	64,896
Amortization	15,532	125,221	85,736	226,489
General and administration (Note 15)	56,885	102,721	75,489	235,095
Facilities	9,022	134,841	80,520	224,383
Win contribution (Note 16)	-	259,110	14,959	274,069
Payments to Government of Canada (Note 17)	83,028	77,306	67,264	227,598
	2,412,518	1,408,098	1,155,314	4,975,930
Income (loss) before the undernoted	908,476	(107,790)	909,184	1,709,870
Interest and other income	1,839	16,256	14,088	32,183
Interest on long-term debt	(2,441)	(8,311)	(405)	(11,157)
Foreign exchange gain	12	6,931	1,492	8,435
	(590)	14,876	15,175	29,461
Net income (loss)	\$907,886	\$(92,914)	\$924,359	\$1,739,331
2010	Lotteries and Bingo	Resort Casinos	OLG Casinos and Slots	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	-	272,050	71,543	343,593
	2,890,258	1,346,089	2,035,547	6,271,894
Operating expenses				
Non-gaming	-	247,852	34,464	282,316
Gaming and lottery operations	112,424	274,056	283,691	670,171
Lottery and bingo prizes	1,589,463	-	-	1,589,463
Commissions	204,340	-	410,289	614,629
Marketing and promotion	62,808	146,019	87,498	296,325
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	1,420,968	1,100,221	4,614,530
Income (loss) 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

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2011, with comparative figures for 2010

(tabular amounts in thousands of dollars)

Capital expenditures	Lotteries and Bingo	Resort Casinos	OLG Casinos and Slots	Total
2011	\$8,394	\$57,411	\$87,717	\$153,522
2010	\$21,713	\$60,771	\$104,844	\$187,328

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 Province controls all entities included in the PSPF and OPSEU Pension Plans. Therefore the Corporation accounts for these plans as defined benefit plans that share risks between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation and as such the Corporation records these post employment benefits as defined contribution plans and has recorded no additional liability for the plan deficit. The annual contributions made by the Corporation are recorded as an expense in the Consolidated Statement of Income and Comprehensive Income. The Corporation's contribution and pension expense during the year was \$20,624,000 (2010 – \$20,172,000).

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 \$20,491,000 (2010 – \$20,703,000).

15. Future benefit costs

As a Schedule 2 employer under the Workplace Safety and Insurance Act, 1997, (the "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, and 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 in the financial statements.

In fiscal 2011, the cost of claim payments was \$3,675,000 (2010 – \$3,874,000) and is included in General and Administration expenses in the Consolidated Statement of Income and Comprehensive Income. The accrued future benefit costs as at March 31, 2011 is \$23,354,000 (2010 – \$20,320,000) of which \$2,102,000 (2010 – \$1,626,000) 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*. In fiscal 2011, the win contribution payments were \$274,069,000 (2010 - \$288,482,000).

Ontario Lottery and Gaming Corporation

Notes to Consolidated Financial Statements

Year ended March 31, 2011, with comparative figures for 2010
(tabular amounts in thousands of dollars)

17. Payments to Government of Canada

The Corporation made the following payments to the Government of Canada during the fiscal year:

	2011	2010
Payments on behalf of the Province of Ontario (a)	\$25,966	\$25,452
Goods and Services Tax / Harmonized Sales Tax (b)	201,632	91,017
	<u>\$227,598</u>	<u>\$116,469</u>

As at March 31, 2011, the amount due to Government of Canada was \$16,054,000 (2010 – \$7,421,000).

a. Payments on behalf of the Province of Ontario

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

b. Goods and Services Tax / Harmonized Sales Tax (GST/HST)

As a prescribed registrant, the Corporation makes GST/HST 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.

Effective July 1, 2010, the Province of Ontario combined 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 (five per cent federal component plus eight per cent provincial component). The net tax attributable to non-gaming activities is calculated similar to any other GST/HST registrant in Canada. The non-recoverable GST/HST payable to suppliers and the additional imputed tax payable to the Federal Government on gaming-related expenses are recognized as an expense in the financial statements as 'Payments to Government'.

The net tax attributable to gaming activities results in a 10 per cent tax burden on most taxable gaming expenditures incurred by the Corporation for the period up to June 30, 2010 and 26 per cent thereafter following the implementation of HST tax legislation in Ontario.

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, 2010. Accordingly, we, as OPG's President and CEO and CFO, 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 and Finance 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 and Finance Committee, 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 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, 2011

Independent Auditors' Report

TO THE SHAREHOLDER OF ONTARIO POWER GENERATION INC.

We have audited the accompanying consolidated financial statements of Ontario Power Generation Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, cash flows, changes in shareholder's equity and comprehensive income for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 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.

Toronto, Canada
March 4, 2011

ERNST & YOUNG LLP (signed)
Chartered Accountants,
Licensed Public Accountants

Consolidated Statements of Income

Years Ended December 31 (millions of dollars – except where noted)	2010	2009
Revenue (Note 19)		
Revenue before revenue limit rebate	5,375	5,640
Revenue limit rebate (Note 17)	–	(27)
	5,375	5,613
Fuel expense (Note 19)	908	991
Gross margin (Note 19)	4,467	4,622
Expenses (Note 19)		
Operations, maintenance and administration	2,903	2,882
Depreciation and amortization (Note 6)	698	760
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	660	634
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 10)	(668)	(683)
Property and capital taxes	77	86
Restructuring (Note 26)	27	–
	3,697	3,679
Income before the following:	770	943
Other losses and (gains) (Notes 4 and 18)	5	(10)
Income before interest and income taxes	765	953
Net interest expense (Note 9)	176	185
Income before income taxes	589	768
Income tax (recovery) expense (Note 11)		
Current	(67)	51
Future	7	94
	(60)	145
Net income	649	623
Basic and diluted income per common share (dollars)	2.53	2.43
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)	2010	2009
Operating activities		
Net income	649	623
Adjust for non-cash items:		
Depreciation and amortization (Note 6)	698	760
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	660	634
Earnings on nuclear fixed asset removal and nuclear waste management funds (Notes 10 and 19)	(668)	(683)
Pension costs (Note 12)	125	69
Other post employment benefits and supplementary pension plans (Note 12)	202	180
Future income taxes and other accrued charges (Note 11)	(89)	88
Provision for other liabilities	20	–
Provision for restructuring (Note 26)	27	–
Mark-to-market on derivative instruments	41	16
Provision for used nuclear fuel	41	35
Regulatory assets and liabilities (Note 7)	(222)	(429)
Other losses and (gains) (Note 18)	5	(10)
Other	(2)	29
	1,487	1,312
Contributions to nuclear fixed asset removal and nuclear waste management funds (Note 10)	(264)	(339)
Expenditures on nuclear fixed asset removal and nuclear waste management (Note 10)	(181)	(189)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management (Note 10)	100	104
Contributions to pension fund (Note 12)	(272)	(271)
Expenditures on other post employment benefits and supplementary pension plans (Note 12)	(82)	(81)
Revenue limit rebate (Note 17)	–	(112)
Expenditures on restructuring (Note 26)	(12)	–
Net changes to other long-term assets and liabilities	(6)	111
Net changes in non-cash working capital balances (Note 24)	47	(236)
Cash flow provided by operating activities	817	299
Investing activities		
Increase in regulatory assets (Note 7)	–	(2)
Investment in fixed and intangible assets (Notes 6 and 19)	(978)	(752)
Net proceeds from sale of long-term investments (Note 4)	33	1
Cash flow used in investing activities	(945)	(753)
Financing activities		
Issuance of long-term debt (Note 8)	1,160	565
Repayment of long-term debt (Note 8)	(978)	(359)
Net increase in short-term notes (Note 9)	155	–
Capital contribution by non-controlling interest	–	4
Cash flow provided by financing activities	337	210
Net increase (decrease) in cash and cash equivalents	209	(244)
Cash and cash equivalents, beginning of year	71	315
Cash and cash equivalents, end of year	280	71

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheets

As at December 31 (millions of dollars)	2010	2009
Assets		
Current assets		
Cash and cash equivalents	280	71
Accounts receivable (Note 5)	270	391
Fuel inventory	734	837
Prepaid expenses	42	47
Income and capital taxes recoverable	65	45
Future income taxes (Note 11)	73	51
Materials and supplies (Note 19)	85	132
	1,549	1,574
Fixed assets (Notes 6 and 19)		
Property, plant and equipment	19,654	18,695
Less: accumulated depreciation	6,099	5,859
	13,555	12,836
Intangible assets (Notes 6 and 19)		
Intangible assets	345	331
Less: accumulated amortization	297	279
	48	52
Other long-term assets		
Deferred pension asset (Note 12)	1,146	999
Nuclear fixed asset removal and nuclear waste management funds (Notes 10 and 19)	11,246	10,246
Long-term investments (Notes 4 and 22)	30	66
Long-term materials and supplies (Note 19)	400	388
Regulatory assets (Note 7)	1,559	1,396
Long-term accounts receivable and other assets	44	27
	14,425	13,122
	29,577	27,584

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheets

As at December 31 (millions of dollars)	2010	2009
Liabilities		
Current liabilities		
Accounts payable and accrued charges	762	933
Long-term debt due within one year (Note 8)	385	978
Short-term notes payable (Note 9)	155	–
Deferred revenue due within one year	12	12
	1,314	1,923
Long-term debt (Note 8)	3,843	3,068
Other long-term liabilities		
Fixed asset removal and nuclear waste management (Notes 10 and 19)	12,704	11,859
Other post employment benefits and supplementary pension plans (Note 12)	1,908	1,796
Long-term accounts payable and accrued charges	525	522
Deferred revenue	152	130
Future income taxes (Note 11)	798	633
Regulatory liabilities (Note 7)	248	172
	16,335	15,112
Non-controlling interest (Note 25)	4	4
Shareholder's equity		
Common shares (Note 15)	5,126	5,126
Retained earnings	3,024	2,375
Accumulated other comprehensive loss	(69)	(24)
	8,081	7,477
	29,577	27,584

Commitments and Contingencies (Notes 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)	2010	2009
Common shares (Note 15)	5,126	5,126
Retained earnings		
Balance at beginning of year	2,375	1,752
Net income	649	623
Balance at end of year	3,024	2,375
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of year	(24)	(49)
Other comprehensive (loss) income for the year	(45)	25
Balance at end of year	(69)	(24)
Total shareholder's equity at end of year	8,081	7,477

Consolidated Statements of Comprehensive Income

Years Ended December 31 (millions of dollars)	2010	2009
Net income	649	623
Other comprehensive (loss) income, net of income taxes		
Net (loss) gain on derivatives designated as cash flow hedges ¹	(39)	32
Reclassification to income of gains on derivatives designated as cash flow hedges ²	(6)	(7)
Other comprehensive (loss) income for the year	(45)	25
Comprehensive income	604	648

¹ Net of income tax recoveries of \$1 million and tax expenses of \$2 million for the years ended December 31, 2010 and 2009, respectively.

² Net of income tax recoveries of \$4 million and \$3 million for the years ended December 31, 2010 and 2009, respectively.

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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 generation 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. In accordance with Accounting Guideline 15, *Consolidation of Variable Interest Entities*, the applicable amounts in the accounts of the Nuclear Waste Management Organization ("NWMO") are included in OPG's consolidated financial statements. All significant intercompany transactions have been eliminated on consolidation.

Certain of the 2009 comparative amounts have been reclassified from financial statements previously presented to conform to the 2010 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 \$2 million (2009 – \$1 million) at an average effective rate of 0.7 percent (2009 – 0.7 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 mostly 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, 2010, the depreciation and amortization periods of fixed and intangible assets are as follows:

Nuclear generating stations and major components	15 to 59 years ¹
Thermal generating stations and major components	25 to 48 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, 2010, 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 2051. 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 units 1 and 2 and Nanticoke units 2 and 3 were 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 that it operates. Beginning April 1, 2008, OPG's regulated prices for these regulated facilities are determined by the Ontario Energy Board ("OEB"). The OEB issued a decision in 2008 that determined the regulated 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.

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 OEB's decision issued in 2008 on the regulated prices, the OEB's decision issued in May 2009 on OPG's motion to review and vary a portion of the 2008 decision, and the OEB's decision issued in October 2009 on OPG's accounting order application authorized certain variance and deferral accounts, including those authorized pursuant to *Ontario Regulation 53/05*. The OEB's 2008 decision also ruled on the disposition of the balances previously recorded by OPG in variance and deferral accounts as at December 31, 2007 pursuant to *Ontario Regulation 53/05*. Variance accounts capture the difference between actual costs and revenues, and the corresponding forecast amounts approved in the setting of regulated prices.

In May 2010, OPG filed an application with the OEB for new regulated prices to be effective March 1, 2011 using a cost of service methodology. The application included OPG's request for the disposition of variance and deferral account balances as at December 31, 2010 as well as the establishment and continuation of variance and deferral accounts. The public hearing process on OPG's application concluded on December 21, 2010. As of the date of these consolidated financial statements, the OEB has not issued a decision on OPG's application. The OEB's decision is expected in March 2011.

The impact of the regulation and the OEB's decisions on OPG's revenue recognition policies is described under the heading, *Revenue Recognition*.

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 are 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 OEB, in order to recognize the cost of financing amounts to be recovered from, or repaid to, ratepayers.

Certain assets and liabilities arising from rate regulation have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1600, *Consolidated Financial Statements*, Handbook Section 3061, *Property, Plant and Equipment*, Handbook Section 3465, *Income Taxes*, 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 GAAP. Therefore, Handbook Section 1100, *Generally Accepted Accounting Principles* ("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).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 to 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 nuclear 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 since April 1, 2008, is based on a regulated price of 5.50¢/kWh pursuant to the OEB's decision issued in 2008. This price includes a rate rider of 0.20¢/kWh for the recovery of approved nuclear variance and deferral account balances based on recovery periods authorized by the OEB. Effective April 1, 2008, regulated hydroelectric generation receives a regulated price of 3.67¢/kWh. In its 2008 decision, the OEB also approved a revised incentive mechanism for production from regulated hydroelectric facilities, 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 the 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 2008 decision.

During 2009, OPG filed an accounting order application. In the application, 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 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 regulated price after 2009.

As part of the May 2010 application for new regulated prices, OPG requested the OEB to declare the current regulated prices interim, effective March 1, 2011. On February 17, 2011, the OEB issued an order granting this request. This order preserves the opportunity for OPG to recover the difference between the final regulated prices as approved by the OEB and the current regulated prices for the period between March 1, 2011 and the implementation date of the OEB's final rate order. The decision regarding retrospective recovery is expected to be made by the OEB as part of its decision on OPG's application.

Electricity generated from OPG's other generating assets remains unregulated and continues to receive the Ontario electricity spot market price, except where an energy supply agreement is in place. Generation from the Lac Seul and Ear Falls generating stations, Healey Falls generating station, and the Sandy Falls, Wawaitin, Lower Sturgeon, and Hound Chute generating stations are all subject to a Hydroelectric Energy Supply Agreement ("HESA"). In 2010, OPG also finalized a HESA for the Lower Mattagami hydroelectric development project. The payments under the Lower Mattagami HESA commence when the first incremental unit comes into service.

The Lambton and Nanticoke generating stations are subject to a contingency support agreement with the Ontario Electricity Financial Corporation ("OEFC"). The agreement was put in place to enable OPG to recover the costs of those coal-fired generating stations following implementation of OPG's CO₂ emissions reduction strategy. Production from the Lennox generating station was subject to a reliability must run contract up to September 30, 2009. OPG finalized a Lennox Generating Station Agreement ("LGSA") with the Ontario Power Authority ("OPA") for the station for the period October 1, 2009 to December 31, 2010. The LGSA for 2011 was executed in the first quarter of 2011. In 2010, OPG and the OPA began negotiations of the Atikokan Biomass Energy Supply Agreement ("ABESA") for the supply of biomass-fuelled electricity generation from the Atikokan generating station. The ABESA is expected to be executed in 2011.

For the period April 1, 2005 to April 30, 2009, the generation output from 85 percent of 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. The output from a generating unit where there was a fuel conversion and the incremental output from a generating station where there was a refurbishment or expansion of these assets were also excluded from the output covered by the revenue limit.

The revenue limit was 4.8¢/kWh for the period May 1, 2008 to April 30, 2009. 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.

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 \$69 million in 2010 and \$79 million in 2009 were netted against revenue.

OPG derives non-energy revenue under the terms of a lease arrangement and related agreements with Bruce Power L.P. related to the Bruce nuclear generating stations. This includes lease revenue and revenue for engineering analysis and design, technical and ancillary services. The lease payments are recognized in revenue on a straight-line basis over the term of the lease.

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 Shell Energy North America (Canada) Inc. 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.

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FINANCIAL INSTRUMENTS

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 (loss) ("AOCI"). Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, 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.

For the year ended December 31, 2009, OPG adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures* and categorized its 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.

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 loss. 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 the Other category revenue (refer to Note 19).

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.

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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 *Taxation Act, 2007* (Ontario), as modified by regulations made under 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. 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. In accordance with the CICA Handbook Section 3465, *Income Taxes*, beginning January 1, 2009, OPG recognizes future income taxes associated with its rate regulated operations and records an offsetting 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

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 the end of 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 \$29 million in 2010 and \$11 million in 2009.

Change in Estimate Related to Darlington Refurbishment

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 from 2019 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 was \$293 million, using a discount rate of 4.8 percent. The increase in liabilities was reflected with a corresponding increase in the fixed asset balance in the first quarter of 2010. As a result of these changes, OPG's depreciation expense decreased by \$135 million on an annual basis beginning in 2010.

Restructuring

As a result of the decision to close two coal-fired units at each of the Lambton and Nanticoke generating stations, OPG recorded restructuring charges of \$27 million in 2010 related to severance costs. The severance costs were incurred in accordance with collective bargaining agreements for the Society of Energy Professionals and the Power Workers' Union.

Future Changes in Accounting Policy

In February 2008, the Canadian Accounting Standards Board ("AcSB") 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. As a result of recent changes to Part I of the CICA Handbook – Accounting, by the AcSB, certain rate-regulated entities can defer the adoption of IFRS by one year to January 1, 2012. OPG meets the AcSB's criteria for the deferral and has chosen to adopt IFRS effective January 1, 2012.

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 conversion on January 1, 2012 and accounting elections made. Proposed changes to the IFRS accounting standards have the potential to introduce additional significant accounting differences. OPG's interim 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 three months ending and as at March 31, 2012, and for the corresponding comparative period. The opening balance sheet as at January 1, 2011 will be disclosed in the March 31, 2012 interim consolidated financial statements.

The IASB has deferred its work on its rate-regulated activities accounting project. The IASB has not provided interim guidance for the recognition and measurement of regulatory assets and liabilities. As a result, OPG is analyzing existing IFRS guidance and continues to determine the impact on its accounting for regulatory assets and liabilities upon its adoption of IFRS on January 1, 2012.

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 commercial paper was exchanged for longer term notes of approximately \$58 million in January 2009. OPG received five classes of notes, which were supported by margin funding facilities from third-party asset providers, Canadian banks, and governments. 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.

In 2009, OPG classified the ABCP notes for the purposes of measurement as held-for-trading. Fair value was determined based on a discounted cash flow model, and OPG classified its investment in ABCP as Level 3 in the fair value hierarchy disclosures (Note 13).

As at December 31, 2009, the ABCP holdings were valued at \$36 million. During the fourth quarter of 2010, OPG sold its holdings of these notes for \$33 million and recognized a loss of \$3 million for the year in other losses and gains.

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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. During the third quarter of 2010, OPG renewed the agreement with a maturity date of August 31, 2013 and a commitment of \$250 million.

For 2010, OPG has recognized interest expense of \$4 million (2009 – \$4 million) on such sales at an average cost of funds of 1.5 percent (2009 – 1.5 percent). As at December 31, 2010, OPG had sold receivables of \$250 million from its total portfolio of \$377 million (2009 – \$436 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	
	2010	2009	2010	2009
(millions of dollars – except where noted)				
Total receivables portfolio ¹	377	436	379	398
Receivables sold	250	250	250	267
Receivables retained	127	186	129	131
Average cost of funds			1.5%	1.5%

¹ Amount represents 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, 2010 and 2009.

Details of cash flows from securitizations for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
(millions of dollars)		
Collections reinvested in revolving sales ¹	2,995	3,200
Cash flows from retained interest	1,548	1,577

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, 2010 and 2009:

(millions of dollars)	2010	2009
Depreciation	579	629
Amortization of intangible assets	16	21
Amortization of regulatory assets and liabilities (Note 7)	101	103
Nuclear waste management costs	2	7
	698	760

Fixed assets consist of the following as at December 31, 2010 and 2009:

(millions of dollars)	2010	2009
Property, plant and equipment		
Nuclear generating stations	7,220	6,693
Regulated hydroelectric generating stations	4,474	4,454
Unregulated hydroelectric generating stations	4,020	3,607
Thermal generating stations	1,424	1,674
Other fixed assets	1,039	1,043
Construction in progress	1,477	1,224
	19,654	18,695
Less: accumulated depreciation		
Generating stations	5,819	5,625
Other fixed assets	280	234
	6,099	5,859
	13,555	12,836

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Intangible assets consist of the following as at December 31, 2010 and 2009:

(millions of dollars)	2010	2009
Intangible assets		
Nuclear generating stations	93	89
Unregulated hydroelectric generating stations	3	2
Thermal generating stations	2	2
Other intangible assets	239	225
Development in progress	8	13
	345	331
Less: accumulated amortization		
Generating stations	77	69
Other intangible assets	220	210
	297	279
	48	52

Interest capitalized to construction and development in progress at an average rate of six percent during the years ended December 31, 2010 and 2009 was \$76 million and \$57 million, respectively.

7. Regulatory Assets and Liabilities

The OEB's decision issued in 2008 authorized certain variance and deferral accounts effective April 1, 2008, including those authorized pursuant to *Ontario Regulation 53/05*, a regulation under the *Ontario Energy Board Act, 1998*. In that 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 pursuant to *Ontario Regulation 53/05*. During the year ended December 31, 2010, the Company recorded additions to the variance and deferral accounts authorized by the OEB in that decision, and amortized approved regulatory balances based on recovery periods established by the OEB.

During the year ended December 31, 2010, the Company also recorded additions to the Tax Loss Variance Account, which was established in 2009 in accordance with the OEB's decision and order issued during the second quarter of 2009. This decision was in response to a motion by OPG that asked the OEB to review and vary a portion of the 2008 decision establishing current regulated prices, as it pertains to the treatment of tax losses and their use for mitigation of the regulated prices.

During the fourth quarter of 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 originally authorized by the OEB in its 2008 decision. In addition, effective January 1, 2010, the OEB directed OPG to establish the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account to record any over collection of approved hydroelectric regulatory balances through the hydroelectric regulated price 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. As a result of this decision, during 2010, OPG continued to amortize nuclear variance and deferral account balances approved for recovery in the OEB's 2008 decision.

OPG recorded interest on outstanding regulatory balances at the interest rate prescribed by the OEB, which fluctuated in the range of 0.55 percent to 1.20 percent per annum during the year ended December 31, 2010. The interest rate fluctuated in the range of 0.55 percent to 2.45 percent per annum during the year ended December 31, 2009. Beginning on January 1, 2009, OPG also records a regulatory asset or liability related to the recognition of future income taxes associated with its rate regulated operations, as required by the CICA's guidance for accounting for rate regulated operations described in Notes 3 and 11 to these consolidated financial statements.

On May 26, 2010, OPG filed an application with the OEB for new regulated prices to be effective March 1, 2011. As part of the application, OPG sought recovery of variance and deferral account balances as at December 31, 2010, including balances recorded during the three months ended March 31, 2008 pursuant to *Ontario Regulation 53/05*. The public hearing process on OPG's application concluded on December 21, 2010. As of the date of these consolidated financial statements, the OEB has not issued a decision on OPG's application.

The regulatory assets and liabilities recorded as at December 31, 2010 and 2009 were as follows:

(millions of dollars)	2010	2009
Regulatory assets		
Future Income Taxes (Note 11)	711	592
Bruce Lease Net Revenues Variance Account	250	328
Tax Loss Variance Account	492	295
Pickering A Return to Service Deferral Account	33	82
Nuclear Liabilities Deferral Account	39	86
Other	34	13
Total regulatory assets	1,559	1,396
Regulatory liabilities		
Nuclear Development Variance Account	111	55
Hydroelectric Water Conditions Variance Account	70	55
Income and Other Taxes Variance Account	40	21
Other	27	41
Total regulatory liabilities	248	172

The changes in the regulatory assets and liabilities during 2010 and 2009 were 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 Develop- ment Variance	Hydro- electric Water Conditions Variance	Income and Other Taxes Variance	Other (net)
Regulatory assets (liabilities), January 1, 2009	–	260	–	123	132	(21)	(22)	–	(4)
Change during the year	592	64	292	–	–	(29)	(29)	(21)	(18)
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	(55)	(55)	(21)	(28)
Change during the year	119	(81)	194	–	–	(50)	(14)	(19)	34
Interest	–	3	3	–	1	(1)	(1)	–	–
Amortization during the year	–	–	–	(49)	(48)	(5)	–	–	1
Regulatory assets (liabilities), December 31, 2010	711	250	492	33	39	(111)	(70)	(40)	7

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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 an additional \$119 million to the regulatory asset for future income taxes during the year ended December 31, 2010 (2009 – \$592 million).

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 May 2009 decision on OPG's motion to review and vary the OEB's 2008 decision on regulated prices, this account records the difference between the amount of mitigation included in the approved regulated prices and the revenue requirement reduction available from tax loss carry forwards for the period April 1, 2005 to March 31, 2008 recalculated as per the OEB's 2008 decision. As such, during the year ended December 31, 2010, OPG recorded a regulatory asset of \$197 million, including \$3 million of interest, related to the Tax Loss Variance Account and a corresponding \$194 million increase to revenue. During the year ended December 31, 2009, OPG recorded a regulatory asset of \$295 million, including \$3 million of interest related to this variance account and a corresponding \$292 million increase to revenue. The increase to revenue of \$292 million in 2009 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 *Ontario Regulation 53/05*, OPG is required to include the difference between OPG's revenues and costs associated with its ownership of the two nuclear stations on lease to Bruce Power L.P. in the determination of the regulated prices for production from OPG's regulated nuclear facilities. In its 2008 decision, 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, 2010, the variance account balance was \$250 million (2009 – \$328 million).

The regulatory asset as at December 31, 2010 includes \$353 million (2009 – \$259 million) of revenue variance related to the Bruce lease agreement ("Bruce Lease") and related agreements, including the impact of the derivative embedded in the Bruce Lease (refer to Note 13), a variance of \$47 million (2009 – \$214 million) from forecast as a result of lower earnings from the Nuclear Funds related to the Bruce generating stations, partially offset by a related variance in income tax expense of \$109 million (2009 – \$131 million). The account also includes variances for accretion expense related to OPG's liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management ("Nuclear Liabilities") associated with the Bruce generating stations and for depreciation expense related to these stations.

PICKERING A RETURN TO SERVICE DEFERRAL ACCOUNT

Effective January 1, 2005, in accordance with *Ontario Regulation 53/05*, 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. 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. In its 2008 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 April 1, 2008, OPG amortizes the December 31, 2007 balance of the account on a straight-line basis over this period. Amortization expense of \$49 million was recorded in 2010 (2009 – \$43 million). As at December 31, 2010, the balance in the deferral account was \$33 million (2009 – \$82 million).

NUCLEAR LIABILITIES DEFERRAL ACCOUNT

Effective April 1, 2005, *Ontario Regulation 53/05* required OPG to establish a deferral account in connection with changes to the 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. In its 2008 decision, the OEB authorized the recovery of the balance in this account as at December 31, 2007 over a 33-month period ended December 31, 2010. Therefore, effective April 1, 2008, OPG amortized the December 31, 2007 balance of the account on a straight-line basis over this period. In 2010, OPG recorded amortization of \$48 million (2009 – \$47 million). The balance of the regulatory asset was \$39 million as at December 31, 2010 (2009 – \$86 million).

NUCLEAR DEVELOPMENT VARIANCE ACCOUNT

Up to April 1, 2008, in accordance with *Ontario Regulation 53/05*, OPG recorded a regulatory asset for deferred non-capital costs incurred in the course of planning and preparing for the development of proposed new nuclear facilities incurred on or after June 13, 2006 for recovery through future regulated prices. The OEB’s 2008 decision approved a variance account to record deviations in these non-capital costs from the forecast approved in setting nuclear regulated prices effective April 1, 2008 and established the regulatory asset balance recorded up to April 1, 2008 as the opening balance of this variance account. As at December 31, 2010, the variance account balance was a liability of \$111 million (2009 – \$55 million). OPG recorded additional operations, maintenance and administration (“OM&A”) expenses of \$50 million related to this variance account during the year ended December 31, 2010 (2009 – \$29 million).

The OEB’s 2008 decision also authorized the recovery of the costs deferred as at December 31, 2007 over a 33-month period ended December 31, 2010. Accordingly, effective April 1, 2008, OPG recorded amortization of these deferred costs in the variance account on a straight-line basis over this period. Amortization expense of \$5 million was recorded in 2010 (2009 – \$5 million).

HYDROELECTRIC WATER CONDITIONS VARIANCE ACCOUNT

The OEB’s 2008 decision authorized the continuation of a variance account for the impact of the difference in hydroelectric electricity production due to differences between forecast and actual water conditions. Effective April 1, 2008, forecast water conditions refer to those underlying the hydroelectric production forecast approved by the OEB in setting hydroelectric regulated prices.

For the years ended December 31, 2010 and 2009, OPG recorded decreases in revenue of \$14 million and \$29 million, respectively, reflecting actual water conditions that were favourable compared to those approved by the OEB.

The OEB’s 2008 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 April 1, 2008, the amortization of this balance was recorded by OPG on a straight-line basis over this period. No amortization was recorded during the year ended December 31, 2010 (2009 – \$4 million). The balance of the regulatory liability was \$70 million as at December 31, 2010 (2009 – \$55 million).

INCOME AND OTHER TAXES VARIANCE ACCOUNT

In its 2008 decision, the OEB authorized the establishment of a variance account effective April 1, 2008 to capture deviations in income, capital and certain other tax-related expenses for the regulated business from those approved by the OEB in setting regulated prices caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (formerly the *Corporations Tax Act*), as modified by regulations made under the *Electricity Act, 1998*, as well as variances caused by reassessments. Variances resulting from reassessments of prior taxation years that have an impact on taxes payable for the periods after April 1, 2008 are included in the account. In addition, the variance account captures certain changes to the property tax expense.

During the year ended December 31, 2010, OPG recorded a regulatory liability of \$19 million in the variance account primarily related to the impact of investment tax credits on eligible scientific research and experimental development (“SR&ED”) expenditures, reassessments of prior taxation years, and lower than forecast statutory corporate income and capital tax rates. As a result, OPG recorded additional capital tax expense of \$11 million, additional OM&A expenses of \$14 million and a reduction to income tax expense of \$6 million during 2010. During the year ended December 31, 2009, OPG recorded a regulatory liability of \$21 million primarily related to the impact of investment tax credits on eligible SR&ED expenditures, resulting in additional OM&A expenses of \$17 million and additional income tax expense of \$4 million.

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OTHER REGULATORY ASSETS AND LIABILITIES

As at December 31, 2010, other regulatory assets included \$21 million related to the under-recovery of approved nuclear variance and deferral account balances since April 1, 2008 and \$7 million in the Nuclear 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 2008 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. Other regulatory assets also include \$6 million in the Nuclear Fuel Cost Variance Account authorized by the OEB effective April 1, 2008 for the difference between forecast and actual nuclear fuel costs per unit of production, and the unamortized balance of the variance account related to transmission outages and transmission restrictions.

As at December 31, 2009, other regulatory assets included \$8 million related to the under-recovery of approved nuclear variance and deferral account balances since April 1, 2008 and \$5 million in the Nuclear Interim Period Shortfall Variance Account for the period April 1, 2008 to November 30, 2008, as well as the unamortized balance of the variance account related to the transmission outages and transmission restrictions.

As at December 31, 2010, other regulatory liabilities included \$9 million in the Ancillary Services Net Revenue Variance Account, \$8 million in the Capacity Refurbishment Variance Account, \$8 million in the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account and \$2 million in the Hydroelectric Interim Period Shortfall Variance Account. The continuation of the previously existing Ancillary Services Net Revenue Variance Account was authorized by the OEB's 2008 decision and captures differences between forecast and actual ancillary services net revenue. The Capacity Refurbishment Variance Account was approved by the OEB effective April 1, 2008 and includes differences from forecast costs related to the refurbishment of the Darlington nuclear generating station as well as life extension initiatives at the Pickering B nuclear generation station. Forecast ancillary services net revenue and capacity refurbishment costs relate to those approved by the OEB in setting regulated prices.

As at December 31, 2009, other regulatory liabilities included \$21 million in the Nuclear Fuel Cost Variance Account, \$17 million in the Ancillary Services Net Revenue Variance Account and \$3 million in the Capacity Refurbishment Variance Account.

SUMMARY OF THE IMPACT OF REGULATORY ASSETS AND LIABILITIES

The following table summarizes the income statement and other comprehensive income statement impacts of recognizing regulatory assets and liabilities:

	2010			2009		
	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
(millions of dollars)						
Revenue	5,375	(273)	5,102	5,613	(491)	5,122
Fuel expense	908	30	938	991	(19)	972
Operations, maintenance and administration	2,903	(69)	2,834	2,882	(43)	2,839
Depreciation and amortization	698	(120)	578	760	(106)	654
Accretion on fixed asset removal and nuclear waste management liabilities	660	13	673	634	(3)	631
Earnings on nuclear fixed asset removal and nuclear waste management funds	(668)	(168)	(836)	(683)	(119)	(802)
Property and capital taxes	77	(17)	60	86	(3)	83
Net interest expense	176	(1)	175	185	6	191
Income tax (recovery) expense	(60)	158	98	145	76	221
Other comprehensive (loss) income	(45)	12	(33)	25	(10)	15

8. Long-Term Debt

Long-term debt consists of the following:

(millions of dollars)	2010	2009
Notes payable to the Ontario Electricity Financial Corporation	3,865	3,675
UMH Energy Partnership debt	198	197
Share of non-recourse limited partnership debt	165	174
	4,228	4,046
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	375	970
UMH Energy Partnership debt	2	–
Share of non-recourse limited partnership debt	8	8
	385	978
Long-term debt	3,843	3,068

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, 2010 for notes payable to the OEFC are as follows:

Year of Maturity	Interest Rate	Principal Outstanding (millions of dollars)		
		Senior Notes	Subordinated Notes	Total
2011	6.65%	–	375	375
2012	5.72%	400	–	400
2015	3.43%	500	–	500
2016	4.91%	270	–	270
2017	5.35%	900	–	900
2018	5.27%	395	–	395
2019	5.44%	365	–	365
2020	4.07%	660	–	660
		3,490	375	3,865

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, 2010, debt financing for these projects, which is included as part of the notes payable to the OEFC, consisted of the following:

(millions of dollars)	Niagara Tunnel	Portlands Energy Centre	Lac Seul Hydroelectric Generating Station
Debt financing, as at December 31, 2009	490	390	50
New borrowing	200	–	–
Debt financing, as at December 31, 2010	690	390	50

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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 \$1.6 billion over the duration of the project, was amended in the third quarter of 2010 from \$1.0 billion and is in the form of ten-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, 2010, OPG issued \$690 million against this facility, which included new borrowings of \$200 million under the facility in 2010.

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 was 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 were drawn as needed to fund the respective projects over the construction period. The funding was 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. Advances under these facilities were completed in 2009.

OPG reached an agreement with the OEFC in the first quarter of 2010 for a \$970 million credit facility to refinance notes as they mature over the period from January 2010 to December 2010. Refinancing under this agreement totalled \$960 million as at December 31, 2010, which included \$500 million of five-year notes at an average interest rate of 3.42 percent and \$460 million of ten-year notes at an average interest rate of 4.54 percent. No further advances are available under this facility.

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 until specified conditions have been satisfied following construction. The undiscounted contractual maturities are as follows:

(millions of dollars)	Principal
2011	2
2012	3
2013	3
2014	3
2015	3
2016 and thereafter	186

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 \$236 million as at December 31, 2010 (2009 – \$251 million). The minimum principal repayments of the non-recourse limited partnership debt for the next five calendar years range from \$9 million to \$14 million annually. OPG's share of the non-recourse limited partnership debt included a note payable of \$119 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 2010 was \$258 million (2009 – \$252 million), of which \$242 million (2009 – \$237 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 multi-year term tranche. In April 2010, OPG renewed and extended the maturity date of the 364-day term tranche to May 18, 2011. The multi-year term tranche has 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, 2010, no commercial paper was outstanding (2009 – 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, 2010, there were no borrowings under this credit facility.

During the third quarter of 2010, the Lower Mattagami Energy Limited Partnership established a \$700 million bank credit facility to support the initial construction phase for the Lower Mattagami project and launched a commercial paper program. As at December 31, 2010, \$155 million of commercial paper was issued under this program. Long-term financing arrangements are being established to support the total requirements of the project.

OPG also maintains \$25 million (2009 – \$25 million) in short-term uncommitted overdraft facilities and \$319 million (2009 – \$275 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, 2010, there was a total of \$281 million of Letters of Credit issued (2009 – \$231 million), which included \$254 million for the supplementary pension plans (2009 – \$210 million), \$20 million for general corporate purposes (2009 – \$14 million) and \$7 million related to the construction and operation of the PEC (2009 – \$7 million).

In addition, as at December 31, 2010, the NWMO issued a \$2 million Letter of Credit for its supplementary pension plan (2009 – \$1 million).

The following table summarizes the net interest expense for the year ended December 31, 2010 and 2009:

(millions of dollars)	2010	2009
Interest on long-term debt	244	240
Interest on short-term debt	16	15
Interest income	(3)	(5)
Capitalized interest	(76)	(57)
Interest applied to regulatory assets and liabilities	(5)	(8)
Net interest expense	176	185

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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, 2010 and 2009:

(millions of dollars)	2010	2009
Liability for nuclear used fuel management	7,534	6,525
Liability for nuclear decommissioning and low and intermediate level waste management	5,013	5,186
Liability for non-nuclear fixed asset removal	157	148
Fixed asset removal and nuclear waste management liabilities	12,704	11,859

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31, 2010 and 2009, are as follows:

(millions of dollars)	2010	2009
Liabilities, beginning of year	11,859	11,384
Increase in liabilities due to accretion	673	631
Increase in liabilities due to changes in assumptions related to the decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station	293	–
Increase in liabilities due to nuclear used fuel, nuclear waste management variable expenses and other expenses	56	42
Liabilities settled by expenditures on fixed asset removal and waste management	(181)	(189)
Change in the liabilities for non-nuclear fixed asset removal	4	(9)
Liabilities, end of year	12,704	11,859

The cash and cash equivalents balance as at December 31, 2010 includes \$3 million of cash and cash equivalents that are for the use of nuclear waste management activities (2009 – \$11 million).

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, thermal generating plant facilities and other 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. Under the terms of the lease agreement with Bruce Power L.P., OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

The following costs are recognized as a liability:

- The present value of the costs of dismantling the nuclear and thermal production facilities and other facilities at the end of their useful lives;
- The present value of the fixed cost portion of 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 nuclear waste management programs 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. The next update to the nuclear fixed asset removal and nuclear waste management obligation is being conducted throughout 2011 and will form the basis of the nuclear asset retirement obligation for December 31, 2011.

For the purposes of calculating OPG's fixed asset removal and nuclear waste management liabilities, as at December 31, 2010 consistent with the current accounting end of life assumptions, nuclear and thermal plant closures are projected to occur over the next four to 43 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 \$27 billion in 2010 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.

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 from 2019 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 was \$293 million, using a discount rate of 4.8 percent.

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.

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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 ten-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. As at December 31, 2010, the estimated retirement date of these stations is between 2014 and 2033.

In addition to the \$99 million liability for active sites, OPG also has an asset retirement obligation liability of \$58 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 and 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 and invests funds held in segregated custodian and trustee accounts 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, 2010 and 2009, 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 \$11.2 billion in December 31, 2010 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 2010 under the ONFA was \$264 million, including a contribution to The Ontario NFWA Trust (the "Trust") of \$136 million. Included in the 2010 funding was a \$147 million contribution 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 \$250 million annually over the years 2011 to 2015 (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 2011 is \$139 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 provides for any shortfall between the long-term liabilities and the current market value of the Used Fuel Fund and the Decommissioning Fund. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. In December 2009, the CNSC approved an increase in the amount of the Provincial Guarantee to \$1,545 million effective on March 1, 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 2010, OPG paid a guarantee fee of \$7 million based on a Provincial Guarantee amount of \$760 million and \$1,545 million, for the period January 1, 2010 to February 28, 2010 and March 1, 2010 to December 31, 2010, respectively.

In accordance with CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* ("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 \$5,267 million as at December 31, 2010, which was less than the liability per the 2006 Approved Reference Plan. At December 31, 2009, the Decommissioning Fund's asset value on a fair value basis was \$4,876 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.

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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 \$147 million of its 2010 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, 2010, the Used Fuel Fund asset value on a fair value basis was \$5,979 million. The Used Fuel Fund value included a payable to the Province of \$219 million related to the committed return adjustment. As at December 31, 2009, the Used Fuel Fund asset value on a fair value basis was \$5,370 million, including a payable to the Province of \$33 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, 2010 and 2009 consist of the following:

(millions of dollars)	Fair Value	
	2010	2009
Decommissioning Fund	5,267	4,876
Used Fuel Fund ¹	6,198	5,403
Due to Province – Used Fuel Fund	(219)	(33)
	5,979	5,370
	11,246	10,246

¹ The Ontario NFWA Trust represented \$1,949 million as at December 31, 2010 (2009 – \$1,693 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, 2010 and 2009, is as follows:

(millions of dollars)	Fair Value	
	2010	2009
Cash and cash equivalents and short-term investments	581	463
Alternative investments	61	–
Pooled funds	1,835	1,497
Marketable equity securities	5,226	4,699
Fixed income securities	3,735	3,596
Derivatives	3	–
Net receivables/payables	29	30
Administrative expense payable	(5)	(6)
	11,465	10,279
Due to Province – Used Fuel Fund	(219)	(33)
	11,246	10,246

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2010 and 2009 mature according to the following schedule:

(millions of dollars)	Fair Value	
	2010	2009
1 – 5 years	1,135	1,276
5 – 10 years	1,092	857
More than 10 years	1,508	1,463
Total maturities of debt securities	3,735	3,596
Average yield	3.4%	3.7%

The change in the Nuclear Funds for the years ended December 31, 2010 and 2009, is as follows:

(millions of dollars)	Fair Value	
	2010	2009
Decommissioning Fund, beginning of year	4,876	4,325
Increase in fund due to return on investments	465	631
Decrease in fund due to reimbursement of expenditures	(74)	(80)
Decommissioning Fund, end of year	5,267	4,876
Used Fuel Fund, beginning of year	5,370	4,884
Increase in fund due to contributions made	264	339
Increase in fund due to return on investments	557	664
Decrease in fund due to reimbursement of expenditures	(26)	(24)
Increase in due to Province	(186)	(493)
Used Fuel Fund, end of year	5,979	5,370

The earnings from the Nuclear Funds during 2010 and 2009 were partially reduced by the impact of the Bruce Lease Net Revenues Variance Account established by the OEB's 2008 decision. The earnings on the Nuclear Funds for 2010 and 2009 are as follows:

(millions of dollars)	2010	2009
Decommissioning Fund	465	631
Used Fuel Fund	371	171
Bruce Lease Net Revenues Variance Account (Note 7)	(168)	(119)
Total earnings	668	683

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11. Income Taxes

OPG follows the liability method of tax accounting for all its business segments and records an offsetting regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

During the year ended December 31, 2010, OPG recorded an increase to the future income tax liability for the future taxes that are expected to be recovered or refunded through regulated prices charged to customers of \$119 million. Since these future income taxes are expected to be recovered through future regulated prices, OPG has recorded a corresponding increase to the regulatory asset for future income taxes. As a result, the future income taxes for the year ended December 31, 2010 were not impacted. The increase in the future income tax liability of \$119 million for the rate regulated operations for the year ended December 31, 2010 included \$24 million related to the increase to the regulatory asset for future income taxes.

The following table summarizes the future income tax liabilities recorded for the rate regulated operations:

(millions of dollars)	2010	2009
January 1:		
Future income tax liabilities on temporary differences related to regulated operations	452	340
Future income tax liabilities resulting from the regulatory asset for future income taxes	140	126
	592	466
Changes during the year:		
Increase in future income tax liabilities on temporary differences related to regulated operations	95	112
Increase in future income tax liabilities resulting from the regulatory asset for future income taxes	24	14
Balance at December 31	711	592

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

(millions of dollars – except where noted)	2010	2009
Income before income taxes	589	768
Combined Canadian federal and provincial statutory income tax rates, including surtax	31.0%	33.0%
Statutory income tax rates applied to accounting income	183	253
(Decrease) increase in income taxes resulting from:		
Income tax component of the Bruce Lease Net Revenues Variance Account	(21)	36
Higher (lower) future tax rate on temporary differences	17	(16)
Non-taxable income items	(6)	1
Change in income tax positions	(96)	(6)
Changes in future tax rate	–	3
Income and Other Taxes Variance Account	(6)	4
Regulatory asset for future income taxes	(131)	(130)
	(243)	(108)
Income tax (recovery) expense	(60)	145
Effective rate of income taxes	(10.2%)	18.9%

In the second quarter of 2010, all outstanding tax matters relating to a tax audit of certain previous years were resolved. As a result, OPG reduced its income tax liability by \$102 million. Of the total reduction to the liability, \$96 million reduced income tax expense and the remaining \$6 million reduced OM&A.

The Bruce Lease Net Revenues Variance Account and Income and Other Taxes Variance Account authorized by the OEB effective April 1, 2008, are discussed in Note 7 to these consolidated financial statements.

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

(millions of dollars)	2010	2009
Current income tax (recovery) expense:		
Current payable	35	53
Change to income tax position	(96)	(6)
Income and Other Taxes Variance Account	(6)	4
	(67)	51
Future income tax expense:		
Change in temporary differences	159	185
Changes in future income tax rate	–	3
Income tax component of the Bruce Lease Net Revenues Variance Account	(21)	36
Regulatory asset for future income taxes	(131)	(130)
	7	94
Income tax (recovery) expense	(60)	145

The income tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2010 and 2009 are presented in the table below:

(millions of dollars)	2010	2009
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	3,169	2,968
Other liabilities and assets	777	656
Future recoverable Ontario minimum tax	30	12
	3,976	3,636
Future income tax liabilities:		
Fixed assets	(1,160)	(1,078)
Nuclear fixed asset removal and nuclear waste management funds	(2,813)	(2,567)
Other liabilities and assets	(728)	(573)
	(4,701)	(4,218)
Net future income tax liabilities	(725)	(582)
Represented by:		
Current portion – asset	73	51
Long-term portion – liability	(798)	(633)
	(725)	(582)

The amount of cash income taxes paid for 2010 was \$44 million (2009 – \$192 million).

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12. Pension and Other Post Employment Benefit Costs

The pension and OPEB obligations, and the pension fund assets, are measured as at December 31, 2010. 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	
	2010	2009	2010	2009
Weighted Average Assumptions – Benefit Obligation at Year-End				
Rate used to discount future benefits	5.80%	6.80%	5.67%	6.69%
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	–	–	6.53%	6.61%
Ultimate health care trend rate	–	–	4.69%	4.70%
Year ultimate rate reached	–	–	2030	2030
Rate of increase in disability benefits	–	–	2.00%	2.00%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2010	2009	2010	2009
Weighted Average Assumptions – Cost for the Year				
Expected return on plan assets net of expenses	7.00%	7.00%	–	–
Rate used to discount future benefits	6.80%	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	–	–	6.62%	6.58%
Ultimate health care trend rate	–	–	4.69%	4.70%
Year ultimate rate reached	–	–	2030	2018
Rate of increase in disability benefits	–	–	2.00%	2.00%
Average remaining service life for employees (years)	12	12	11	11

(millions of dollars)	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
	2010	2009	2010	2009	2010	2009
Changes in Plan Assets						
Fair value of plan assets at beginning of year	8,216	7,254	–	–	–	–
Contributions by employer	272	271	5	7	77	74
Contributions by employees	80	86	–	–	–	–
Actual return on plan assets net of expenses	973	1,051	–	–	–	–
Settlement	(10)	–	–	–	–	–
Benefit payments	(413)	(446)	(5)	(7)	(77)	(74)
Fair value of plan assets at end of year	9,118	8,216	–	–	–	–
Changes in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	8,610	7,440	179	142	1,910	1,591
Employer current service costs	160	120	6	5	52	40
Contributions by employees	80	86	–	–	–	–
Interest on projected benefit obligation	583	554	12	11	128	118
Benefit payments	(413)	(446)	(5)	(7)	(77)	(74)
Settlement	(10)	–	–	–	(2)	–
Past service costs	–	–	–	–	–	8
Net actuarial loss	1,365	856	27	28	330	227
Projected benefit obligation at end of year	10,375	8,610	219	179	2,341	1,910
Funded Status – Deficit at end of year	(1,257)	(394)	(219)	(179)	(2,341)	(1,910)

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.

	2010	2009
Registered pension plan fund asset investment categories		
Equities	60%	62%
Fixed income	35%	34%
Cash and short-term investments	5%	4%
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.

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Based on the most recently filed actuarial valuation of the NWMO registered pension plan, as at January 1, 2010, there was a surplus on a going-concern basis of \$4 million and a deficiency on a wind-up basis of \$5 million. 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, 2011.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling \$256 million (2009 – \$211 million).

(millions of dollars)	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
	2010	2009	2010	2009	2010	2009
Reconciliation of Funded Status to Accrued Benefit Asset (Liability)						
Funded status – deficit at end of year	(1,257)	(394)	(219)	(179)	(2,341)	(1,910)
Unamortized net actuarial loss	2,393	1,365	51	25	487	157
Unamortized past service costs	10	28	–	1	17	19
Accrued benefit asset (liability) at end of year	1,146	999	(168)	(153)	(1,837)	(1,734)
Short-term portion	–	–	(8)	(7)	(89)	(84)
Long-term portion	1,146	999	(160)	(146)	(1,748)	(1,650)

(millions of dollars)	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
	2010	2009	2010	2009	2010	2009
Components of Cost Recognized						
Current service costs	160	120	6	5	52	40
Interest on projected benefit obligation	583	554	12	11	128	118
Expected return on plan assets net of expenses	(636)	(623)	–	–	–	–
Settlement	–	–	–	–	(2)	–
Amortization of past service costs	18	18	1	1	2	5
Amortization of net actuarial loss	–	–	1	–	–	–
Cost recognized	125	69	20	17	180	163

(millions of dollars)	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
	2010	2009	2010	2009	2010	2009
Components of Cost Incurred and Recognized						
Current service costs	160	120	6	5	52	40
Interest on projected benefit obligation	583	554	12	11	128	118
Actual return on plan assets net of expenses	(973)	(1,051)	–	–	–	–
Settlement gain	–	–	–	–	(2)	–
Past service costs	–	–	–	–	–	8
Net actuarial loss	1,365	856	27	28	330	227
Cost incurred in year	1,135	479	45	44	508	393
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	337	428	–	–	–	–
Past service costs	18	18	1	1	2	(3)
Net actuarial loss	(1,365)	(856)	(26)	(28)	(330)	(227)
Cost recognized	125	69	20	17	180	163

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 2010 OPEB cost recognized of \$30 million (2009 – \$24 million) or a decrease in the service and interest components of the 2010 OPEB cost recognized of \$23 million (2009 – \$19 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, 2010 of \$394 million (2009 – \$270 million) or a decrease in the projected OPEB obligation at December 31, 2010 of \$307 million (2009 – \$217 million).

13. Financial Instruments

The Risk Oversight Committee (“ROC”) assists the Board of Directors to fulfill its oversight responsibilities for matters relating to identification and management of the Company’s key business risks. 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 ROC.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The following is a summary of OPG's financial instruments as at December 31, 2010:

Financial Instruments ¹ (millions of dollars)	Designated Category	Fair Value	
		2010	2009
Cash and cash equivalents	Held-to-maturity	280	71
Long-term investments ²	Held-for-trading	–	36
Nuclear fixed asset removal and nuclear waste management funds	Held-for-trading	11,246	10,246
Long-term debt (including current portion)	Other than Held-for-trading	(4,256)	(4,021)
Derivative Embedded in the Bruce Lease agreement	Held-for-trading	(163)	(118)
Other commodity derivative instruments included in current and long-term account receivable ³	Held-for-trading	3	7
Other commodity derivative instruments included in current and long-term account 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 electricity transactions and trading activities as at December 31, 2010:

Credit Rating ¹	Number of Counterparties ²	Potential Exposure ³	Potential Exposure for Largest Counterparties	
			Number of Counterparties	Counterparty Exposure
		(millions of dollars)		(millions of dollars)
Investment grade	24	26	4	18

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, 2010 was \$127 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, 2010 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 \$10 million at December 31, 2010. 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.

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 ("U.S. dollar") denominated transactions such as the purchase of fuels; and the influence of U.S. dollar 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.

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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, 2010, 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 – U.S. dollar	+/- 0.18 %	–	n/a
Interest rate ¹	+/- 43 basis points	–	+43/-50
Electricity price – Trading ²		+/-0.25	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. As at December 31, 2010, OPG had made contributions of approximately \$177 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, 2010, 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, 2010
S&P/TSX Capped Composite Index	13
S&P 500	4
MSCI EAFE Index	5
MSCI World Index	6

Risk Associated with Leases and Partnership Arrangements

OPG has leased its Bruce nuclear generating stations to Bruce Power L.P. 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 consolidated statements of income. As a result of a decrease in expected future Average HOEP during 2010, the fair value of the derivative liability increased to \$163 million at December 31, 2010. 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.

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Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of derivative instruments designated as hedges.

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

	Notional Quantity	Terms	Fair Value	Notional Quantity	Terms	Fair Value
(millions of dollars – except where noted)	December 31, 2010			December 31, 2009		
Electricity derivative instruments	–	–	–	0.4TWh	1 year	16
Floating-to-fixed interest rate hedges	35	1-9 years	(4)	38	1-10 years	(4)
Forward start interest rate hedges	375	1-12 years	21	490	1-13 years	3

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 \$6 million and \$7 million, respectively, which includes the impact of income taxes, related to derivative instruments qualifying for hedge accounting were recognized in net income during the years ended December 31, 2010 and 2009, respectively. Existing net losses of \$5 million deferred in accumulated other comprehensive loss at December 31, 2010 are expected to be reclassified to net income within the next 12 months.

Derivative Instruments Not Qualifying for Hedge Accounting

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

	Notional Quantity	Fair Value	Notional Quantity	Fair Value
(millions of dollars – except where noted)	December 31, 2010		December 31, 2009	
Commodity derivative instruments				
Assets	1.7 TWh	3	3.6 TWh	7
Liabilities	0.07 TWh	–	1.3 TWh	(6)
Market liquidity reserve		3		1
		–		(1)
Total		3		–

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 \$1 million during the year ended December 31, 2010 (2009 – increase in trading revenue by \$3 million).

Under the Bruce Lease, lease revenue is reduced in each calendar year where the 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 Section 3855. OPG reported a liability of \$163 million as at December 31, 2010 (2009 – \$118 million), which reflected the fair value of a derivative embedded in the Bruce Power lease agreement. This increase in the fair value of the derivative liability was primarily due to reductions in the expected future Average HOEP since the beginning of 2010. Under reasonably possible alternative assumptions, the effect of changing expected future electricity prices ranged from a decrease to long-term accounts payable of \$83 million to an increase of \$86 million. This sensitivity analysis is determined based on the existing assessment of market conditions with consideration of historical changes in electricity prices. The income statement impact as a result of changes to the liability is offset by the income statement 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)	December 31, 2010			Total
	Level 1	Level 2	Level 3	
Decommissioning Fund	2,540	2,698	29	5,267
Used Fuel Fund	2,722	3,225	32	5,979
Forward start interest rate hedges	–	(21)	–	(21)
Commodity derivative instruments	–	–	–	–
Investments in OPGV	13	–	17	30
Floating-to-fixed interest rate hedges	–	(4)	–	(4)
Derivative embedded in the Bruce Lease	–	–	(163)	(163)
Total assets and liabilities	5,275	5,898	(85)	11,088

(millions of dollars)	December 31, 2009			Total
	Level 1	Level 2	Level 3	
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, 2010, 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 consolidated balance sheet dates. 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.

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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 and liabilities measured at fair value based on level 3 for the year ended December 31, 2010.

(millions of dollars)	Decommissioning Fund	Used Fuel Fund	Investments in OPGV	Asset-Back Commercial Paper	Derivative Embedded in the Bruce Lease
Opening balance	–	–	17	36	(118)
Total losses included in net income ¹	(1)	(1)	–	(3)	(45)
Purchases	34	36	–	–	–
Settlements	(4)	(3)	–	(33)	–
Closing balance	29	32	17	–	(163)

¹ Total losses exclude the impact of regulatory assets and liabilities.

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 Before Tax ¹
Favourable change in assumptions related to electricity prices	(83)	83
Unfavourable change in assumptions related to electricity prices	86	(86)

¹ Net Income Before Tax excludes the impact of regulatory assets and liabilities.

The volatilities of OPG's investments in OPGV 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 2008 decision on OPG's regulated prices, 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, 2010 and 2009:

(millions of dollars – except where noted)	2010	2009
Long-term debt due within one year	385	978
Long-term debt	3,843	3,068
Letters of Credit ¹	281	231
Total debt	4,509	4,277
Total shareholder's equity	8,081	7,477
Total capitalization	12,590	11,754
Total debt to total capitalization	36%	36%

¹ The NWMO Letter of Credit of \$2 million has not been included above.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010.

15. Common Shares

As at December 31, 2010 and 2009, 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 OPG's shareholder.

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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 filed with the Ontario Superior Court of Justice 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 (together "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 commenced on April 5, 2010. The Arbitration closing arguments have been rescheduled and are anticipated to occur in the second quarter of 2011. It may take some time for the arbitrator to come to a decision after the closing arguments have been completed.

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 had not concluded, British Energy 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. That motion was scheduled to be heard March 5, 2010 but was adjourned at the request of British Energy. The return date of that motion is yet to be set.

In September 2008, a certain First Nation served a Notice of Action against the Government of Canada, the Province of Ontario, OPG, and the OEFC claiming damages in the amount of \$200 million arising from breach of contract, fiduciary duty, trespass to property, negligence, nuisance, misrepresentation, breach of riparian rights and unlawful and unjustifiable infringement of the Aboriginal and treaty rights and \$0.5 million in special damages. This Notice of Action was followed by service of the formal Statement of Claim in June 2010 upon the same parties seeking the same relief. OPG continues to assess the merits of the litigation.

A Notice of Arbitration was served upon OPG and the OEFC by a First Nation. The OEFC was subsequently released from the arbitration proceedings. 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 to determine whether there is any liability for damages continues. 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 relating to some of these First Nations matters against OPG total \$97 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

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 certain other environmental obligations. As at December 31, 2010, OPG has recorded a provision for environmental obligations of \$39 million (2009 – \$40 million).

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, 2010, are as follows:

(millions of dollars)	2011	2012	2013	2014	2015	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	341	201	139	76	73	107	937
Contributions under the ONFA	250	240	157	94	96	662	1,499
Long-term debt repayment	384	412	12	13	515	2,895	4,231
Interest on long-term debt	216	188	173	173	166	721	1,637
Unconditional purchase obligations	22	22	22	22	25	15	128
Operating lease obligations	29	31	32	33	35	–	160
Operating licence	33	38	40	50	50	–	211
Pension contributions ¹	280	–	–	–	–	–	280
Other	48	44	39	93	16	55	295
	1,603	1,176	614	554	976	4,455	9,378
Significant commercial commitments:							
Niagara Tunnel	231	143	44	1	–	–	419
Lower Mattagami	361	434	508	194	182	–	1,679
Total	2,195	1,753	1,166	749	1,158	4,455	11,476

¹ The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuations of the OPG registered pension plan as at January 1, 2008 and the NWMO registered pension plan as at January 1, 2010. The contributions are subject to material change as a result of actuarial valuations as at January 1, 2011 which must be filed by September 30, 2011 in the case of the OPG plan and by June 30, 2011 in the case of the NWMO plan. The contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2011 are excluded due to significant variability in the assumptions required to project the timing of future cash flows.

Niagara Tunnel

As of December 31, 2010, the Tunnel Boring Machine ("TBM") had progressed 9,152 metres, which is 90 percent of the tunnel length. Some uncertainty with respect to the cost and schedule for both the tunnel excavation and liner installation will continue. Notwithstanding the uncertainty, the Niagara Tunnel is expected to be completed within the revised approved budget of \$1.6 billion and the revised approved project completion date of December 2013.

The capital project expenditures for the year ended December 31, 2010 were \$231 million and the life-to-date capital expenditures were \$880 million. The project is debt financed through the OEFC. OPG has executed an amendment to the Niagara Tunnel project credit facility with the OEFC to finance the project for up to \$1.6 billion.

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Lower Mattagami

Construction activities on the Lower Mattagami River commenced in June 2010 to add one additional generating unit at each of the existing Little Long, Harmon and Kipling stations. In addition, OPG will replace the existing Smoky Falls generating station with a new three-unit station. Upon completion in June 2015, the project is expected to increase the capacity of the four stations on the Lower Mattagami River by 438 MW.

OPG and the OPA finalized and executed a HESA during the year. A comprehensive agreement was executed with the local First Nation that resolves grievances attributed to the construction and subsequent operation and maintenance of OPG facilities in the area. The agreement provides the First Nation with a right to purchase up to a 25 percent equity interest in the project. Life-to-date expenditures as of December 31, 2010 were \$292 million. The project budget of \$2.6 billion includes the design-build contract as well as contingencies, interest and other OPG costs, including project management, contract management, impact agreements with First Nations, and transmission connection costs.

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, 2012, respectively. As at December 31, 2010, OPG had approximately 11,800 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 generation assets, excluding the Lennox generating station, and forward sales as of January 1, 2005, was subject to a revenue limit. The term of the revenue limit rebate ended on April 30, 2009.

The revenue limit rebate liability for the year ended December 31, 2009 is as follows:

(millions of dollars)	2009
Liability, beginning of year	85
Increase to provision during the year	27
Payments made during the year	(112)
Liability, end of year	—

18. Other Losses and (Gains)

(millions of dollars)	2010	2009
Change in estimated cost required to decommission thermal generating stations	–	(9)
ABCP (Notes 4 and 13)	3	(1)
Other	2	–
Other losses and (gains)	5	(10)

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 losses and gains 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 and related agreements with Bruce Power L.P. related to the Bruce nuclear generating stations. This revenue 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. Revenues from isotope sales and ancillary services are included in the computation of the regulated prices for OPG's nuclear facilities by the OEB.

Bruce Nuclear Generating Stations

In May 2001, the Company leased its Bruce A and Bruce B nuclear generating stations to Bruce Power L.P. until 2018, with options to renew for up to 25 years.

During 2010, OPG recorded lease revenue related to the Bruce generating stations of \$232 million (2009 – \$160 million). The net book value of fixed assets on lease to Bruce Power L.P. at December 31, 2010 was \$855 million (2009 – \$1,073 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 L.P.), 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 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 reflect the cost of producing energy and the earning of revenue under the Bruce Power lease arrangement and related agreements. 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 determination of regulated prices for production from OPG's regulated nuclear facilities by the OEB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

REGULATED – HYDROELECTRIC SEGMENT

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of the Company'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. These ancillary revenues are included in the computation of the regulated prices for these facilities by the OEB.

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 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

The Other category includes revenue that OPG earns from its 50 percent joint venture share of Brighton Beach related to an energy conversion agreement between Brighton Beach and Shell Energy North America (Canada) Inc. This 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 intangible assets held within the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. The service fee included in OM&A expenses by segment for the years ended December 31, 2010 and 2009 is as follows:

(millions of dollars)	2010	2009
Regulated – Nuclear Generation	25	27
Regulated – Hydroelectric	2	3
Unregulated – Hydroelectric	3	4
Unregulated – Thermal	8	9
Other	(38)	(43)

Segment Income (Loss) for the Year Ended December 31, 2010 (millions of dollars)	Regulated			Unregulated				Total
	Nuclear Generation	Nuclear Waste Management	Hydro- electric	Hydro- electric	Thermal	Other	Elimination	
Revenue	3,030	45	742	497	936	168	(43)	5,375
Fuel expense	185	–	254	64	405	–	–	908
Gross margin	2,845	45	488	433	531	168	(43)	4,467
Operations, maintenance and administration	2,101	52	99	227	449	18	(43)	2,903
Depreciation and amortization	401	–	62	73	103	59	–	698
Accretion on fixed asset removal and nuclear waste management liabilities	–	653	–	–	7	–	–	660
Earnings on nuclear fixed asset removal and nuclear waste management funds	–	(668)	–	–	–	–	–	(668)
Property and capital taxes	39	–	11	4	13	10	–	77
Restructuring	–	–	–	–	27	–	–	27
Other losses	2	–	–	–	–	3	–	5
Income (loss) before interest and income taxes	302	8	316	129	(68)	78	–	765

Segment Income (Loss) for the Year Ended December 31, 2009 (millions of dollars)	Regulated			Unregulated				Total
	Nuclear Generation	Nuclear Waste Management	Hydro- electric	Hydro- electric	Thermal	Other	Elimination	
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	–	–	–	–	(9)	(1)	–	(10)
Income (loss) before interest and income taxes	390	52	327	209	(99)	74	–	953

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

Selected Consolidated Balance Sheet Information as at December 31, 2010 (millions of dollars)	Regulated			Unregulated			Total
	Nuclear Generation	Nuclear Waste Management	Hydro- electric	Hydro- electric	Thermal	Other	
Segment fixed assets in service, net	3,963	–	3,750	3,324	282	759	12,078
Segment construction in progress	174	–	913	367	20	3	1,477
Segment property, plant and equipment, net	4,137	–	4,663	3,691	302	762	13,555
Segment intangible assets in service, net	18	–	–	2	1	19	40
Segment development in progress	3	–	–	–	–	5	8
Segment intangible assets, net	21	–	–	2	1	24	48
Segment materials and supplies inventory, net:							
Short-term	65	–	–	–	19	1	85
Long-term	364	–	–	1	35	–	400
Segment fuel inventory	337	–	–	–	397	–	734
Fixed asset removal and nuclear waste management liabilities	–	(12,547)	–	–	(151)	(6)	(12,704)
Nuclear fixed asset removal and nuclear waste management funds	–	11,246	–	–	–	–	11,246

Selected Consolidated Balance Sheet Information as at December 31, 2009 (millions of dollars)	Regulated			Unregulated			Total
	Nuclear Generation	Nuclear Waste Management	Hydro- electric	Hydro- electric	Thermal	Other	
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 Cash Flow Information (millions of dollars)	Regulated			Unregulated			Total
	Nuclear Generation	Nuclear Waste Management	Hydro- electric	Hydro- electric	Thermal	Other	
Year ended December 31, 2010	211	–	272	442	23	30	978
Investment in fixed and intangible assets							
Year ended December 31, 2009							
Investment in fixed and intangible assets	200	–	254	239	32	27	752

20. Related Party Transactions

Given that the Province owns all of the shares of OPG, related parties include the Province, Infrastructure Ontario, the OPA 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:

(millions of dollars)	Revenue		Expenses	
	2010		2009	
Hydro One				
Electricity sales	18	–	20	–
Services	–	16	–	13
Province of Ontario				
GRC, water rentals and land tax	–	116	–	146
Guarantee fee	–	7	–	4
Used Fuel Fund rate of return guarantee	–	186	–	493
OEFC				
GRC and proxy property tax	–	208	–	224
Interest expense on long-term notes	–	203	–	210
Capital tax	–	11	–	31
Income taxes, net of investment tax credits	–	77	–	199
Contingency support agreement	258	–	412	–
Infrastructure Ontario				
Reimbursement of expenses incurred during the procurement of new nuclear units	–	3	–	21
IESO				
Electricity sales	4,215	27	4,434	31
Revenue limit rebate	–	–	(27)	–
Ancillary services	61	–	153	–
OPA	142	–	45	–
	4,694	854	5,037	1,372

As at December 31, 2010, accounts receivable included \$3 million (2009 – \$2 million) due from Hydro One, \$129 million (2009 – \$189 million) due from the IESO, and \$22 million (2009 – \$6 million) due from the OPA. Accounts payable and accrued charges at December 31, 2010 included \$2 million (2009 – \$3 million) due to Hydro One and \$3 million (2009 – \$21 million) due to Infrastructure Ontario.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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)	2010	2009
Proportionate joint venture operations		
Revenue	97	76
Expenses	(62)	(49)
Net income	35	27
Proportionate joint venture cash flows		
Operating activities	74	34
Investing activities	(3)	(17)
Financing activities	(76)	(25)
Share of changes in cash	(5)	(8)
Proportionate joint venture balance sheets		
Current assets	25	31
Long-term assets	553	583
Current liabilities	(15)	(14)
Long-term liabilities	(167)	(172)
Share of net assets	396	428

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 (2009 – \$30 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 2010 decreased by \$1 million (2009 – \$11 million). The net realized gains for OPGV were nil in 2010 (2009 – \$7 million).

The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2010 were \$11 million and \$25 million, respectively. The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2009 were \$11 million and \$24 million, respectively.

23. Research and Development

For the year ended December 31, 2010, research and development expenses of \$127 million (2009 – \$112 million) were charged to operations.

24. Net Changes In Non-Cash Working Capital Balances

(millions of dollars)	2010	2009
Accounts receivable	101	105
Prepaid expenses	5	(15)
Fuel inventory	103	(101)
Materials and supplies	47	–
Revenue limit rebate	–	27
Accounts payable and accrued charges	(189)	(103)
Income and capital taxes recoverable	(20)	(149)
	47	(236)

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 Lac Seul LP 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. Restructuring

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. The closures occurred on October 1, 2010. OPG conducted discussions with key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, in accordance with their respective collective bargaining agreements. As determined by the collective bargaining agreements, restructuring costs of \$27 million were recorded during 2010 for those employees who have elected to leave. The change in the restructuring liability for severance costs for the year ended December 31, 2010 is as follows:

(millions of dollars)	2010
Liability, beginning of year	–
Restructuring charges during the period	27
Payments during the period	(12)
Liability, end of year	15

TRUSTS AND MISCELLANEOUS STATEMENTS

Deposit Insurance Corporation of Ontario

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

March 22, 2011

Independent Auditors' Report



KPMG LLP

To the Board of Directors of Deposit Insurance Corporation of Ontario

We have audited the consolidated financial statements of Deposit Insurance Corporation of Ontario, which are comprised of the consolidated statement of financial position as at December 31, 2010, the consolidated statements of operations and changes in the deposit insurance reserve fund, comprehensive income and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment,

including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Deposit Insurance Corporation of Ontario as at December 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.

A handwritten signature in dark ink that reads 'KPMG LLP' with a long horizontal line underneath.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 22, 2011

Deposit Insurance Corporation of Ontario

Consolidated Statement of Financial Position

Year ended December 31, 2010, with comparative figures for 2009 (in thousands of dollars)

	2010	2009
Assets		
Cash (Note 2)	\$ 13,175	\$ 8,986
Investments (Note 3)	68,390	85,885
Loans (net of allowance of \$42,682 (2009 - \$34,477)) (Note 4)	25,612	18,231
Premiums receivable	3,940	3,714
Interest and other receivables	1,679	203
Land and Buildings	1,249	-
Deposit insurance advances recoverable	4,082	517
Capital assets (net of accumulated amortization of \$4,630 (2009 - \$3,171))	1,954	1,617
Total Assets	\$120,081	\$119,153
Liabilities		
Payables and accruals	\$ 5,063	\$ 4,127
Member shares and deposits of institutions in liquidation (Note 5)	11,436	4,176
Deferred premium income	3,893	3,776
Accrual for deposit insurance losses (Note 6)	13,771	28,773
Total Liabilities	34,163	40,852
Equity		
Deposit Insurance Reserve Fund	85,869	78,285
Accumulated other comprehensive income	49	16
Total Equity	85,918	78,301
Total Liabilities and Equity	\$120,081	\$119,153

Lease Commitments (Note 7)

Contingencies (Note 13)

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

Deposit Insurance Corporation of Ontario

Consolidated Statement of Operations and Changes in the Deposit Insurance Reserve Fund

Year ended December 31, 2010, with comparative figures for 2009 (in thousands of dollars)

	2010	2009
Income		
Premium income	\$21,196	\$19,947
Other income	2,852	2,039
	24,048	21,986
Operating expenses - DICO:		
Salaries and benefits	5,111	4,519
Operating expenses	2,434	2,526
Recovery of operating expenses	(126)	(104)
	7,419	6,941
Operating and interest expenses - institutions in liquidation	11,004	4,453
	18,423	11,394
Excess of income over operating expenses	5,625	10,592
Net (Decrease) Provision for insurance losses (Note 6)	(1,959)	27,945
Excess (Deficiency) of income over total expenses	7,584	(17,353)
Deposit Insurance Reserve Fund, beginning of year	78,285	95,638
Deposit Insurance Reserve Fund, end of year	\$85,869	\$78,285

See accompanying notes to consolidated financial statements.

Deposit Insurance Corporation of Ontario

Consolidated Statement of Comprehensive Income

Year ended December 31, 2010, with comparative figures for 2009 (in thousands of dollars)

	2010	2009
Excess (Deficiency) of income over total expenses	\$7,584	<u>\$(17,353)</u>
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale investments arising during the year	33	<u>(22)</u>
Comprehensive income (loss)	<u>\$7,617</u>	<u>\$(17,375)</u>

Statement of Accumulated Other Comprehensive Income

Year ended December 31, 2010, with comparative figures for 2009 (in thousands of dollars)

	2010	2009
Accumulated other comprehensive income, beginning of year (Note 3)	\$ 16	<u>\$ 38</u>
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income	(16)	<u>(38)</u>
Net unrealized gains on available-for-sale investments arising during the year	49	<u>16</u>
Net change during the year	33	<u>(22)</u>
Accumulated other comprehensive income, end of year	<u>\$ 49</u>	<u>\$ 16</u>

See accompanying notes to consolidated financial statements.

Deposit Insurance Corporation of Ontario

Consolidated Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009 (in thousands of dollars)

	2010	2009
Cash received from (applied to):		
Operations:		
Excess (Deficiency) of income over total expenses	\$ 7,584	\$(17,353)
Items charged to operations not affecting cash		
Provision for losses (Note 6)	(1,959)	27,945
Loss on disposal of loans and other assets	5,379	99
Unrealized gains (losses) on available-for-sale investments arising during the year	33	(22)
Amortization	196	205
Provision for bad debts	1,324	(352)
Additional non cash items resulting from new institutions in liquidation:		
- Land and Buildings	(1,262)	-
- Capital assets	(169)	-
- Member shares and preferred shares	(6,794)	-
Net adjustment with new/close out institutions during the year	-	(28)
	4,332	10,494
Changes in:		
Loans	(7,381)	(12,609)
Premiums receivable	(226)	(281)
Interest and other receivables	(1,476)	293
Deposit insurance advances recoverable	(3,565)	(357)
Payables and accruals	936	483
Membership shares and deposits of institutions in liquidation	7,260	2,900
Deferred premium income	117	311
	(4,335)	(9,260)
Total net deposit insurance payments to depositors (Note 6)	(13,043)	(29,761)
	(13,046)	(28,527)
Investing activities:		
Purchase of investments held at year end	(68,390)	(85,885)
Proceeds on sale of investments	85,885	117,939
Purchase of capital assets	(374)	(668)
Proceeds on sale of capital assets	-	2
Proceeds on sale of Real Estate in liquidations	114	-
	17,235	31,388
Increase in cash position during the year	4,189	2,861
Cash position, beginning of year	8,986	6,125
Cash position, end of year	\$13,175	8,986
Supplementary cash flow information:		
Loan guarantee fee paid during the year	\$ -	\$ 2
Interest received during the year	\$ 2,766	\$ 1,677

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, 2010 with comparative figures for 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 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 Ontario Financing Authority (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) 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 values as of December 31, 2010 and 2009.

(C) 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 Institution Return submitted by the insured institution, which is due 75 days after its fiscal year end. Premium income is recognized when earned.

(D) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. The most significant areas of judgement relate to the allowance for credit losses related to credit unions in liquidation which is disclosed in Note 4 and provision for losses which is disclosed in Note 6.

(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) 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.

(K) Transition to International Financial Reporting Standards (IFRS):

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 adopt IFRS as the basis for preparing our December 31, 2011 financial statements, including an opening balance sheet as at January 1, 2010. The Corporation has completed the analysis of the potential impact of the transition to IFRS on its financial statements, disclosures, and broader financial reporting systems and controls. The differences between DICO's accounting policies and IFRS requirements, combined with our decisions on the optional IFRS 1 exemptions from retroactive application of IFRS, will result in measurement and recognition differences when transitioning to IFRS. The net impact of these differences will be recorded in the opening DIRF balance. Detailed accounting assessments included deposit insurance, consolidation of VIEs, provisions for insurance losses, financial instruments, revenue recognition, short and long-term employee benefits, leases, accounting for income tax, property, plant and equipment, impairments of non-financial assets, related party disclosures and financial statement presentation and disclosure. Based on our latest analysis, major areas which will be impacted by the adoption of the IFRS are expected to be in pension and other employee future benefits, loss provisions and consolidation of VIEs.

2. Cash

	December 31, 2010	December 31, 2009
	(\$ thousands)	(\$ thousands)
Cash	\$ 1,867	\$1,313
Cash of institutions in liquidation	\$11,308	\$7,673
Total	\$13,175	\$8,986

3. Investments

The Corporation's investments are classified as available-for-sale and are measured at fair value with unrealized gains and losses recorded in the Consolidated Statement of Accumulated Other 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, 2010, they have a weighted-average yield of 1.07% (2009: 0.28%). 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, 2010			December 31, 2009		
	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	\$47,877	0.99%	90	\$61,300	0.17%	91
Bankers' acceptances / Bank deposit notes	\$20,513	1.90%	22	\$11,197	0.56%	66
Fixed income- Canada Housing Trust 1 CDA MTG BD Ser 12 Fltg	—	—	—	\$13,388	0.40%	258
Total	\$68,390	1.07%	70	\$85,885	0.28%	114

The Corporation has contracted with the OFA 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, the *Credit Unions and Caisses Populaires Act*, 1994 and Regulation 237/09.

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).

4. Loans (net of allowance)

Loans (net of allowance) of \$25,612,000 (2009 - \$18,231,000) are comprised of loans of the estates of credit unions in liquidation.

The majority of the aggregate allowance of \$42,682,000 (2009 - \$34,477,000) 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 5 new institutions were placed in liquidation during 2010 and one institution was finalized and completed during the year. The general process for determining the loan allowances by an 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 \$11,436,000 (2009 - \$4,176,000) are comprised of \$10,309,000 (2009 - \$3,515,000) in member shares and preferred shares and \$1,127,000 (2009 - \$661,000) 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".

	2010	2009
	(\$ thousands)	(\$ thousands)
Accrual for deposit insurance losses, beginning of year	\$ 28,773	\$ 30,589
Increase in accrual for current year's losses	1,550	13,022
Increase (decrease) in accrual for prior year's losses	(3,509)	14,923
Net provision for insurance losses for the year	(1,959)	27,945
Net deposit insurance payments to depositors	(13,043)	(29,761)
Accrual for deposit insurance losses, end of the year	\$ 13,771	\$ 28,773

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" remained at \$5,000,000 (2009 - \$5,000,000) 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 was renewed commencing August 6, 2007 and ending August 5, 2017. The terms of the lease waived 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 7 years are summarized as follows:

<u>Years</u>	<u>Rent per annum</u>
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 \$260,000 per annum.

A new lease for additional office space for the Corporation has been signed commencing March 1, 2010 and ending August 5, 2017. Future minimum rents for the next 7 years are \$26,000 per annum and the property taxes and other operating costs are currently approximately \$27,000 per annum.

Effective February 1, 2011, the above lease will be replaced by a new lease which will end in January 31, 2015. It has an option to extend to August 5, 2017 to coincide with the master lease. Base rent for the expanded office space will be \$51,000 per year and the operating costs will be approximately \$55,000 per year.

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 \$22,328,000. They expire as follows:

<u>Originating Taxation Year</u>	<u>Expiring Taxation Year</u>	<u>Amount (\$thousands)</u>
2004	2014	3,790
2005	2015	2,833
2006	2026	1,102
2007	2027	258
2008	2028	1,846
2009	2029	5,904
2010	2030	6,595
		<u>\$22,328</u>

The Corporation has determined that realization of the future income tax assets does not meet the more-likely-than-not criterion for recognition and, therefore, a valuation allowance has been recorded against future income tax assets.

9. Pension Plan

The Corporation operates a defined contribution pension plan for its employees. The pension expense charged to income for 2010 was \$398,000 (2009 - \$354,000).

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, 2010, as actuarially determined, is \$1,618,000 (2009 - \$1,523,000). The annual benefit cost, including current service cost, interest and amortization of gains and losses was \$137,000 (2009 - \$128,000). 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 5.75% (2009 - 6.75%), rate of compensation increase of 3.5% (2009 - 3.5%) and initial weighted average trend rate in health and dental costs of 6.2% (2009 - 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 accrued benefit liability	2010 (\$ thousands)	2009 (\$ thousands)
Accrued benefit obligation at end of year	\$1,989	\$1,645
Unamortized net actuarial loss	(371)	(122)
Accrued benefit liability	\$1,618	\$1,523

Change in accrued benefit obligation	2010 (\$ thousands)	2009 (\$ thousands)
Accrued benefit obligation, beginning of the year	\$1,645	\$1,513
Current service cost	26	25
Interest cost	111	102
Actuarial loss (gain)	249	47
Benefit payments	(42)	(42)
Accrued benefit obligation, end of year	\$1,989	\$1,645

Effective 2009 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 \$434,000 at December 31, 2010 (2009 - \$209,000).

11. Directors' expense

During the year the directors received an aggregate remuneration of \$137,000 (2009 - 126,000). Total directors' expenses were \$61,000 (2009 - \$61,000). 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 \$400 (2009 - \$350) plus an annual retainer of \$3,500.

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	\$ 179,912	\$ 9,201
Dale, Richard	Director, Regulatory Affairs	\$141,615	\$15,525
Foster, C William D.	Vice President, Asset Management & Recoveries	\$181,819	\$11,286
Maxwell, James	Chief Administrative & Financial Officer	\$151,595	\$16,363
Poprawa, Andrew	President and CEO	\$233,046	\$ 8,793

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 2010 one claim brought against the Corporation remained outstanding. DICO will be seeking a court order to have this claim dismissed on the basis of its statutory immunity. 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 OFA 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 an additional 0.40 percent, as determined by the OFA 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 its 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 \$574,000 (2009: \$620,000).

Capital management

The Board's policy is to enhance the financial soundness of the credit union and caisse populaire sector. As of December 31, 2010, the Corporation had a deposit insurance reserve fund (the "fund") of \$86 million which represented 40 basis points (on a consolidated basis with the VIEs) of the sector's insured deposits. DICO's target range for the reserve fund (on an unconsolidated basis) is between 56 and 68 basis points of total insured deposits. The Corporation is committed to building the fund to the target range by recovering on past insurance losses and, if necessary, making recommendations to the government to increase deposit insurance premiums.

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 2009 have been reclassified to conform with the financial statement presentation adopted for 2010.

Financial Services
Commission
of Ontario

Commission des
services financiers
de l'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.

A handwritten signature in black ink, appearing to read "John Avgeris".

John Avgeris
Senior Manager
Motor Vehicle Accident Claims Fund

A handwritten signature in black ink, appearing to read "P. McGuinness".

Peter McGuinness
Manager, Finance and Accounting
Motor Vehicle Accident Claims Fund



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Independent Auditor's Report

To the Audit and Risk 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 accompanying financial statements of the Fund, which comprise the statement of financial position of the Fund as at March 31, 2011, and the statements of operations and MVACF deficit and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

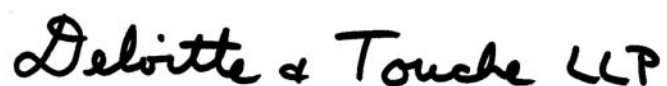
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Bottom

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The script is cursive and fluid, with the letters connected. The "D" is large and loops around the "e" in "Deloitte". The "T" in "Touche" is also large and loops around the "e". The "LLP" is written in a slightly more upright, but still cursive, style.

Chartered Accountants
Licensed Public Accountants
June 24, 2011

MOTOR VEHICLE ACCIDENT CLAIMS FUND				
(Established under the Motor Vehicle Accident Claims Act)				
STATEMENT OF FINANCIAL POSITION				
			As at	Restated See Note 3c
			March 31, 2011	As at
			\$	March 31, 2010
				\$
ASSETS				
	CURRENT			
	Funds on Deposit with the Ministry of Finance		44,483,824	39,322,517
	Accounts Receivable - License Fees		2,881,951	3,984,348
	Accounts Receivable - Debtors (Note 3c)		45,920,998	45,232,402
	Less: Allowance for Doubtful Accounts		28,716,139	28,166,110
			17,204,859	17,066,292
	LONG TERM			
	Tangible Capital Assets (Note 4)		571,899	555,216
	Less: Accumulated Amortization		544,230	434,881
			27,669	120,335
	Unpaid Claims Recoverable (Note 5)		1,850,739	2,637,628
Total Assets			66,449,042	63,131,120
LIABILITIES & MVACF DEFICIT				
	Accounts Payable and Accrued Expenses		1,491,865	1,324,909
	Employee Future Benefits Obligation (Note 3g)		577,203	541,499
	Deferred Revenue		68,854,672	67,536,791
	Unpaid Claims and			
	Adjustment Expenses (Note 5)		157,839,053	170,309,109
			228,762,793	239,712,308
			(162,313,751)	(176,581,188)
	MVACF Deficit (Note 2)		(162,313,751)	(176,581,188)
Total Liabilities & MVACF Deficit			66,449,042	63,131,120
APPROVED:				
				
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 Operations and MVACF Deficit				
		Year ended		Year ended
		March 31, 2011		March 31, 2010
		\$		\$
<u>REVENUE</u>				
	Fee on Issue or Renewal of			
	Driver's Licences	28,727,445		28,645,345
	Change in Deferred Revenue	(1,317,881)		(1,998,669)
	Fees Earned	27,409,564		26,646,676
	Prior Year Recoveries	1,519,655		5,926,631
	Other Revenue	2,111		6,885
Total Revenue		28,931,330		32,580,192
<u>EXPENSES</u>				
	Change in Net Unpaid Claims and Adjustment Expenses	(11,683,167)		(7,998,438)
	Accident Benefits Claims Payments	14,846,673		16,116,738
	Administrative Expenses			
	Salaries and Wages	1,702,340		1,610,635
	Employees' Benefits	278,193		229,513
	Transportation and Communication	26,127		32,935
	Services:			
	Claims (Solicitors' Fees, etc.)	2,044,081		1,955,078
	Accident Benefit Claims Expense	1,625,775		1,681,029
	Other Services	1,468,359		1,611,082
	Bad Debts Expense	4,215,697		2,809,379
	Supplies and Equipment	25,315		20,129
	Amortization Expense	114,500		114,940
Total Expenses		14,663,893		18,183,020
Excess of Revenue over Expenses		14,267,437		14,397,172
MVACF Deficit, Beginning of Year		(176,581,188)		(190,978,360)
MVACF Deficit, End of Year		(162,313,751)		(176,581,188)

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF CASH FLOWS

			Year ended	Year ended
			March 31, 2011	March 31, 2010
			\$	\$
<u>OPERATING ACTIVITIES</u>				
Cash Inflows				
	Fee on Issue or Renewal of Driver's Licences		29,829,842	27,579,079
	Repayment by Debtors		1,540,136	1,228,828
	Prior Year Recoveries		1,519,655	5,926,631
	Other Revenue		2,111	6,885
Cash Outflows				
	Statutory Payments		(21,035,046)	(22,107,241)
	Payments to Employees		(2,000,296)	(1,821,370)
	Administrative Expenses		(4,673,261)	(5,542,180)
Net Cash Inflow from Operating Activities			5,183,141	5,270,632
<u>CAPITAL ACTIVITIES</u>				
Cash Outflows				
	Acquisition of Computer Equipment		(21,834)	(3,829)
Net Cash Outflow from Investing Activities			(21,834)	(3,829)
Net Increase in Funds on Deposit with Minister of Finance				
			5,161,307	5,266,803
Funds on Deposit with Minister of Finance, Beginning of Year				
			39,322,517	34,055,714
Funds on Deposit with Minister of Finance, End of Year				
			44,483,824	39,322,517

1. STATUTORY AUTHORITY

The Motor Vehicle Accident Claims Fund (MVACF) operates under the authority of the Motor Vehicle Accident Claims Act (the "Act"), R.S.O. 1990, Chapter M.41 as amended.

2. MVACF OPERATIONS

The Motor Vehicle Accident Claims Fund is a program that was created on July 1, 1947 as the Unsatisfied Judgment Fund. Initially, MVACF was required to respond to victims of uninsured motorists and hit-and-run drivers who could not recover damages awarded by the courts from an automobile insurance company. MVACF legislation was amended in the early 1960's, in 1979 with the *Compulsory Automobile Insurance Act*, and in 1990 by the *Insurance Statute Law Amendment Act* which required MVACF to include in its statutory payments, accident benefits on a no-fault basis for the first time. Currently, MVACF responds to claims in the same fashion and with the same exclusions as automobile insurers in Ontario, and provides for two types of coverages: third party bodily injury and property damage liability (collectively referred to as TPL), and statutory accident benefits or SABS in accordance with legislated requirements.

The coverage provided by MVACF is analogous to the minimum required coverage under the standard automobile policy (OAP 1) approved by the provincial regulator. Unlike insurance companies, MVACF 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 MVACF 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.

MVACF operates administratively under the direction of the Financial Service Commission of Ontario (FSCO) and reimburses FSCO for the costs of the services it provides to MVACF.

The Lieutenant Governor in Council, having regard to the condition of MVACF and the amount paid out of MVACF 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 and fund MVACF's operations.

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) Drivers' Licence Fees and Deferred Revenue

MVACF 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Accounts Receivable – Fees

Under the Act, MVACF 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.

c) Accounts Receivable – Debtors and Restatement

MVACF maintains an accounts receivable portfolio, accumulated over the years as a result of judgments and claims assigned to the Minister of Finance. MVACF 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 MVACF 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 (FAA).

In the 2009-2010 fiscal year a write-off of \$3.3 million of accounts receivable was submitted to the Ministry of Finance for approval as required under the FAA. In August 2010, the Ministry, in accordance with its discretionary powers under the FAA recommended the removal of accounts totaling \$941,308. As a result the March 31, 2010 figures were restated with an increase to Accounts Receivable and an increase to Allowance for Doubtful Accounts with no change to Net Receivables.

In the current year \$1.6 million (2010 - \$0.5 million) of the Accounts Receivable was reinstated through the bad debt expense account.

For fiscal 2010-11 a write-off of \$5.3 million (2010 - \$3.3 million) submitted to the Ministry of Finance was approved through an order-in-council on June 22, 2011 and is recorded in the current year financial statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Prior Year Recoveries

Prior year recoveries are generated from three main sources – insurance recoveries, reversionary interest (Note 6) and recoveries of court costs. MVACF 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, MVACF may be required to pursue private insurers for recoveries.

From time to time MVACF may also be involved in the defence of uninsured motorists or the Superintendent of the FSCO, where the legal proceedings are deemed frivolous and MVACF is awarded costs by the courts.

e) 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, because MVACF 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.

MVACF 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 MVACF 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 MVACF. MVACF 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 MVACF is any credit risk related to the life insurers. This credit risk is deemed nil at March 31, 2011. There exists the possibility of contingent gains based on the fact that MVACF has purchased insurance on some of the measured lives. Such amounts are described in Note 6 – Contingent Gains.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that MVACF'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. The most significant estimates relate to the provision for unpaid claims and adjustment expenses, unpaid claims recoverable and employee future benefits.

g) i) Employee Future Benefits Obligation

Prior to 2007, MVACF 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 fund them annually when due, the Auditor General has requested and management has agreed that MVACF also recognize the liability for these costs in these financial statements.

	2011		2010
		Increase (Decrease)	
Employee Future Benefits Obligation	\$577,203	\$35,704	\$541,499

ii) Employee Benefits

MVACF's employees are entitled to benefits that have been negotiated centrally for Ontario Public Service employees. The future liability for benefits earned by MVACF's employees is recognized in the Province's consolidated financial statements.

These benefits are accounted for by MVACF 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Employee Benefits (continued)

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.

4. TANGIBLE CAPITAL ASSETS

Leasehold improvements, computer equipment, furniture and fixtures, and office equipment are carried at cost less accumulated amortization. MVACF 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.

	2011			2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Leasehold Improvements	\$ 500,000	\$ 500,000	\$ -	\$ 100,000
Computer Equipment	48,839	24,453	24,386	11,554
Furniture & Fixtures	16,416	13,133	3,283	6,566
Office Equipment	6,644	6,644	-	2,215
	<u>\$ 571,899</u>	<u>\$ 544,230</u>	<u>\$ 27,669</u>	<u>\$ 120,335</u>

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

a) MVACF's unpaid claims and adjustment expenses consist of the following:

	March 31, 2011		March 31, 2010	
	Gross	Recoverable	Gross	Recoverable
	(000's)	(000's)	(000's)	(000's)
ACCIDENT BENEFITS				
Statutory accident benefits	\$104,252	\$ -	\$107,589	\$ -
THIRD PARTY LIABILITY (TPL)				
Property damage	890	20	1,147	26
Bodily injury	52,697	1,831	61,573	2,611
Total TPL	53,587	1,851	62,720	2,637
Totals	\$157,839	\$1,851	\$170,309	\$2,637

b) The change in gross provision for claims and adjustment expenses is as follows:

	March 31, 2011	March 31, 2010
	(000's)	(000's)
Unpaid claims and adjustment expenses, beginning of year	\$170,309	\$179,454
Increase (decrease) in provision for losses that occurred in prior years	(19,533)	(14,670)
Amounts paid during the year on claims of prior years		
Statutory Payments	(20,165)	(20,663)
Claims Expenses	(7,093)	(6,638)
Amount paid during the year on claims of the current year		
Statutory Payments	(576)	(992)
Claims Expenses	(203)	(319)
Provision for losses on claims that occurred in the current year	35,100	34,137
Unpaid claims and adjustment expenses, end of year	\$157,839	\$170,309

6. CONTINGENT GAINS

Some payments out of MVACF 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, MVACF nevertheless has calculated the approximate reversionary interest represented by insurance on the claimant lives as at March 31, 2011 for information purposes.

As at March 31, 2011, the amount paid out of MVACF for accident benefit claims in the form of structured settlements was approximately \$25.7 million (2010 - \$23.4 million) with applicable reversionary interest of approximately \$18.7 million (2010- \$18.0 million).

7. ROLE OF THE ACTUARY AND AUDITOR

The FSCO retains an independent actuary who acts as MVACF's actuary. The actuary's responsibility is to carry out an annual valuation of MVACF'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 MVACF. 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 and Risk 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, 2009 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, 2010 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, 2009 on a funding basis was based on membership data provided by OPB as at December 31, 2009.

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, 2009 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, 2010. The valuation as at December 31, 2010 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, 2009 are sufficient and reliable;
- The actuarial assumptions used are, in aggregate, appropriate for the purposes of each valuation; emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations; and
- The methods used are appropriate for purposes of each valuation and are consistent with the applicable regulatory requirements.

Our valuations have been prepared, and our opinions given, in accordance with accepted actuarial practice.

HEWITT ASSOCIATES



Allan H. Shapira
Fellow, Canadian Institute of Actuaries
March 2, 2011

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 and CEO
March 2, 2011



Duncan Webb, CA
Senior Vice-President, Finance

Independent auditors' report to the directors of the Ontario Pension Board

We have audited the accompanying consolidated financial statements of the Ontario Pension Board, which comprise the consolidated statement of net assets available for benefits, and accrued pension benefits and deficit as at December 31, 2010, 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, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits and deficit of the Ontario Pension Board as at December 31, 2010 and the changes in net assets available for benefits, accrued pension benefits and deficit for the year then ended in accordance with Canadian generally accepted accounting principles.



Toronto, Canada
March 2, 2011

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)	2010	2009
Assets		
Investments (Note 4)	\$ 17,322,933	\$ 16,041,189
Investment-related receivables (Note 4)	4,048,418	3,599,807
Contributions receivable (Note 5)	176,792	54,800
Capital assets (Note 6)	3,505	4,081
Total assets	21,551,648	19,699,877
Liabilities		
Investment-related liabilities (Note 4)	4,148,342	3,619,237
Accounts payable and accrued charges	26,406	23,024
Income taxes withheld on pension payments	-	10,491
Contributions payable	1,050	3,915
Total liabilities	4,175,798	3,656,667
Net assets available for benefits	\$ 17,375,850	\$ 16,043,210
Accrued pension benefits and deficit		
Accrued pension benefits (Note 7)	\$ 18,612,515	\$ 17,374,215
Deficit (Note 8)	(1,236,665)	(1,331,005)
Total accrued pension benefits and deficit	\$ 17,375,850	\$ 16,043,210

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)	2010	2009
Investment operations		
Net investment income (Note 9)	\$ 1,438,965	\$ 1,690,540
Operating expenses – investment operations (Note 11)	(10,237)	(8,502)
Net investment operations	1,428,728	1,682,038
Pension operations		
Contributions (Note 10)	688,811	527,953
Transfer from other plans	142,080	165,644
Pension payments	(848,068)	(837,256)
Termination payments and transfers	(55,801)	(77,175)
Operating expenses – pension operations (Note 11)	(23,110)	(25,062)
Net pension operations	(96,088)	(245,896)
Net increase in net assets for the year	1,332,640	1,436,142
Net assets, at beginning of year	\$ 16,043,210	\$ 14,607,068
Net assets, at end of year	\$ 17,375,850	\$ 16,043,210

See accompanying notes

Consolidated statement of changes in accrued pension benefits

For the year ended December 31

(in thousands of dollars)

	2010	2009
Accrued pension benefits, at beginning of year	\$ 17,374,215	\$ 17,311,935
Increase in accrued pension benefits		
Interest on accrued pension benefits	1,165,370	1,160,028
Benefits accrued		
Service accrual	513,801	475,359
Transfer of service from other plans	142,080	165,644
Past service buybacks	29,030	20,750
Changes in plan provisions (Note 7)	65,300	-
Changes in actuarial assumptions (Note 7)	333,253	-
Experience losses	-	59,898
Total increase	2,248,834	1,881,679
Decrease in accrued pension benefits		
Benefits paid	903,869	914,431
Change in actuarial assumptions (Note 7)	-	904,968
Experience gains	106,665	-
Total decrease	1,010,534	1,819,399
Net increase in accrued pension benefits	1,238,300	62,280
Accrued pension benefits, at end of year	\$ 18,612,515	\$ 17,374,215

Consolidated statement of changes in deficit

For the year ended December 31

(in thousands of dollars)

	2010	2009
Deficit, at beginning of year	\$ (1,331,005)	\$ (2,704,867)
Net increase in net assets available for benefits	1,332,640	1,436,142
Net increase in accrued pension benefits	(1,238,300)	(62,280)
Net increase	94,340	1,373,862
Deficit, at end of year	\$ (1,236,665)	\$ (1,331,005)

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 2010 contribution rates have increased to 6.4% of the salary on which contributions are made up to the Year's Maximum Pensionable Earnings ("YMPE") and 9.5% (2009 – 8.75%) of the salary above the YMPE. 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. Starting in 2011, the contribution rates for OPP Officers (excluding Deputy Commissioners and the Commissioner) inclusive of the additional 2% of salary have increased to 9.2% of the salary on which contributions are made up to the YMPE, and 12.3% of the salary above the YMPE. Also, starting in 2011, the contribution rates for OPP Civilians has increased to 6.775% of the salary on which contributions are made up to the YMPE, and 9.875% of the salary above the YMPE.

Contributions from members and employers are remitted to the OPB. The portion of these contributions that exceeds *Income Tax Act (Canada)* 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 2009, the PSPP was amended to permit the Association of Management, Administrative and Professional Crown Employees of Ontario ("AMAPCEO") 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 for AMAPCEO was extended to March 31, 2012.

OPP Officers below the rank of Deputy Commissioner and Commissioner are eligible for a pension payable based on the average salary during the best 36-month period (with a transition provision to gradually reduce the period from the 60-month period to 36-month period in 2011). Likewise, OPP Civilians are eligible for a pension payable based on the average salary during the best 48-month period (with a transition provision to gradually reduce the period from the 60-month period to a 48-month period in 2011). In addition, 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 consolidated 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. For properties acquired and held for less than six months, the fair value of such properties usually approximates the purchase price.

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) Future accounting changes

In April 2010, the Canadian Institute of Chartered Accountants ("CICA") issued CICA Handbook Section 4600 "Pension Plans". The standard establishes new reporting requirements for the measurement and presentation of information in financial statements of pension plans, as well as financial statement disclosures. The new standard must be applied on a retrospective basis by pension plans for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. OPB is in the process of assessing the impact of this new pronouncement.

Note 4 Investments

As at December 31

<i>(in thousands of dollars)</i>		2010		2009	
	Fair Value	Cost	Fair Value	Cost	
Cash and short-term investments					
Canada	\$ 334,770	\$ 334,909	\$ 466,429	\$ 468,125	
United States and other international	91,730	92,069	121,845	121,965	
	426,500	426,978	588,274	590,090	
Fixed income					
Special Province of Ontario					
Debentures	1,825,196	1,573,486	2,265,655	1,888,831	
Bonds					
Canada	3,678,902	3,567,884	3,258,728	3,197,948	
Other International	746,545	772,347	635,325	627,146	
	6,250,643	5,913,717	6,159,708	5,713,925	
Equities					
Canada	2,431,050	1,791,182	2,168,986	1,694,276	
United States	1,407,845	1,289,842	1,455,791	1,427,568	
Other International	4,281,643	3,841,580	3,399,191	3,166,713	
	8,120,538	6,922,604	7,023,968	6,288,557	
Real estate	2,476,020	1,946,057	2,223,201	1,789,880	
Participating mortgages	49,232	30,762	46,038	29,298	
Total investments	17,322,933	15,240,118	16,041,189	14,411,750	
Investment-related receivables					
Pending trades	4,347	4,347	24,774	24,774	
Forward exchange contracts	4,044,071	4,081,932	3,575,033	3,596,932	
	4,048,418	4,086,279	3,599,807	3,621,706	
Investment-related liabilities					
Real estate debt	163,694	152,945	83,393	79,597	
Pending trades	16,777	16,777	18,178	18,178	
Forward exchange contracts	3,967,871	4,081,932	3,517,666	3,596,932	
	4,148,342	4,251,654	3,619,237	3,694,707	
NET INVESTMENTS	\$ 17,223,009	\$ 15,074,743	\$ 16,021,759	\$ 14,338,749	

a) Asset mix

Investments are allocated to and maintained in major asset classes within acceptable ranges with target allocation as follows:

	2010	2009
	Target	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 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 5.5 years at December 31, 2010 (2009 – 5.3 years), a parallel shift in the yield curve of +/-1% would result in an impact on the net investments of \$318.5 million (2009 - \$308.3 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. The total currency exposure, the impact of foreign exchange forward contracts and the net currency exposure are as follows:

As at December 31 (in thousands of dollars)	2010			2009	
	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure	Net Exposure
U.S. dollar	\$ 2,662,240	\$ 479,563	\$ (1,636,139)	\$ 1,505,664	\$ 1,341,947
Hong Kong dollar	378,714	738	(1,607)	377,845	411,099
Euro	941,466	387,870	(1,097,987)	231,349	210,069
Brazil real	227,183	45	-	227,228	140,354
South Korean won	209,308	1,736	-	211,044	123,326
Other	1,917,191	52,006	(712,441)	1,256,756	966,883
Total foreign	6,336,102	921,958	(3,448,174)	3,809,886	3,193,678
Canadian dollar	10,810,707	3,122,113	(519,697)	13,413,123	12,828,081
	\$ 17,146,809	\$ 4,044,071	\$ (3,967,871)	\$ 17,223,009	\$ 16,021,759

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 \$38.1 million (2009 - \$31.9 million) in total for all foreign currencies, as at December 31, 2010.

- (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 \$81.2 million (2009 - \$70.2 million), as at December 31, 2010.

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, 2010, the Plan's greatest credit exposure is with the Province of Ontario, with Special Debentures valued at \$1.825 billion (2009 - \$2.266 billion) and bonds and short-term investments valued at \$277 million (2009 - \$401 million). At December 31, 2010, 76% (2009 - 87%) 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 \$498 million (2009 - \$514 million) to the Plan.

c) Cash and short-term investments

As at December 31	2010		2009	
(in thousands of dollars)	Fair Value	Cost	Fair Value	Cost
Canada				
Cash	\$ 29,975	\$ 29,975	\$ 29,692	\$ 29,692
Short-term notes and treasury funds	304,557	304,696	435,036	436,732
Term deposits	-	-	-	-
Accrued interest	238	238	1,701	1,701
	\$ 334,770	\$ 334,909	\$ 466,429	\$ 468,125
United States and other international				
Cash	\$ 35,263	\$ 35,263	\$ 24,784	\$ 24,784
Short-term notes and treasury funds	26,072	26,411	19,599	19,719
Term deposits	30,393	30,393	77,461	77,461
Accrued interest	2	2	1	1
	\$ 91,730	\$ 92,069	\$ 121,845	\$ 121,965

d) Fixed income and equities

The Special Debentures are recorded at an estimated market value of \$1.825 billion (2009 - \$2.266 billion) by discounting cash flows based on year-end market yields of comparable bonds. There are currently four Special Debentures maturing over the next four years with a weighted average interest rate of 11.04% (2009 - 11.32%).

Included in the fixed income and equities totals are the following amounts related to pooled funds:

As at December 31	2010		2009	
(in thousands of dollars)	Fair Value	Cost	Fair Value	Cost
Equities - Canada	\$ 45,840	\$ 35,426	\$ 41,348	\$ 37,139
Equities - United States	-	-	9,069	8,445
Equities - Other International	296,741	308,147	227,623	260,386

See the schedules of Fixed income maturities and of Investments over \$20 million for further information.

e) Real estate

As at December 31

(in thousands of dollars)

	Fair Value	2010 Cost	Fair Value	2009 Cost
Real Estate Properties	\$ 2,453,110	\$ 1,924,978	\$ 2,225,385	\$ 1,792,064
Other Assets, net	22,910	21,079	(2,184)	(2,184)
Total Assets	2,476,020	1,946,057	2,223,201	1,789,880
Debt on real estate properties	(163,694)	(152,945)	(83,393)	(79,597)
Net investment in real estate	\$ 2,312,326	\$ 1,793,112	\$ 2,139,808	\$ 1,710,283

Debt includes mortgages and other secured debt with various terms to maturity up to 2018 and a weighted average interest rate of 6.70% (2009 - 6.42%), 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)

2011	\$	22,438
2012		6,727
2013		94,317
2014		25,650
2015		886
2016 and thereafter		2,927

f) Securities lending

At year-end, \$863 million (2009 - \$283 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, \$906 million (2009 - \$299 million) of securities were held as collateral, providing a 5.1% (2009 - 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 tables present 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, 2010 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Short-term investments				
Canada		292,709		292,709
United States and other international		56,466		56,466
Fixed income				
Special Province of Ontario Debentures		1,738,977		1,738,977
Bonds				
Canada		3,468,221	189,102	3,657,323
United States and other international		735,035		735,035
Equities				
Canada	2,379,087	47,325		2,426,412
United States	1,395,397			1,395,397
Other international	3,984,544	296,741		4,281,285
Participating mortgages			39,325	39,325
Forward exchange contracts		4,044,071		4,044,071
	7,759,028	10,679,545	228,427	18,667,000
Financial liabilities				
Real estate debt		(163,694)		(163,694)
Forward exchange contracts		(3,967,871)		(3,967,871)
	-	(4,131,565)	-	(4,131,565)

As at December 31, 2009 (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		3,332,578	27,581	3,360,159
United States and other international		620,397		620,397
Equities				
Canada	2,122,613	255,288	550	2,378,451
United States	1,445,073		380	1,445,453
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	10,347,660	66,107	17,165,573
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 years ended December 31, 2010 and 2009.

h) Commitments

As at December 31, 2010, OPB has provided funding commitments for certain investments in the amount of \$181.7 million (of which \$35.1 million has been advanced to date).

The following tables present a reconciliation of all Level 3 assets and liabilities measured at fair value for the years ended December 31, 2010 and 2009.

(in thousands of dollars)	Fair Value as at January 1, 2010	Acquisitions	Dispositions	Realized Gains (Losses)	Change in Unrealized Gains	Fair Value as at December 31, 2010
Financial assets						
Bonds						
Canada	27,581	147,470	-	-	14,051	189,102
Equities						
Canada	550	-	278	(272)	-	-
United States	380	-	380	-	-	-
Other international	-	-	-	-	-	-
Participating Mortgages	37,596	-	-	-	1,729	39,325
	66,107	147,470	658	(272)	15,780	228,427

<i>(in thousands of dollars)</i>	Fair Value as at January 1, 2009	Acquisitions	Dispositions	Realized Gains (Losses)	Change in Unrealized Gains	Fair Value as at December 31, 2009
Financial assets						
Bonds						
Canada	-	24,823	-	-	2,758	27,581
United States and other international	-	-	-	-	-	-
Equities						
Canada	-	550	-	-	-	550
United States	-	380	-	-	-	380
Other international	-	-	-	-	-	-
Participating Mortgages	36,796				800	37,596
	36,796	25,753	-	-	3,558	66,107

Note 5 Contributions receivable

As at December 31		
<i>(in thousands of dollars)</i>	2010	2009
Members	\$ 22,444	\$ 22,361
Employers	32,541	32,439
Sponsor – Special Payments	143,217	-
Sponsor – additional current service	(21,410)	-
Total contributions receivable	\$ 176,792	\$ 54,800

Note 6 Capital Assets

	2009		2010	
As at December 31	Cost	Accumulated depreciation	Net book value	Net book value
<i>(in thousands of dollars)</i>				
Computer equipment	\$ 2,625	\$ 2,071	\$ 554	\$ 824
Furniture and fixtures	2,373	650	1,723	1,954
Leasehold improvements	1,489	261	1,228	1,303
Total capital assets	\$ 6,487	\$ 2,982	\$ 3,505	\$ 4,081

Note 7 Accrued pension benefits**a) Accounting basis**

The value of accrued pension benefits of \$18.613 billion (2009 - \$17.374 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, 2010 were computed by extrapolating data used for the December 31, 2009 funding valuation prepared by the independent actuary.

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:

	2010	2009
Investment return	6.35%	6.75% to December 31, 2018, 6.25% thereafter
Inflation	2.50%	2.50%
Real rate of return	3.85%	4.25% to December 31, 2018, 3.75% thereafter
Salary increases	3.50% + promotional scale	3.50% + promotional scale

The non-economic assumptions include mortality, withdrawal and retirement rates. In 2008, changes were made in the assumptions on retirement rates for certain employee groups and the methodology for applying retirement, termination and pre-retirement mortality rates.

b) Funding basis

The funding valuation of the PSPP is based on methods required under the *PSPAct* and the *Pension Benefits Act (Ontario)* ("PBA"). The PBA and the *Income Tax Act (Canada)* 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, 2009, prepared by Hewitt Associates, which disclosed a funding shortfall of \$1.359 billion.

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, 2009 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 classified as employer current service contributions in addition to the matching contributions prescribed by the *PSPAct*. These additional contributions are included in Note 10.

The funding valuation is used as a basis for funding and Plan design decisions.

An additional pension benefit of \$65.3 million has been accrued, resulting from the plan changes coming into effect in 2011 for OPP Officers and Civilians. These pension changes are described in Note 2(c). Contribution increases from these member groups, described in Note 2(b), are sufficient to fund this additional cost.

Note 8 Deficit

In these consolidated 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, 2010 was \$1.236 billion (2009 - \$1.331 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

For the year ended December 31

<i>(in thousands of dollars)</i>	Investment Income ¹	Realized Gain (Loss)	Unrealized Gain (Loss) ²	2010 Total	Investment Income ¹	Realized Gain (Loss)	Unrealized Gain (Loss) ²	2009 Total
Cash and short-term investments								
Canada	\$9,076	\$(7,556)	\$1,556	\$3,076	\$13,099	\$(4,237)	\$(1,451)	\$ 7,411
United States and other international	187	128,443	18,613	147,243	181	(15,729)	168,975	153,427
	9,263	120,887	20,169	150,319	13,280	(19,966)	167,524	160,838
Fixed income								
Special Province of Ontario Debentures	183,061	-	(125,114)	57,947	220,133		(126,534)	93,599
Bonds								
Canada	164,053	57,020	50,238	271,311	140,869	31,648	53,802	226,319
United States and other international	31,872	(27,073)	(33,981)	(29,182)	30,656	38,260	(103,157)	(34,241)
	378,986	29,947	(108,857)	300,076	391,658	69,908	(175,889)	285,677
Equities								
Canada	52,919	109,381	165,158	327,458	55,255	7,549	466,717	529,521
United States	25,965	12,504	89,780	128,249	46,065	(235,544)	289,421	99,942
Other international	91,009	4,921	207,586	303,516	69,192	(280,225)	708,761	497,728
	169,893	126,806	462,524	759,223	170,512	(508,220)	1,464,899	1,127,191
Real estate	144,791	42,394	89,689	276,874	154,594	-	(6,522)	148,072
Participating mortgages	6,011	-	-	6,011	2,734	-	-	2,734
Total investment income (loss)	\$708,944	\$320,034	\$463,525	\$1,492,503	\$732,778	\$(458,278)	\$1,450,012	\$1,724,512
Investment management and custodial fees				(53,538)				(33,972)
Net investment income (loss)				\$1,438,965				\$1,690,540

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 Gains (losses) on cash and short-term investments include foreign exchange contracts.

a) Interest income

For the year ended December 31

<i>(in thousands of dollars)</i>	2010	2009
Cash and short-term investments		
Canada		
Cash	\$ 2,051	\$ 1,385
Short-term notes and treasury funds	7,025	11,669
Term deposits	-	45
	\$ 9,076	\$ 13,099

United States and other international		
Cash	\$32	\$19
Short-term notes and treasury funds	9	(6)
Term deposits	146	168
	\$187	\$181

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds.

b) Dividend income

U.S. dividend income includes \$12 thousand (2009 - \$186 thousand) from pooled equity funds. Other international dividend income includes \$5.59 million (2009 - \$5.32 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

<i>(in thousands of dollars)</i>	2010	2009
Revenue		
Rental	\$ 247,575	\$267,277
Other income	6,645	6,579
	254,220	273,856
Expenses		
Operating expenses	91,986	98,889
General, administrative and other	13,241	14,836
	105,227	113,725
Operating income, before interest	148,993	160,131
Interest expense	5,101	6,552
Net operating income	143,892	153,579
Unrealized gain (loss)		
Appraisal adjustment	94,811	(24,217)
Fair value adjustment on debt	(6,953)	6,977
Fair value adjustment on vendor take-back mortgage	1,831	
	89,689	(17,240)
Realized gain	43,110	-
Transaction costs	(2,450)	(153)
Net income	\$ 274,141	\$ 136,186

d) Investment fees

For the year ended December 31

(in thousands of dollars)

	2010	2009
Portfolio fund management	\$35,759	\$20,684
Transaction costs	11,148	9,564
Custody	3,114	2,058
Real estate	3,517	1,666
	\$53,538	\$33,972

Transaction costs include commissions and fees on trades. Additional transaction costs included in real estate expense total \$2.45 million (2009 - \$294 thousand).

Note 10 Contributions

For the year ended December 31

(in thousands of dollars)

	2010	2009
Members		
Current service	\$ 258,793	\$ 234,654
Prior service	24,664	15,877
	283,457	250,531
Employers		
Current service		
Regular contributions	259,063	234,706
PSSBA transfer	(13,477)	(14,641)
For members receiving Long Term Income Protection benefits	7,602	7,528
Prior service	4,366	4,873
	257,554	232,466
Sponsor Payments		
Special Payments	146,660	3,756
Additional current service	1,140	41,200
	147,800	44,956
Total contributions	\$ 688,811	\$ 527,953

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 \$146.660 million (2009 - \$3.756 million) in Special Payments in 2010 towards the funding shortfall identified in the filed funding valuation as at December 31, 2009. In 2010, the Province made \$1.140 million (2009 - \$41.200 million) in additional employer current service contributions.

Note 11 Operating expenses**Pension operations**

For the year ended December 31

(in thousands of dollars)

	2010	2009
Staffing costs	\$ 13,562	\$ 13,540
Staff development and support	428	645
Office premises and operations	3,077	3,101
Information technology and project management	4,049	4,875
Professional services	823	1,273
Communication	281	512
Depreciation	602	718
Board remuneration	98	102
Audit	190	296
	\$ 23,110	\$ 25,062

Investment operations

For the year ended December 31

(in thousands of dollars)

	2010	2009
Staffing costs	\$ 5,657	\$ 4,674
Staff development and support	285	129
Office premises and operations	1,795	1,664
Information technology and project management	1,099	645
Professional services	869	899
Communication	120	128
Depreciation	224	216
Board remuneration	98	68
Audit	90	79
	\$ 10,237	\$ 8,502

External audit services

For the year ended December 31

(in thousands of dollars)

	2010	2009
External audit and related services provided to Ontario Pension Board	\$ 96	\$ 86
External audit and related services provided to real estate operations	135	201
External audit and related services provided to private debt operations	4	-
Total fees	\$ 235	\$ 287

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, Chief Investment Officer and all Senior Vice-Presidents:

	Year	Base salary	Incentives¹	Taxable benefits & allowances²	Total
For the year ended December 31					
Mark J. Fuller, President and CEO ³	2010	\$398,631	\$141,300 ⁴	\$11,376	\$551,307
	2009	398,631	87,170	11,381	497,182
	2008	398,321	121,300 ⁵	11,403	531,024
	2007	332,648	140,242	11,304	484,194
R. Paul Edmonds, Senior Vice-President, Corporate Affairs & General Counsel ⁶	2010	266,086	89,695	14,650	370,431
	2009	266,086	44,639	14,547	325,272
	2008	208,775	66,055	11,617	286,447
Jill Pepall, Chief Investment Officer ⁷	2010	310,178	98,725	6,862	415,765
	2009	86,702	12,083	30	98,815
Peter Shena, Senior Vice-President, Pensions and Stakeholder Relations ⁸	2010	266,477	89,827	14,650	370,954
	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
Duncan Webb, Senior Vice-President, Finance ⁹	2010	298,973	100,781	14,691	414,445
	2009	280,575	50,156	13,640	344,371

¹ Incentives earned in 2008 to 2010 are paid in March of the following year.

² Includes life insurance, car allowance and parking.

³ Mr. Fuller was appointed President on January 1, 2008. He was appointed to President and CEO on January 1, 2009.

⁴ For 2010, the Board of Directors approved an incentive of \$165,000. Mr. Fuller voluntarily reduced his 2010 incentive to the 2008 level of \$141,300.

⁵ 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.

⁶ Start date of March 17, 2008.

⁷ Start date of September 8, 2009. Appointed as Acting Senior Vice-President, Investments on May 4, 2010 and promoted to Chief Investment Officer on December 2, 2010.

⁸ Promoted to Senior Vice-President, Stakeholder Relations and Pension Policy on March 1, 2008 and Senior Vice-President, Pensions and Stakeholder Relations on December 1, 2009.

⁹ Start date of January 19, 2009.

Compensation for the President and CEO is approved by the Board. Compensation for the Senior Vice-Presidents and Chief Investment Officer 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 and CEO, CIO, and the Senior Vice-Presidents 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.

Fixed income maturities

As at December 31 (in thousands of dollars)		2010 Current Yield %		2009 Current Yield %
	Fair Value		Fair Value	
Special Province of Ontario Debentures				
0-1 year	\$ 261,415	11.26	\$ 222,245	12.73
1-5 years	1,477,562	8.80-9.41	1,938,150	8.39-10.30
Accrued interest	86,219		105,260	
	<u>1,825,196</u>		<u>2,265,655</u>	
Bonds				
Canadian:				
0-1 year	157,507	1.25-10.14	30,508	2.70-7.94
1-5 years	1,127,132	1.01-12.15	1,223,801	1.00-10.83
5-10 years	1,140,463	0.94-12.72	937,727	3.71-15.28
> 10 years	1,224,232	3.24-8.89	1,039,996	3.58-7.87
Accrued interest	29,568		26,697	
	<u>3,678,902</u>		<u>3,258,729</u>	
United States and other international				
0-1 year	9,032	6.02-7.57	2,617	4.22-4.43
1-5 years	220,386	2.25-14.51	192,239	2.78-13.06
5-10 years	411,505	3.33-11.76	320,854	0.62-12.71
> 10 years	90,253	3.98-11.35	104,749	4.38-13.29
Accrued interest	15,370		14,867	
	<u>746,546</u>		<u>635,326</u>	
Total fixed income	\$ 6,250,644		\$ 6,159,710	

Investments over \$20 million

As at December 31, 2010

(in thousands of dollars)

	Maturities	Coupon %	Fair Value ¹
Cash and short-term investments			
Canada:			
Government of Canada			\$ 118,254
Royal Bank Canada			37,021
United States and other international:			
Canadian Imperial Bank of Commerce US			23,679
Royal Bank Canada EUR			30,393

	Maturities	Coupon %	Fair Value ¹
Fixed income			
Special Province of Ontario Debentures	2011-2014	10.38-11.67	\$ 1,738,977
Bonds:			
Canada:			
Government of Canada	2011-2041	1.25-10.35	832,474
Province of Ontario	2012-2041	3.15-8.50	266,090
Province of Quebec	2012-2041	4.50-9.38	150,320
Bank of Nova Scotia	2011-2053	3.03-6.65	99,315
Toronto Dominion Bank	2011-2108	1.43-9.52	98,351
Royal Bank of Canada	2012-2053	3.18-5.81	92,340
Canadian Imperial Bank of Commerce	2012-2108	3.05-10.25	87,787
Bank of Montreal	2014-2025	3.10-10.22	72,418
GE Capital Canada	2012-2037	4.24-6.25	67,051
Manulife Financial Corporation	2012-2108	4.08-7.77	61,981
Wells Fargo Financial Corporation Canada	2011-2015	3.97-6.05	60,178
Province of British Columbia	2012-2042	3.70-8.75	59,881
TransCanada Pipelines Ltd.	2013-2039	4.65-8.29	50,963
Sun Life Financial Inc.	2019-2108	4.80-7.90	45,212
407 International Inc.	2012-2040	3.87-7.13	41,908
Enbridge Inc.	2016-2050	4.04-7.22	40,818
Bell Canada	2014-2037	3.6-7.85	40,430
Hydro One Inc.	2012-2046	2.95-7.35	37,199
Rogers Communications Inc.	2016-2040	4.70-6.68	36,380
Thomson Reuters Corporation	2014-2020	4.35-6.00	35,068
Shaw Communications Inc.	2014-2039	5.50-6.75	34,372
Loblaw Companies Limited	2013-2036	4.85-6.85	31,634
Municipal Finance Authority of BC	2016-2027	4.45-5.10	31,180
Raleigh Wind Power Partnership	2030	7.13	31,123
Oakwood Retirement Communities	2020	5.95	30,960
Great West Lifeco Inc.	2018-2068	4.65-7.13	31,189
Province of New Brunswick	2011-2039	4.40-6.75	29,438
Union Gas Limited	2011-2040	4.64-9.70	28,729
Province of Saskatchewan	2014-2040	3.90-6.40	26,445
Greater Toronto Airports Authority	2011-2040	4.40-7.10	26,420
Ford Credit Canada Ltd	2015	7.50	25,226
Encana Corporation	2012-2018	4.30-5.80	24,873
Canadian Tire Corporation Ltd.	2015-2035	4.95-5.65	24,765
CHS (CAMH) Partnership	2041	7.05	23,210
Caisse Centrale Desjardins	2014-2017	3.11-3.79	21,571

<i>(in thousands of dollars)</i>	Maturities	Coupon %	Fair Value ¹
United States and other international:			
Federal Republic of Germany	2028-2034	3.50-5.63	182,333
Government of United Kingdom	2013- 2030	4.50-6.28	85,897
Government of France	2019-2025	4.25-6.00	80,002
Kingdom of Belgium	2015	8.00	49,330
Morgan Stanley	2012-2017	4.50-4.90	33,497
	Maturities	Coupon %	Fair Value ¹
Real estate			
OPB Realty Inc. (holding company, 100% owned)			\$ 2,304,493
Participating mortgages	2019	5.00	39,325

¹ Excludes accrued income, includes guaranteed instruments issued by subsidiaries/agencies.

<i>(in thousands)</i>	Shares/Units ²	Fair Value ²
Equities		
Canada:		
Toronto-Dominion Bank	1,982	147,156
Bank of Nova Scotia	2,078	118,636
Royal Bank of Canada	2,088	109,266
Talisman Energy Inc.	4,002	88,529
Canadian Natural Resources Limited	1,904	84,448
Canadian National Railway Company	1,086	72,054
Manulife Financial Corporation	4,157	71,292
Potash Corporation of Saskatchewan, Inc.	437	67,463
Suncor Energy Inc.	1,705	65,266
Canadian Imperial Bank of Commerce	748	58,619
Cenovus Energy Inc.	1,711	56,952
Rogers Communications Inc.	1,451	50,218
Magna International Inc.	945	49,038
Kinross Gold Corporation	2,476	46,812
Thomson Reuters Corporation	1,235	46,000
Jarislowsky Fraser Special Equity Pooled Fund	1,905	45,840
SNC-Lavalin Group Inc.	752	44,971
Goldcorp Inc.	904	41,483
Encana Corporation	1,360	39,557
Great-West Lifeco Inc.	1,494	39,439
Teck Resources Ltd.	615	38,016
Canadian Tire Corp Ltd.	535	36,512
Research In Motion Ltd.	624	36,239
Cameco Corporation	834	33,595
Agrium Inc.	322	29,469
CAE Inc.	2,460	28,320
Bank of Montreal	482	27,708
Shoppers Drug Mart Corporation	699	27,635
Enbridge Inc.	485	27,273
Telus Corporation	588	26,757
Shaw Communications Inc.	1,163	26,704
Metro Inc.	578	26,125
TransCanada Corporation	687	26,110
Canadian Pacific Railway Ltd.	395	25,499
Power Corporation of Canada	885	25,459
Molson Coors Canada Inc.	484	24,408
Quebecor Inc.	626	23,557
Saputo Inc.	570	22,559
United States:		
Amazon.com Inc.	209	37,397
Johnson & Johnson	596	36,658
Apple Inc.	96	30,780
Wells Fargo & Co.	920	28,323
Exxon Mobil Corporation	309	22,455
Pfizer Inc.	1,275	22,176
Microsoft Corporation	747	20,705
Other International:		
Leith Wheeler International Pool Fund	17,377	246,800
Samsung Electronics Company Limited	207	91,314
Petroleo Brasileiro Sa	3,347	89,901
Vale Sa	2,690	82,144
Taiwan Semiconductor Manufacturing Corporation	18,960	78,991
GE Asset Management Trust China	4,986	49,941
China Mobile Ltd.	4,588	45,442
Vodafone Group	13,870	35,776

<i>(in thousands)</i>	Shares/Units ²	Fair Value ²
Equities (continued)		
Other International:		
Novartis AG	576	33,760
Roche Hldg Ag Genusscheine	216	31,484
Banco Bradesco Sa	1,495	30,134
Industrial and Commercial Bank of China	38,967	28,839
PPR Eur4.00	178	28,208
Infosys Technologies Ltd.	361	27,298
China Construction Bank	29,786	26,537
Itau Unibanco Holding Sa	1,111	26,493
Baidu Inc./China	275	26,422
Rio Tinto	365	25,441
Swire Pacific Limited	1,453	23,728
Lukoil Oao	418	23,422
Standard Chartered PLC	854	22,930
Grupo Mexico	5,564	22,676
Atlas Copco Group's Corporate	872	21,880
KT&G Corporaion	382	21,646
Tenaris Sa	444	21,590
Banco Santander S.A.	2,012	21,259
BHP Billiton	534	21,183
E.On AG NPV	691	21,066
Petrochina Company Limited	16,040	20,831
AstraZeneca	455	20,663
Zurich Financial Services Ag	80	20,647
Ericsson	1,783	20,590
L'Oreal	182	20,104
Gazprom Oao-Spon Adr	800	20,066

² Includes all share classes and American Depository Receipts.

Real estate properties

As At December 31, 2010

(in thousands of square feet)

	Location	Area
Retail		
Lougheed Lands	Burnaby	56
Aberdeen Village Centre	Kamloops	104
Christy's Corner	Edmonton	111
Marlborough Mall	Calgary	535
Portland Place	Calgary	149
Gaetz Avenue Crossing	Red Deer	177
St. Vital Centre	Winnipeg	927
Pen Centre	St. Catharines	1,037
Erin Mills Town Centre	Mississauga	845
Erin Mills Town Plaza	Mississauga	59
Pickering Town Centre	Pickering	896
Carlingwood Shopping Centre	Ottawa	526
Halifax Shopping Centre	Halifax	528
Halifax Shopping Centre Annex	Halifax	420
2003 Gottingen Street	Halifax	26
215 Chain Lake Drive	Halifax	72
West End Mall	Halifax	184
		6,652
Office		
Marlborough Professional Bldg.	Calgary	51
One Queen Street East /20 Richmond Street East	Toronto	503
Halifax Office Complex	Halifax	114
		668
Industrial		
Mississauga Industrial	Mississauga	2,897
Burnside Industrial Park	Halifax	498
Wright Place	Halifax	112
		3,507
Total properties		10,827

**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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June 24, 2011

**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

Independent Auditor's Report

To the Financial Services Commission of Ontario and to the Minister of Finance

I have audited the accompanying financial statements of the Pension Benefits Guarantee Fund of the Financial Services Commission of Ontario, which comprises the balance sheet as at March 31, 2011, and the statements of operations and fund deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

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, 2011 and the results of its operations, and its cash flows for the year then ended in accordance with Canadian generally accepted auditing principles.

Emphasis of Matter

Without qualifying my opinion, I draw attention to note 9, which indicates that the sustainability of the Fund is dependent upon a four-part strategy which the Government of Ontario committed to implementing in the Ontario Budget released in March 2011.

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

Toronto, Ontario
June 24, 2011

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FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Balance Sheet

As at March 31, 2011

	2011 (\$ '000)	2010 (\$ '000)
ASSETS		
Current		
Cash	1	1
Accounts receivable	50,558	40,444
Investments (Note 4)	617,028	628,348
	<u>667,587</u>	<u>668,793</u>
LIABILITIES AND FUND DEFICIT		
Current		
Accounts payable and accrued liabilities	3,997	3,456
Current portion of loan payable (Note 5(a))	11,000	11,000
Claims payable	521,910	410,751
	<u>536,907</u>	<u>425,207</u>
Loan payable (Note 5(a))	<u>136,861</u>	<u>140,243</u>
	673,768	565,450
Fund (deficit) / surplus	<u>(6,181)</u>	<u>103,343</u>
	<u>667,587</u>	<u>668,793</u>

See accompanying notes to financial statements

Approved by:



Chief Executive Officer
and Superintendent of Financial Services
Financial Services Commission of Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Statement of Operations and Fund Deficit

For the year ended March 31, 2011

	2011 (\$ '000)	2010 (\$ '000)
Revenue		
Provincial grant		500,000
Premium revenue	57,419	43,217
Pension plan recoveries (Note 6)	4,444	12,033
Investment income (Note 4)	5,242	556
	<u>67,105</u>	<u>555,806</u>
Expenses		
Claims	166,472	391,771
Amortization of loan discount (Note 5 (a))	7,618	7,780
Pension consulting services (Note 7)	1,797	5,137
Interest on loans (Note 5 (b))		1,558
Administration fee (Note 8)	508	506
Investment management fees (Note 8)	205	69
Unrealized loss (gain) on investments (Note 4)	71	(180)
	<u>176,671</u>	<u>406,641</u>
Recoveries of pension consulting services (Note 7)	(42)	(1,529)
Excess of expenses over revenue / (revenue over expenses)	109,524	(150,694)
Fund deficit / (surplus), beginning of year	(103,343)	47,351
Fund deficit / (surplus), end of year	<u><u>6,181</u></u>	<u><u>(103,343)</u></u>

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Statement of Cash Flows

For the year ended March 31, 2011

	2011 (\$ '000)	2010 (\$ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess of (expenses over revenue) / revenue over expenses	(109,524)	150,694
Items not affecting cash:		
Unrealized (gain) loss on investments (Note 4)	71	(180)
Amortization of loan discount (Note 5(a))	7,618	7,780
Loss on disposal of investments (Note 4)	627	351
	<u>(101,208)</u>	<u>158,645</u>
Changes in non cash working capital		
Accounts receivable	(10,114)	8,718
Accounts payable and accrued liabilities	541	(1,117)
Claims payable	<u>111,159</u>	<u>327,235</u>
	378	493,481
Cash flows from investing activities		
Purchases of investments	(9,661,394)	(4,040,087)
Proceeds from sale of investments	<u>9,672,016</u>	<u>3,557,572</u>
	10,622	(482,515)
Cash flows from financing activities		
Proceeds on loans		130,000
Loan repayments	<u>(11,000)</u>	<u>(141,000)</u>
	(11,000)	(11,000)
Change in cash position	-	(34)
Cash position, beginning of year	1	35
Cash position, end of year	<u><u>1</u></u>	<u><u>1</u></u>

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO**Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2011**

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, 2011**

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- o 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.
- o Accounts receivable is classified as receivables and valued at face value which approximates fair value given their short term maturities.
- o 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.
- o 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 actuarial consultants. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

Differences in the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to claims expense 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, 2011**

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.

Differences in premium revenue, if any, between the estimated amounts recognized and the actual revenues due are charged or credited to premium 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 and the differences could be material. Areas where significant estimates must be made include premium revenue and claims payable.

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, 2011

4. INVESTMENTS (cont'd)

Investments consist of:

	2011 (\$'000)		2010 (\$'000)	
	Market Value	Cost	Market Value	Cost
Discounted notes	441,671	441,671	566,893	566,907
Government bonds	175,357	175,491	61,050	61,100
Master asset vehicle notes			405	405
	<u>617,028</u>	<u>617,162</u>	<u>628,348</u>	<u>628,412</u>

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities. The realized loss on the sale of securities amounted to \$627 thousand (2010 – realized loss of \$351 thousand). Unrealized changes in the market value of investments are reflected separately on the statement of operations and fund deficit.

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, term and liquidity risk:

Discounted notes with maturities between April and July 2011 have yields in the range of 0.918% to 1.180% (2010 – maturities between April and July 2010 and yields in the range of 0.229% to 0.450%), and government bonds have yields in the range of 1.299% to 2.052% for the current year (2010 – yields of 0.288% and 0.435%). At March 31, 2011, a 1% move in interest rates could impact the market value by approximately \$1,200 thousand. Discounted notes 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, 2011

5. LOAN 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, 2011 as follows:

	2011 (\$'000)	2010 (\$'000)
Face Value	253,000	264,000
Less: Discount	<u>(105,139)</u>	<u>(112,757)</u>
Fair Value	<u>147,861</u>	<u>151,243</u>
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	<u>136,861</u>	<u>140,243</u>
Balance	<u>147,861</u>	<u>151,243</u>

The discount will be amortized to loan discount expense over the term of the loan based on the effective interest rate method. Amortization for the subsequent five fiscal years is as follows:

Fiscal Year	(\$'000)
2012	7,447
2013	7,269
2014	7,081
2015	6,883
2016	6,676

FINANCIAL SERVICES COMMISSION OF ONTARIO**Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2011**

5. LOAN PAYABLE (cont'd)**(b) Interest Bearing Loans**

During fiscal 2010, the Minister of Finance provided the Fund with two interest bearing loans, both of which were repaid with accrued interest totaling \$1,558 thousand on March 31, 2010.

6. 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 2011, \$4,444 thousand (2010 - \$12,033 thousand) in recoveries were made by the Fund.

7. PENSION CONSULTING SERVICES

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 2011, \$1,797 thousand was paid to such experts related to negotiations involving one company (2010 - \$5,137 thousand involving three companies). The Fund was reimbursed \$42 thousand from the Ministry of Economic Development and Trade, a related party, for financial due diligence services received during the year.

8. RELATED PARTY TRANSACTIONS

For fiscal 2011, an administration fee of \$508 thousand (2010 - \$506 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 \$205 thousand include fees of \$191 thousand (2010 - \$63 thousand) paid to the Ontario Financing Authority, a related party.

The costs of processing premium revenue transactions are absorbed by FSCO without charge to the Fund.

Other related party transactions during the year have been disclosed in notes 4, 5 and 7.

FINANCIAL SERVICES COMMISSION OF ONTARIO**Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2011**

9. MEASURES TO SUSTAIN THE FUND

The 2011 Ontario Budget re-affirmed the government's August 2010 announcement of committing to a four-part strategy to mitigate risks and enhance the sustainability of the Fund as follows:

- a) build reserves through the \$500 million grant, provided in March 2010;
- b) raise future Fund revenues by increasing assessments in 2012;
- c) reduce risk to the Fund by extending the eligibility period for covering new plans and benefit improvements from three to five years; and
- d) reduce the Fund's exposure by strengthening pension funding rules.

10. SUBSEQUENT EVENTS

- a) Recoveries in the range of \$10 - \$15 million dollars are expected in 2011.
- b) On May 31, 2011 two claim allocations totalling \$384 million were paid to the subject pension funds. Cash was provided from the proceeds of sale of invested discounted notes.



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

Independent Auditor's Report

Provincial Judges Pension Fund

To the Provincial Judges Pension Board
and to the Minister of Finance

I have audited the accompanying Statement of Changes in Fund Balance of the Provincial Judges Pension Fund as at March 31, 2011, and a summary of significant accounting policies and other explanatory information (together the "financial statement"). The financial statement has been prepared by management in accordance with the financial reporting provisions of Section 34 of Ontario Regulation 67/92 under the Courts of Justice Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of Section 34 of Ontario Regulation 67/92 under the *Courts of Justice Act*, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statement presents fairly, in all material respects, the changes in fund balance of the Provincial Judges Pension Fund as at March 31, 2011 in accordance with the financial reporting provisions of Section 34 of Ontario Regulation 67/92 under the *Courts of Justice Act*.

Basis of Accounting

Without modifying my opinion, I draw attention to Note 2 to the financial statement, which describes the basis of accounting. The financial statement is prepared to assist the Provincial Judges Pension Fund to meet the requirement of Section 34 of Ontario Regulation 67/92 under the *Courts of Justice Act*. As a result, the financial statement may not be suitable for another purpose.

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

Toronto, Ontario
June 2, 2011

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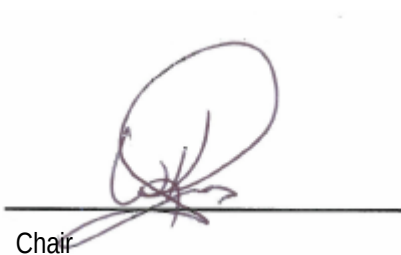
Provincial Judges Pension Fund

Statement of Changes in Fund Balance For the Year Ended March 31, 2011

	2011 (\$ 000)	2010 (\$ 000)
Deposits		
Contributions		
Participants	4,549	4,485
Province of Ontario (Note 4)	31,554	30,340
Interest earned	42,013	39,747
	<u>78,116</u>	<u>74,572</u>
Payments		
Pension payments and survivor allowances	27,798	26,827
Refund of contributions	228	—
	<u>28,026</u>	<u>26,827</u>
Net increase in the Fund	50,090	47,745
Fund Balance with the Minister of Finance		
Beginning of year	<u>599,229</u>	<u>551,484</u>
End of year	<u>649,319</u>	<u>599,229</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:



Chair

Provincial Judges Pension Fund

Notes to Financial Statement

March 31, 2011

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, 2011

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 (6.99% on the April 1, 2010 balance and 7.18% on the April 1, 2009 balance);
- on the monthly excess of contributions over payments during the year at 4.62%, 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, 2011

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 2011 contribution of \$31,554,000 (2010 – \$30,340,000) 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).

Significant assumptions in the March 31, 2008 actuarial funding valuation are as follows:

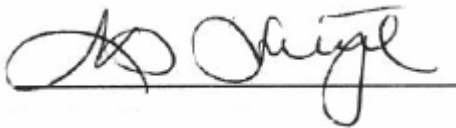
Assumption	
Expected Return on Plan Assets	5.1%
Discount Rate on Future Cash Inflows	5.1%
Salary Rate Increases	4% plus either 2.5% CPI or 3.5% IAI
Age of Retirement	graduated scale from age 60 to 75
Method of Valuation	Aggregate Cost Method

OFFICE OF THE PUBLIC GUARDIAN AND TRUSTEE**Management's Responsibility for Financial Information**

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

The Office of the Public Guardian and Trustee is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and that the assets were safeguarded. Internal audits are conducted to assess management systems and practices and reports are issued to the Public Guardian and Trustee and her management committee.

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



Louise Stratford
Public Guardian and Trustee



Sharon Yetter
Chief Financial Officer

June 23, 2011



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

Independent Auditor's Report

To Public Guardian and Trustee for the Province of Ontario
and to the Attorney General

I have audited the accompanying financial statements of The Public Guardian and Trustee for the Province of Ontario, which comprise the balance sheet as at March 31, 2011, the statements of revenues and expenses, statements of changes in fund balances, and statement of cash flows for the estates and trusts and the administration fund for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the 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, 2011 and its financial performance and 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

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Toronto, Ontario
June 23, 2011

The Public Guardian and Trustee for the Province of Ontario

Balance Sheet (in thousands of dollars)

March 31, 2011

	Estates and Trusts		Administration Fund	
	2011	2010	2011	2010
Assets				
Cash and cash equivalents	\$ 32,599	\$ 20,904	\$ 180	\$ 665
Accounts receivable	3,766	3,588	2,205	1,994
Bonds and other debt issues	35,010	47,688	-	-
Fixed income funds (Schedule A)	1,098,853	1,077,844	1,593	4,925
Diversified fund (Schedule B)	60,399	55,413	57,027	57,723
Canadian income and dividend fund (Schedule C)	62,705	53,527	19,423	17,678
Stocks and other securities	17,814	20,626	-	-
Real estate	81,162	90,698	-	-
Other assets	15,874	16,277	-	-
	1,408,182	1,386,565	80,428	82,985
Client Management Information System (Note 7)	-	-	6,980	9,306
	\$ 1,408,182	\$ 1,386,565	\$ 87,408	\$ 92,291
Liabilities and Fund Balances				
Accounts payable and accrued liabilities	46,213	43,146	4,813	9,899
Fund balances	1,361,969	1,343,419	82,595	82,392
	\$ 1,408,182	\$ 1,386,565	\$ 87,408	\$ 92,291

Contingencies (Note 8)

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	2011	2010
Revenue		
Pension	\$ 75,836	\$ 72,504
Social benefits	72,163	68,012
Investment (Schedule E)	44,707	46,357
Other	30,006	24,931
Net unrealized investment appreciation	8,837	19,647
Realized investment appreciation	606	-
	<u>232,155</u>	<u>231,451</u>
Expenses		
Accommodation	96,625	93,120
Allowances	36,253	34,484
Public Guardian and Trustee fees (Schedule D)	23,951	23,232
Living	9,760	9,964
Taxes	8,507	10,502
Other	7,974	8,533
Real estate	7,735	7,034
Medical	5,307	4,951
Funeral	5,112	4,476
Utilities	3,532	3,441
Insurance	1,329	1,293
	<u>206,085</u>	<u>201,030</u>
Excess of revenue over expenses	\$ 26,070	\$ 30,421

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	2011	2010
Revenue		
Investments - fixed income funds (Schedule A)	\$ (817)	\$ (1,539)
Investments - diversified fund (Schedule B)	5,863	9,508
Investments - Canadian income and dividend fund (Schedule C)	1,493	3,304
	<u>6,539</u>	<u>11,273</u>
Fees collected (net) (Schedule D)	22,618	21,731
	<u>29,157</u>	<u>33,004</u>
Expenses		
Salaries and wages	29,630	27,834
Services (Note 3)	4,266	4,353
Employee benefits (Note 3)	3,944	3,686
Amortization of Client Management Information System	2,326	2,327
Transportation and communication	1,115	1,009
Supplies and equipment	692	514
	<u>41,973</u>	<u>39,723</u>
Amount recovered from the Ministry of the Attorney General (Note 3)	(13,256)	(7,974)
	<u>28,717</u>	<u>31,749</u>
Claims	237	441
	<u>28,954</u>	<u>32,190</u>
Excess of revenue over expenses	\$ 203	\$ 814

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, 2011

		Client Trusts	Minors	Litigants	Deceased Estates (note 1)	Cemetery Trusts	Forfeited Corporate Assets (note 1)	Corporate Trusts (note 1)	Land Titles	Total 2011	Total 2010
Balance, beginning of period	\$	506,895	383,019	282,292	145,672	21,319	867	28	3,327	\$ 1,343,419	\$ 1,257,318
Excess (deficiency) of revenue over expenses		5,911	14,993	7,907	(3,950)	446	659	1	103	26,070	30,421
Net client capital contribution (distribution)		(16,756)	(6,557)	21,290	(5,235)	984	19	-	(1,265)	(7,520)	55,680
Balance, as of March 31, 2011	\$	496,050	391,455	311,489	136,487	22,749	1,545	29	2,165	\$ 1,361,969	\$ 1,343,419

**Statement of Changes in Fund Balances - Administration Fund
(in thousands of dollars)**

For the period ended March 31, 2011

		Client Management Information System	Assurance Fund	Litigation Reserve Fund	Allowance for Doubtful Accounts Fund	Capacity Assessment Fund	Unappro- priated Fund	Total 2011	Total 2010
Balance, beginning of period	\$	9,306	\$ 14,300	\$ 3,000	\$ 100	\$ 100	\$ 55,586	\$ 82,392	\$ 81,578
Excess (deficiency) of revenue over expenses		(2,326)	(74)	(89)	-	(74)	2,766	203	814
Interfund transfers		-	74	89	-	74	(237)	-	-
Balance, as of March 31, 2011	\$	6,980	\$ 14,300	\$ 3,000	\$ 100	\$ 100	\$ 58,115	\$ 82,595	\$ 82,392

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		Administration Fund	
	2011	2010	2011	2010
Cash was provided by (used in)				
Operating activities				
Excess of revenue over expenses	\$ 26,070	\$ 30,421	\$ 203	\$ 814
Adjustments for non-cash items				
Amortization of Client Management Information System	-	-	2,326	2,327
Unrealized (appreciation) of investments	(8,837)	(19,647)	(4,964)	(10,935)
	17,233	10,774	(2,435)	(7,795)
Changes in working capital items				
Accounts receivable	(178)	284	(211)	300
Other assets	403	(654)	-	-
Accounts payable and accrued liabilities	3,067	11,344	(5,086)	5,246
	20,525	21,749	(7,732)	(2,249)
Investing activities				
Net (acquisition)/redemption of				
Bond and other debt issues	12,678	(2,823)	-	-
Fixed income fund investments	(21,009)	(60,200)	3,332	5,328
Stocks and other securities	4,843	(747)	-	-
Diversified fund investments	(1,322)	1,514	4,648	(1,869)
Canadian income and dividend fund	(6,036)	(2,769)	(733)	(700)
Real estate	9,536	(250)	-	-
Net client capital contribution	(7,520)	55,680	-	-
	(8,830)	(9,595)	7,247	2,759
Increase/(decrease) in cash and cash equivalents	11,695	12,153	(485)	511
Cash and cash equivalents, beginning of the period	20,904	8,751	665	154
Cash and cash equivalents, end of the period	\$ 32,599	\$ 20,904	\$ 180	\$ 665

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, 2011

Nature of Operations	The Public Guardian and Trustee for the Province of Ontario ("The Public Guardian and Trustee") performs duties under a number of statutes with the following main responsibilities: ♦ the management of estates of incapable adults ♦ the administration of estates of persons who have died in Ontario intestate and without next-of-kin ♦ the gathering of assets reverting to the Crown under the Escheats Act ♦ the management of funds, mortgages and securities paid into or lodged with the Accountant of the Superior Court of Justice on behalf of minors and litigants ♦ a general supervisory role over charitable property The Public Guardian and Trustee is exempted from federal and provincial income taxes under the Income Tax Act (Canada).
Basis of Accounting	The Public Guardian and Trustee prepares its financial statements on an accrual basis and follows Canadian generally accepted accounting principles.
Estates and Trusts	Estates and Trusts represent accounts over which The Public Guardian and Trustee acts as guardian or trustee under the <i>Substitute Decisions Act</i>, the <i>Public Guardian and Trustee Act</i>, the <i>Crown Administration of Estates Act</i>, the <i>Estates Act</i> and various other statutes.
Administration Fund	The Administration Fund is the operating account of The Public Guardian and Trustee. It is used to accumulate fees charged to each estate and trust for services, as prescribed by the Fee Schedule created pursuant to <i>The Public Guardian and Trustee Act</i> and to pay operating expenses. Cash balances in the Administration Fund which are not required for operating purposes are invested along with the cash funds of Estates and Trusts. The Fund receives the net interest income of these investment activities, after interest is distributed on the funds of Estates and Trusts in accordance with the interest rates prescribed by <i>The Public Guardian and Trustee Act</i>. Funds appropriated for specific purposes are identified below. Assurance Fund The <i>Public Guardian and Trustee Act</i> 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 \$73,727 (2010 - \$347,522) from the Unappropriated Fund. Litigation Reserve Fund The Litigation Reserve Fund is used to cover expenses and costs of legal proceedings paid by The Public Guardian and Trustee on behalf of its litigation clients. During the year, legal costs incurred on behalf of clients of \$89,182 (2010 - \$42,185) 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 <i>Public Guardian and Trustee Act</i> but may not be able to recover the amount from the client.

**The Public Guardian and Trustee
for the Province of Ontario
Summary of Significant Accounting Policies**

March 31, 2011

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 \$73,683 (2010 - \$50,929) 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 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.

The Public Guardian and Trustee for the Province of Ontario

Summary of Significant Accounting Policies

March 31, 2011

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	Costs of the development and implementation of a 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.
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, 2011 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.
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, 2011

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 \$2,269,532 (2010 - \$1,526,095) 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*, \$nil (2010 - \$9,138,591) 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 \$13,256,336 (2010 - \$7,974,212) was recovered from MAG net of a \$4,167,000 (2010 - \$7,182,000) payment from the general revenues of the Administration Fund. The \$4,167,000 payment is the second of three equal annual payments requested by MAG.

**The Public Guardian and Trustee
for the Province of Ontario
Notes to Financial Statements**

March 31, 2011

4. Mortgages and Securities Held in Trust

The Public Guardian and Trustee in its capacity as Accountant of the Superior Court of Justice also acts as custodian of mortgages in the amount of \$795,000 (2010 - \$795,000) and miscellaneous securities and documents having a face value of \$3,757,440 (2010 - \$3,955,640). These amounts are not reflected in the financial statements as The Public Guardian and Trustee does not act as trustee of these funds but simply as custodian of the instruments on behalf of the client. The Public Guardian and Trustee as custodian also holds letters of credit, lien bonds, guardianship bonds and performance guarantee bonds for litigants.

5. 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 (detailed in the Statement of Changes in Fund Balances – Administration Fund).

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.

6. 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.

**The Public Guardian and Trustee
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Notes to Financial Statements**

March 31, 2011

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.

7. Client Management Information System

March 31 (in thousands of dollars)	2011		2010	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Client Management Information System	\$ 11,633	\$ 4,653	\$ 6,980	\$ 9,306

**The Public Guardian and Trustee
for the Province of Ontario
Notes to Financial Statements**

March 31, 2011

8. 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.

The Public Guardian and Trustee for the Province of Ontario

Schedule A - Fixed Income Funds

(in thousands of dollars)

March 31		2011	2010
INVESTMENTS			
Cash		\$ 12,033	\$ 7,112
Accrued interest		11,883	11,842
Short term investments		263,565	253,400
		<u>287,481</u>	<u>272,354</u>
Mid term investments			
Corporate Bonds	(i)	38,701	60,855
Federal Government	(ii)	41,359	33,696
Provincial Governments	(iii)	363,455	344,802
Financial Institutions	(iv)	369,450	371,062
		<u>812,965</u>	<u>810,415</u>
		\$ 1,100,446	\$ 1,082,769
Allocated as follows			
Estates and Trusts		\$ 1,098,853	\$ 1,077,844
Administration Fund		1,593	4,925
		<u>\$ 1,100,446</u>	<u>\$ 1,082,769</u>
INCOME			
Allocated as follows			
Estates and Trusts		\$ 37,170	\$ 38,829
Administration Fund		(817)	(1,539)
		<u>\$ 36,353</u>	<u>\$ 37,290</u>

Short term investments at March 31, 2011 bear interest at annual rates ranging from 4.25% to 6.865% (2010 - from 3.65% to 7.15%), with maturity dates ranging from 1 day to 365 days (2010 - from 1 day to 321 days)

Mid term investments at March 31, 2011		Interest Rates	Carrying Value	Fair Value
(i)	Corporate Bonds			
	1 - 3 years	5.00 - 6.25%	\$ 21,268	\$ 21,905
	3 years +	4.70 - 6.00%	17,433	17,964
			<u>38,701</u>	<u>39,869</u>
(ii)	Federal Government			
	1 - 3 years	2.70 - 4.80%	41,359	42,022
(iii)	Provincial Governments			
	1 - 3 years	4.25 - 5.85%	136,834	140,079
	3 years +	3.15 - 5.50%	226,621	228,308
			<u>363,455</u>	<u>368,387</u>
(iv)	Financial Institutions			
	1 - 3 years	4.35 - 6.70%	103,979	107,587
	3 years +	3.18 - 5.45%	265,471	269,277
			<u>369,450</u>	<u>376,864</u>
			\$ 812,965	\$ 827,142

Fixed Income Funds

Funds are invested in high quality fixed income instruments subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee with emphasis on preservation of capital and maximizing return. This includes US dollar trust funds where the Accountant of the Superior Court of Justice is ordered by the courts to hold these funds in US dollars.

Interest income is distributed to participants by a prescribed interest rate approved by The Public Guardian and Trustee's Investment Advisory Committee. During the period from April 1, 2010 to March 31, 2011, the prescribed rate for the Canadian Funds was 3.65% (2010 ranged from 3.65% to 4.00%), and for the U.S. Funds was 0.30% (2010 ranged from 0.30% to 2.00%).

The Public Guardian and Trustee for the Province of Ontario

Schedule B - Diversified Fund

(in thousands of dollars)

March 31	2011	2010
INVESTMENTS		
Cash	\$ 1,785	\$ 430
Net (redemptions)/other assets	(8,718)	266
Short term notes	2,116	249
	(4,817)	945
Bonds	42,333	43,401
Canadian equity	51,597	43,522
Foreign equity	28,313	25,268
	\$ 117,426	\$ 113,136
Allocated as follows		
Estates and Trusts	\$ 60,399	\$ 55,413
Administration Fund	57,027	57,723
	\$ 117,426	\$ 113,136
INCOME		
Estates and Trusts		
Investment earnings	\$ 1,689	\$ 1,859
Unrealized appreciation	4,016	10,344
Net unrealized foreign exchange (depreciation)	(352)	(2,221)
Net unrealized appreciation	3,664	8,123
Realized appreciation	856	-
Net realized foreign exchange (depreciation)	(309)	-
Net realized appreciation	547	-
	\$ 5,900	\$ 9,983
Administration Fund		
Investment earnings	\$ 1,336	\$ 1,423
Unrealized appreciation	4,325	10,398
Net unrealized foreign exchange (depreciation)	(373)	(2,313)
Net unrealized appreciation	3,952	8,085
Realized appreciation	575	-
	\$ 5,863	\$ 9,508

The Short term notes and Bonds at March 31, 2011 bear interest at annual rates ranging from 1.00% to 12.20% (2010 - from 0.625% to 12.20%), with maturity dates ranging from 84 days to 97 years (2010 - from 1 day to 98 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	2011	2010
INVESTMENTS		
Cash	\$ 5	\$ 103
Net (redemptions)/other assets	(502)	214
Short term notes	4,257	595
	3,760	912
Bonds	32,287	32,738
Canadian equity	46,081	37,555
	\$ 82,128	\$ 71,205
Allocated as follows		
Estates and Trusts	\$ 62,705	\$ 53,527
Administration Fund	19,423	17,678
	\$ 82,128	\$ 71,205
INCOME		
Estates and Trusts		
Investment earnings	\$ 2,189	\$ 2,129
Unrealized appreciation	3,142	8,626
Realized appreciation	59	-
	5,390	10,755
Administration Fund		
Investment earnings	\$ 462	\$ 454
Unrealized appreciation	1,012	2,850
Realized appreciation	19	-
	\$ 1,493	\$ 3,304

The Short term notes and Bonds at March 31, 2011 bear interest at annual rates ranging from 1.00% to 11.00% (2010 - from 0.289% to 11.00%), with maturity dates ranging from 15 days to 97 years (2010 - from 55 days to 98 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	2011	2010
Client trusts	\$ 15,516	\$ 15,197
Minors	2,794	2,740
Deceased estates	3,594	3,088
Litigants	1,609	1,563
Court-appointed litigation guardian legal services	92	305
Cemetery trusts	183	176
Charity trusts	141	145
Forfeited corporate assets/corporate trusts	22	18
Public Guardian and Trustee Fees - Estates and Trusts	23,951	23,232
less: Costs of fee services	(1,333)	(1,501)
Fees collected (net) - Administration Fund	\$ 22,618	\$ 21,731

Schedule E - Estates and Trusts Investment Income
(in thousands of dollars)

For the period ended March 31	2011	2010
Fixed income funds (Schedule A)	\$ 37,170	\$ 38,829
Diversified fund (Schedule B)	1,689	1,859
Canadian income and dividend fund (Schedule C)	2,189	2,129
Income from other investments held for clients	3,659	3,540
	\$ 44,707	\$ 46,357

THE WORKPLACE SAFETY AND INSURANCE BOARD

The Workplace Safety and Insurance Board of Ontario Financial Statements for the year ended December 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/ .

LOSSES DELETED FROM THE ACCOUNTS
 (Under the *Financial Administration Act*)
 for the year ended March 31, 2011

<u>MINISTRY</u>	<u>2010-11</u>
REVENUE	\$155,540,385.74
TRAINING, COLLEGES AND UNIVERSITY.....	\$145,229,717.47
COMMUNITY AND SOCIAL SERVICES.....	\$118,826,470.40
FINANCE - MOTOR VEHICLE ACCIDENT CLAIMS FUND.....	\$5,260,144.48
ATTORNEY GENERAL.....	\$3,526,615.76
TRANSPORTATION.....	\$2,957,019.08
HEALTH AND LONG-TERM CARE.....	\$189,810.81
ENERGY AND INFRASTRUCTURE.....	\$163,720.22
GOVERNMENT SERVICES.....	\$141,002.12
MUNICIPAL AFFAIRS AND HOUSING.....	\$127,969.81
NATURAL RESOURCES.....	\$98,899.92
COMMUNITY SAFETY AND CORRECTIONAL SERVICES.....	\$63,502.99
EDUCATION.....	\$2,493.62
LABOUR.....	\$323.36
NORTHERN DEVELOPMENT, MINES AND FORESTRY.....	\$76.66
TOTAL	<u>\$ 432,128,152.44</u>

REVENUE REMISSIONS

Details of Remission granted under the *Financial Administration Act*
for Revenue and Other Debt for the year ended March 31, 2011

<u>Description of the Order-in-Council</u>	<u>Amount</u>
<u>OIC 1046/2010</u> : Remission of interest under the <i>Retail Sales Tax Act</i> was granted to the Duchess of Kent Branch of the Royal Canadian Legion. The interest had accrued on retail sales tax that had been collected by the Duchess of Kent Branch between December 1, 1995 and August 31, 2001.	\$140,829
<u>OIC 1148/2010</u> : Remission of Infrastructure Ontario's obligation to repay a portion of the aggregate principal sum owing to the Province under the Provincial Loan.	\$200,319,173
<u>OIC 864/2010</u> : On June 17, 2010, Ontario announced that its existing retail sales tax exemption for Status Indians, Indian bands and councils of an Indian band would continue for qualifying off-reserve property or services as Ontario moves to the harmonized sales tax (HST). Until the exemption could be implemented at the point-of-sale under the HST system on September 1, 2010, a remission was granted to allow, for eligible purchases made between July 1, 2010 to August 31, 2010, a refund of the provincial portion of the HST by the Minister of Revenue.	N/A

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ISSN 0381-2375 (Print)

ISSN 1913-5556 (Online)