Management's Responsibility and Certification

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

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

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

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

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

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

W. David Wilson
Chair and Chief Executive Officer

A. Kenneth Gibson, CA
Director, Corporate Services

May 9, 2007

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

Auditor's Report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2007 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

J. R. McCarter, CA
Auditor General
Licensed Public Accountant

Toronto, Ontario
May 9, 2007

Balance Sheet

As at March 31

	2007	2006
ASSETS		
CURRENT		
Cash	$ 58,770,149	$ 55,900,077
Accounts receivable	1,707,830	1,469,999
Prepaid expenses	777,250	337,761
	61,255,229	57,707,837
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 3)	5,611,341	4,700,795
FUNDS IN TRUST (Note 4)	16,174,925	8,865,176
RESERVE FUND ASSETS (Note 5)	32,000,000	32,000,000
CAPITAL ASSETS (Notes 6, 12(b))	3,229,307	4,017,062
	$118,270,802	$ 107,290,870
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 10,737,044	$ 9,927,782
Current portion of obligation under capital leases (Note 12(b))	198,037	139,215
	10,935,081	10,066,997
NON-CURRENT		
Obligation under capital leases (Note 12(b))	246,743	295,931
Pension liabilities (Note 7(b))	1,409,779	1,231,788
	12,591,603	11,594,716
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 3)	5,611,341	4,700,795
FUNDS IN TRUST (Note 4)	16,174,925	8,865,176
SURPLUS		
OPERATING		
General (Note 8)	51,794,689	50,031,939
Reserve (Note 5)	32,000,000	32,000,000
	83,794,689	82,031,939
CONTRIBUTED	98,244	98,244
	83,892,933	82,130,183
	$118,270,802	$ 107,290,870

Investor Education Fund (Note 9)
Commitments and Contingencies (Notes 10,12)
See accompanying notes to Financial Statements.

ON BEHALF OF THE BOARD OF THE COMMISSION

W. David Wilson
Chair

David L. Knight, FCA
Commissioner

Statement of Operations and Operating Surplus

For the year ended March 31

	2007	2006
REVENUES		
Fees (Note 8)	$ 67,784,003	$ 79,977,793
Investment income	3,139,931	1,872,001
Miscellaneous	143,024	1,199,757
	71,066,958	83,049,551
EXPENSES		
Salaries and benefits (Note 11)	51,507,726	48,871,068
Administrative	5,142,855	5,262,735
Occupancy (Note 12(a))	5,103,973	4,569,769
Professional services (Note 11)	4,826,948	3,826,706
Amortization	1,771,296	2,329,622
Other	951,410	963,071
	69,304,208	65,822,971
EXCESS OF REVENUES OVER EXPENSES	1,762,750	17,226,580
OPERATING SURPLUS, BEGINNING OF PERIOD	82,031,939	64,805,359
OPERATING SURPLUS, END OF PERIOD	$ 83,794,689	$ 82,031,939
Represented by:		
General	$ 51,794,689	$ 50,031,939
Reserve	32,000,000	32,000,000
	$ 83,794,689	$ 82,031,939

See accompanying notes to Financial Statements.

Statement of Cash Flows

For the year ended March 31

	2007	2006
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess of revenues over expenses	$ 1,762,750	$ 17,226,580
Items not affecting cash		
Pension liabilities	177,991	117,041
Loss/(gain) on disposal of capital assets	3,896	(29,608)
Amortization	1,771,296	2,329,622
	3,715,933	19,643,635
Changes in non-cash working capital:		
Accounts receivable	(237,831)	16,722
Prepaid expenses	(439,489)	24,015
Accounts payable and accrued liabilities	809,262	1,486,278
	131,942	1,527,015
	3,847,875	21,170,650
Cash flows from financing activities		
Repayment of obligations under capital leases	(147,959)	(29,146)
	(147,959)	(29,146)
Cash flows from investing activities		
Proceeds from sale of capital assets	615	144,625
Purchase of capital assets (Note 6)	(830,459)	(1,974,898)
	(829,844)	(1,830,273)
NET INCREASE IN CASH POSITION	2,870,072	19,311,231
CASH POSITION, BEGINNING OF PERIOD	55,900,077	36,588,846
CASH POSITION, END OF PERIOD	$ 58,770,149	$ 55,900,077

See accompanying notes to Financial Statements.

Notes to the Financial Statements

March 31, 2007

1. NATURE OF THE CORPORATION

The Ontario Securities Commission (the "Commission") is a corporation without share capital and functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities marketplace in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Investments

Investments are carried at cost, which approximates market value.

b) Capital assets

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

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

c) Revenues

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

Recoveries of costs of investigations are recorded as offsets to the relevant expense upon date of decision, unless management determines there is significant doubt as to ultimate collection, in which case recovery is recognized when cash is received.

d) Funds Held Pursuant to Designated Settlements and Orders

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

e) Employee Benefit Plan

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

The Commission also maintains supplementary unfunded pension plans for certain full-time members as described in note 7(b). The Commission accrues its obligations and the related costs under these supplemental unfunded pension plans. The transitional obligation and actuarial gains or losses are being amortized over the average remaining service period of active members, or over the life expectancy of inactive members, expected to receive benefits under these plans. For purposes of valuation, the actuarial liability and the current service cost is determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

The costs of post-retirement non-pension benefits are not included in the Statement of Operations and Operating Surplus as described in note 13(c).

f) Use of estimates

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

3. FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS

The Commission has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine. The balance includes a settlement for $1,900,000, which is subject to the approval of the responsible Minister as required under the provision of the *Securities Act* in effect at the time the settlement was approved. The accumulated funds are held in a segregated bank account and earn interest at a rate of the monthly average bank prime rate less 1.75%.

As at March 31, 2007, the accumulated balance is determined as follows:

	2007	2006
Opening balance	$ 4,700,795	$ 2,501,008
Settlements and Orders	711,883	2,166,560
Uncollected Settlements written off	–	(89,400)
Interest	215,663	122,627
Payments	(17,000)	–
Closing balance	$ 5,611,341	$ 4,700,795
Represented by:		
Cash	$ 5,591,158	$ 4,655,125
Receivables	20,183	45,670
	$ 5,611,341	$ 4,700,795

4. FUNDS IN TRUST

During the year, the Commission received payments from the operator of the System of Electronic Data Analysis and Retrieval ("SEDAR"), the National Registration Database ("NRD"), and the System for Electronic Disclosure by Insiders ("SEDI") representing the accumulated surplus from the operations of SEDAR, NRD, and SEDI. The total accumulated funds as at March 31, 2007 were $16,174,925 (2006 – $8,865,176) representing total payments received of $15,464,752 (2006 – $8,606,532) and interest earned of $710,173 (2006 – $258,644). These funds are to be held by the Commission in accordance with agreements amongst the Commission, the Alberta Securities Commission, the British Columbia Securities Commission, L'Autorité des marchés financiers and, in the case of NRD, the Investment Dealers Association of Canada, and shall be used to offset any shortfall in revenues from the systems, develop or enhance the systems and reduce systems' fees. These funds are held in a segregated bank account and earn interest at a rate of the monthly average bank prime rate less 1.75%.

5. RESERVE FUND ASSETS

a) As part of the approval of its self-funded status, the Commission was allowed to establish a $20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. The accumulated funds, at March 31, 2007, have been invested in one year Government of Ontario treasury bills with the Ontario Financing Authority.

b) The May 2, 2000, Budget proposed that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors. Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. At March 31, 2007, legislation has not yet been introduced.

The Commission received approval in 2002 from the Ministry of Finance to retain $12.0 million, which may only be used toward implementation costs of the proposed merger and is subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

i) The monies will be paid to the Consolidated Revenue Fund, in part or in full, if not required to fund the costs of the merger; and

ii) While retained by the Commission, the monies will be invested with the Ontario Financing Authority.

c) Reserve fund investments are carried at cost as described in Note 2(a). The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the Commission.

6. CAPITAL ASSETS

	Cost	Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
Office furniture	$ 3,425,305	$ 2,913,017	$ 512,288	$ 654,818
Office equipment	580,424	351,491	228,933	286,976
Computer hardware and related applications	13,443,480	12,076,883	1,366,597	1,724,390
Leasehold improvements	7,252,225	6,130,736	1,121,489	1,350,878
	$ 24,701,434	$ 21,472,127	$ 3,229,307	$ 4,017,062

During the year, capital assets were acquired at an aggregate cost of $988,052 (2006 – $2,439,190) of which $157,593 (2006 – $464,292) were acquired by means of capital leases.

7. PENSION PLANS

a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2007, was $2,684,244 (2006 – $2,498,157) and is included in salaries and benefits.

b) The unfunded supplemental pension plans for the Commission's current and former Chairs and Vice-Chairs had an accrued benefit obligation of $1,311,797 at March 31, 2007 (2006 – $1,217,986) and an accrued benefit liability of $1,409,779 (2006 – $1,231,788). The Commission's related expense for the year was $248,910 (2006 – $169,999) and is included in salaries and benefits. Benefits totaling $70,919 were paid during the year (2006 – $52,958). The average remaining service lifetime of the active members covered by these plans ranges from .85 to 4.59 years at March 31, 2006 (2005 – .25 to 3.88 years); the 2006 figures were used for amortization purposes in fiscal 2007. The average life expectancy of the non-active members ranges from 18.13 to 24.22 years at March 31, 2006 (2005 – 22.48 years). The significant actuarial assumptions adopted at March 31, 2007 include a discount rate of 4.75% (2006 – 5.0%) and a rate of compensation increase ranging from 2.1% to 3.0%, as applicable (2006 – 2.1% to 3.0%).

8. FEES

The Commission's fee regime is designed to generate fees that reflect the Commission's cost of providing services to market participants. The fee regime is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of Commission staff resources expended in undertaking certain activities requested of staff by market participants. Under this fee model, the Commission sets fees estimated to reflect the cost of regulation over a three-year horizon. The forecasted General Operating Surplus at March 31, 2006, was used to establish a reduced level of participation fees for the three-year cycle which began April 1, 2006.

Details of fees received for the year ended March 31, 2007, are as follows:

	2007	2006
Participation Fees	$ 54,813,878	$ 65,758,682
Activity Fees	10,731,993	12,126,591
Late Filing Fees	2,238,132	2,092,520
Total	$ 67,784,003	$ 79,977,793

9. INVESTOR EDUCATION FUND

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

The Fund has not been consolidated in the Commission's financial statements. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2007 and 2006 and for the two years ended March 31, 2007 are as follows:

	2007	2006
Financial Position		
Total assets	$ 2,535,910	$ 4,095,205
Total liabilities	355,542	276,959
Invested in capital assets	1,617,925	788,002
Available for Fund purposes	562,443	3,030,244
Total net assets	2,180,368	3,818,246
	$ 2,535,910	$ 4,095,205
Results of Operations		
Total interest income	$ 97,277	$ 120,886
Total expenses	1,735,155	1,834,640
Deficiency of revenue over expenses	($1,637,878)	($1,713,754)
Cash flows		
Cash flows from operating activities		
Investment income received	$ 104,415	$ 119,996
Cash paid for initiatives and expenses	(1,393,492)	(1,416,093)
Cash paid for capital purchases	(1,123,266)	(342,871)
Net decrease in cash position	(2,412,343)	(1,638,968)
Cash position, beginning of period	3,296,294	4,935,262
Cash position, end of period	$ 883,951	$ 3,296,294

b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:

i) The Board of the Commission authorizes transfers of the Funds Held Pursuant to Designated Settlements and Orders to the Fund in accordance with the Minister's approval and its own authority under the *Securities Act*. In 2007, the Board of the Commission did not authorize any such transfers to the Fund (2006 – $0).

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

For the period ended March 31, 2007, the Commission incurred costs totalling $565,788 (2006 – $553,162) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, $103,327 is owing to the Commission as of March 31, 2007 (2006 – $128,234).

10. COMMITMENTS AND CONTINGENCIES

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

In the current year, there were no SEDAR deficits. As described in Note 4, the Commission is holding funds in trust that may be used to offset shortfalls in revenue in SEDAR, SEDI, and NRD. As at March 31, 2007, $12,485,730 (2006 – $8,865,176) of the total funds held in trust are available for SEDAR.

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

11. RECOVERY OF COSTS OF INVESTIGATIONS

In 2007, the Commission applied $185,000 (2006 – $417,327) in recoveries of the costs of investigations against salaries and benefits and $34,911 (2006 – $684,173) against professional services.

12. LEASE OBLIGATIONS

a) Operating

The Commission is committed to operating lease payments as follows:

2008	–	$ 4,878,084
2009	–	$ 4,922,695
2010	–	$ 4,952,214
2011	–	$ 4,989,674
2012	–	$ 4,966,340
Thereafter	–	$ 2,067,607

b) Capital

The Commission has entered into capital lease agreements for computer equipment. Leases that substantially transfer all of the benefits and risks of ownership of property to the Commission, or otherwise meet the criteria for capitalizing a lease under Canadian generally accepted accounting principles, are accounted for as capital leases. An asset is recorded at the time the capital lease is entered into, together with its related obligation to reflect its purchase and financing. Computer equipment recorded under capital leases is amortized on the same basis as computer hardware and related applications as described in note 2(b). The total interest expense recorded on the lease obligations for the year ended March 31, 2007 is $22,581 (2006 – $6,135). The following is a schedule of future minimum lease payments for the capital leases, which expire on or before February 28, 2010:

Year Ending March 31		
2008	$	218,492
2009		207,235
2010		49,707
Total minimum lease payments		475,434
Less: Amount representing interest at 6%		30,654
Balance of the obligation	$	444,780

13. TRANSACTIONS WITH PROVINCE OF ONTARIO

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

a) The *Securities Act* states that when ordered to do so by the responsible Minister, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in note 8 and the Commission's practice of setting fees in three-year cycles, the Commission is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the Commission are subject to appropriate terms and conditions to be agreed with the Ministry.

b) The Commission has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.

c) Costs of post-retirement non-pension employee benefits are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus.

14. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to current presentation.