

SECTION 6

Consolidated Financial Statements of

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND
SUDBURY INC.**

Year ended December 31, 2006



FREELANDT CALDWELL REILLY LLP
CHARTERED ACCOUNTANTS



KPMG LLP
Chartered Accountants

AUDITORS' REPORT

To: The Shareholder of
**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**

We have audited the consolidated balance sheet of **GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.** (the "Company") as at **December 31, 2006** and the consolidated statements of operations and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow, Sudbury-Nipissing LLP

COLLINS BARROW, SUDBURY-NIPISSING, LLP
Chartered Accountants
Licensed Public Accountants

Freelandt Caldwell Reilly LLP

FREELANDT CALDWELL REILLY LLP
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KPMG LLP

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Chartered Accountants
Licensed Public Accountants

Sudbury, Canada

March 23, 2007

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Consolidated Balance Sheet
December 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Current:		
Cash and investments (note 3)	\$ 12,563,923	\$ 14,369,085
Accounts receivable (note 4)	6,927,338	6,103,305
Unbilled revenue - distribution	3,077,592	2,739,711
Unbilled revenue - energy sales	11,557,391	11,719,533
Payment in lieu of taxes	-	38,194
Inventory	1,969,343	1,922,679
Prepaid expenses	311,408	383,622
Current portion of regulatory assets	285,336	239,241
Current portion of other assets	26,250	26,250
	36,718,581	37,541,620
Capital assets (note 5)	68,387,363	67,263,275
Payment in lieu of future taxes (note 6)	4,578,483	3,736,332
Regulatory assets (note 7)	46,123	1,182,259
Other assets (note 8)	440,207	466,457
	\$ 110,170,757	\$ 110,189,943

Approved on behalf of the Board

Director _____

Director _____

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Consolidated Balance Sheet
December 31, 2006, with comparative figures for 2005

	2006	2005
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	\$ 4,794,856	\$ 10,368,610
Payable for energy purchases	11,829,893	9,883,720
Payment in lieu of taxes	882,307	-
Promissory note payable (note 9)	52,340,819	52,340,819
Current portion of deferred revenue	134,618	90,801
Current portion of regulatory liabilities	916,110	1,074,172
Current portion of long-term obligations	595,418	531,128
	<u>71,494,021</u>	<u>74,289,250</u>
Deferred revenue (note 10)	1,205,533	728,465
Regulatory liabilities (note 7)	665,746	836,344
Long-term obligations (note 11)	11,888,097	11,686,375
Preferred shares (note 13)	4,184,127	4,184,127
	<u>89,437,524</u>	<u>91,724,561</u>
Shareholder's equity		
Share capital (note 14)	22,431,779	22,431,779
Deficit	(1,698,546)	(3,966,397)
	<u>20,733,233</u>	<u>18,465,382</u>
Commitments and contingencies (note 15)		
	<u>\$ 110,170,757</u>	<u>\$ 110,189,943</u>

See accompanying notes to consolidated financial statements

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Consolidated Statement of Operations and Deficit
Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Revenue		
Energy sales	\$ 70,852,192	\$ 68,142,098
Distribution	19,706,132	16,163,910
	90,558,324	84,306,008
Cost of energy	70,852,192	68,142,098
Gross profit	19,706,132	16,163,910
Other operating revenue		
Gain on disposal of capital assets	10,596	4,405
Other operating revenue	8,146,823	7,502,244
	8,157,419	7,506,649
	27,863,551	23,670,559
Expenses		
Operating and administration	14,089,416	13,176,005
Amortization	5,704,018	5,279,470
Interest on promissory note payable	3,799,943	3,799,943
Interest on long-term obligations	603,069	530,021
	24,196,446	22,785,439
Earnings before payment in lieu of taxes	3,667,105	885,120
Payment in lieu of taxes (note 6)		
Current	2,408,884	1,455,451
Recovery due to loss carry-forwards	(167,479)	(252,569)
Future	(842,151)	(1,193,709)
	1,399,254	9,173
Net earnings	2,267,851	875,947
Deficit, beginning of year	(3,966,397)	(4,842,344)
Deficit, end of year	\$ (1,698,546)	\$ (3,966,397)

See accompanying notes to consolidated financial statements

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Consolidated Cash flows Statement
Year ended December 31, 2006 with comparative figures for 2005

	2006	2005
Cash flows from operating activities		
Net earnings	\$ 2,267,851	\$ 875,947
Adjustments for:		
Amortization	5,704,018	5,279,470
Payment in lieu of future taxes	(842,151)	(1,193,709)
Other amortization	259,507	206,522
Gain on the disposal of capital assets	(10,596)	(4,405)
Employee future benefit obligation	464,384	465,077
	<u>7,843,013</u>	<u>5,628,902</u>
 Change in non-cash operating working capital (note 17)	 (3,681,302)	 4,705,624
	<u>4,161,711</u>	<u>10,334,526</u>
 Cash flows from investing activities:		
Purchase of capital assets	(8,921,123)	(9,316,947)
Proceeds on disposal of capital assets	10,596	4,405
Contributions in aid of construction	1,833,510	2,032,670
Regulatory assets and liabilities	761,381	822,112
Other assets	26,250	(24,311)
	<u>(6,289,386)</u>	<u>(6,482,071)</u>
 Cash flows from financing activities:		
Long-term obligations	(198,372)	987,558
Deferred revenue	520,885	522,891
	<u>322,513</u>	<u>1,510,449</u>
 Increase (decrease) in cash and investments	 (1,805,162)	 5,362,904
 Cash and investments, beginning of year	 14,369,085	 9,006,181
 Cash and investments, end of year	 <u>\$12,563,923</u>	 <u>\$14,369,085</u>
 Other information		
Interest paid	\$(3,851,163)	\$ (3,799,943)
Payment in lieu of taxes paid	(1,164,591)	(2,233,945)

See accompanying notes to consolidated financial statements

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2006

1. Nature of operations

Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. was incorporated under the Business Corporations Act (Ontario) on October 1, 2000. The incorporation was required in accordance with the Electricity Act, 1998 (Ontario) (the "EA").

The Company is an investment holding company with its wholly owned subsidiaries involved in the distribution of electricity, provision of broadband telecommunications services and competitive rental and customer support services.

2. Significant accounting policies

(a) Basis of accounting

These consolidated financial statements are the representation of the Company's management and are prepared in accordance with Canadian generally accepted accounting principles (GAAP) as set forth in the Canadian Institute of Chartered Accountants Handbook, including policies set forth in the Accounting Procedure Manual issued by the Ontario Energy Board ("OEB") under the authority of the Ontario Energy Board Act, 1998. ("OEBA"). The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfil obligations to connect and service customers.

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc.; Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.; Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc., West Nipissing Energy Services Ltd./Services D'Energie du Nipissing-Ouest Ltee.

(c) Effects of rate regulation

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 been applied in a non rate-regulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, that are expected to be recovered from customers in future periods through the rate-setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting and approval process.

GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2006

2. Significant accounting policies, continued

(d) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to the estimation of unbilled distribution revenue, unbilled revenue for energy sales, employee future benefit obligation, regulatory assets and liabilities, inventory obsolescence and allowances for uncollectible accounts at the balance sheet date.

(e) Cash and investments

Cash and investments consists of cash on hand and in banks and readily convertible investments. Readily convertible investments are carried at the lower rate of cost or market.

(f) Accounts receivable

Accounts receivable are recorded net of an allowance for doubtful accounts.

(g) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

(h) Unbilled revenues

Revenue is recorded in the accounts to various dates on the basis of bi-monthly meter readings. At the end of an accounting cycle, there is energy used by customers for which meter readings are not available. This unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

**GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2006

2. Significant accounting policies, continued

(i) Capital assets

Capital assets are recorded at cost less government grants received and contributions in aid of construction and developer contributions and include an allocation of engineering and other overhead. Amortization is provided annually, on a straight line basis, in accordance with the following rates:

Buildings	25 - 40 years
Distribution systems	25 years
Fibre optics	5 -25 years
Water heaters	10-15 years
Office and other equipment	5 - 10 years
Computer equipment	5 years
Automotive	4 - 8 years
System supervisory equipment	15 years
Wireless towers	20 years

(j) Payment in lieu of taxes

Pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA") and remit such amounts thereunder to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as payments in lieu of taxes ("PILs") under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro now owing by the OEFC.

As prescribed by a regulatory rate order, payment in lieu of taxes are recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of payment in lieu of future taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes.

Payment in lieu of future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amount of assets and liabilities and their tax bases. Payment in lieu of future tax assets are recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are likely to be realized. These amounts are measured using enacted or substantively enacted tax rates and are remeasured annually for changes in these rates. Any payment in lieu of future tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in the period of the change.

**GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2006

2. Significant accounting policies, continued

(k) Contributions in aid of construction

In certain cases, non-refundable contributions are received in aid of construction or acquisition of capital assets. Contributions received are classified as contra-assets and are amortized at the same rate as the capital assets to which they relate.

(l) Developer contributions

In certain cases, refundable contributions are received in aid of construction or acquisition of capital assets. Contributions received are classified as contra-assets and are charged to operations at the same rate as the assets to which they relate. Contributions refunded reduce the corresponding contra-asset account of the assets to which they relate.

(m) Employee future benefits

Actuarial gains or losses on employee future benefits arise when the expected amount of the Accrued Post-retirement Benefit Obligation (APBO) differs from the amount recorded in the accounts. These gains or losses are recognized in the year that they are determined.

(n) Asset retirement obligations

Accounting standards require the Company to determine the fair value of the future expenditures required to settle legal obligations to remove capital assets. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated capital asset.

Some of the Company's distribution system assets may have asset retirement obligations. As the Company expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Company is legally required to remove, an asset retirement obligation will be recognized at that time.

**GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2006

2. Significant accounting policies, continued

(o) Revenue recognition

Distribution and energy related revenues attributable to the supply and distribution of electricity are based on OEB-approved rates and are recognized as electricity is delivered to customers. The company estimates the revenue for the period based on wholesale energy purchases because customer meters are not all read at the end of the year. Unbilled revenue is estimated and included in accounts receivable at year-end.

Telecommunication services, equipment rental and other operating revenues are recognized upon the delivery of services to customers.

3. Cash and investments

The Company has arranged for a line of credit up to \$7,500,000 for operating purposes at the Corporate Bank prime rate of interest. The line of credit is secured by an unlimited guarantee by the Company, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc., Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., and West Nipissing Energy Services Ltd./Services D'Energie du Nipissing-Ouest Ltee., and a subordination agreement regarding the Promissory Note owing to the City of Greater Sudbury. At December 31, 2006 no amount is outstanding on this credit facility.

4. Accounts receivable

	2006	2005
Electrical energy receivables	\$5,101,613	\$ 3,150,691
Other receivables	3,571,040	4,528,614
	<u>8,672,653</u>	<u>7,679,305</u>
Allowance for doubtful accounts	(1,745,315)	(1,576,000)
	<u>\$6,927,338</u>	<u>\$ 6,103,305</u>

GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2006

5. Capital assets

	Cost	Accumulated Amortization	2006 Net	2005 Net
Land	\$ 896,021	\$ -	\$ 896,021	\$ 894,160
Buildings	9,008,864	3,397,671	5,611,193	5,643,299
Distribution systems	124,952,034	73,587,695	51,364,339	51,650,205
Fibre optics	11,796,036	4,612,334	7,183,702	5,916,429
Water Heaters	8,600,678	7,375,986	1,224,692	1,236,256
Office and other equipment	5,452,863	4,854,671	598,192	507,463
Computer equipment	4,152,499	3,773,379	379,120	444,514
Automotive	3,367,973	2,703,764	664,209	518,677
System Supervisory equipment	1,245,224	939,214	306,010	388,911
Wireless towers	34,161	2,199	31,962	9,327
Construction in progress	127,923	-	127,923	54,034
	<u>\$ 169,634,276</u>	<u>\$101,246,913</u>	<u>\$ 68,387,363</u>	<u>\$ 67,263,275</u>

Contributions in aid of construction received during the year totaled \$1,833,510 (2005 - \$2,032,670). Total contributions in aid of construction received at December 31, 2006 were \$9,273,348 (2005 -\$7,439,838) with related accumulated amortization of \$1,430,865 (2005 - \$1,018,911) resulting in a net contra-asset of \$7,842,482 (2005 - \$6,420,927) which has been offset against the assets to which they relate.

GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2006

6. **Payment in lieu of taxes**

a) The components of the payment in lieu of future tax balance is as follows:

	<u>2006</u>	<u>2005</u>
Payment in lieu of future tax assets:		
Non-capital loss carry-forwards	\$ 393,749	\$ 327,670
Difference between tax basis of capital assets and carrying value	2,800,306	2,391,178
Difference between carrying value of net regulatory liabilities and tax basis	608,467	431,389
Difference between tax basis of employee future benefit obligation and carrying value	<u>1,089,782</u>	<u>922,045</u>
	4,892,304	4,072,282
Valuation allowance	<u>(313,821)</u>	<u>(335,950)</u>
	<u>\$ 4,578,483</u>	<u>\$ 3,736,332</u>

(b) The provision for payments in lieu of taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 36.12% (2005 - 36.12%) to the earnings for the year as follows:

	<u>2006</u>	<u>2005</u>
Earnings before payment in lieu of taxes	<u>\$ 3,667,105</u>	<u>\$ 885,120</u>
Anticipated provision for payment in lieu of taxes	1,324,559	319,705
Decrease in valuation allowance	(22,129)	(183,232)
Large corporations tax not deductible for payment in lieu of tax purposes	-	22,865
Other	<u>96,824</u>	<u>(150,165)</u>
Provision for payment in lieu of taxes	<u>\$ 1,399,254</u>	<u>\$ 9,173</u>

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2006

7. **Regulatory assets and liabilities**

	2006	2005
(a) Regulatory assets:		
Deferred transition costs (i)	\$ 331,459	\$ 856,726
Pre-market opening energy variance (ii)	-	564,774
	<u>331,459</u>	<u>1,421,500</u>
Less current portion	(285,336)	(239,241)
	<u>\$ 46,123</u>	<u>\$ 1,182,259</u>
(b) Regulatory liabilities:		
	2006	2005
Retail settlement variances (iii)	\$ 851,189	\$ 1,045,673
Demand side management costs (iv)	730,667	864,843
	<u>1,581,856</u>	<u>1,910,516</u>
Less current portion	(916,110)	(1,074,172)
	<u>\$ 665,746</u>	<u>\$ 836,344</u>

The regulatory assets and liabilities arise as a result of the rate setting process by the OEB. In 2004, the Minister of Energy authorized the recovery of regulatory assets or repayment of regulatory liabilities through the distribution rate application.

- (i) The OEB established a process for the recording of costs incurred by the company to be market ready, including related carrying costs, as deferred transition costs to be recovered in the future through the regulatory rate setting process. In the absence of rate regulation, generally accepted accounting principles would require that the costs be recognized as an expense or capital asset, as applicable, when incurred and the related recovery of these costs in income when received or receivable.
- (ii) Pre-market opening energy variance represents the difference between the cost of energy purchased and amounts billed to customers from January 1, 2002 to April 30, 2002. The electricity market was opened to competition on May 1, 2002. These variances arise as a result of the differing rates on time of use energy purchases by the company as compared to the average rates charged to its customers. In the absence of rate regulation, generally accepted accounting principles would require that the total cost of energy be charged to operations when incurred and the total amount of energy sales be credited to operations when earned.

**GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2006

7. Regulatory assets, continued

- (iii) Retail settlement variances represent the difference between the amount paid by the company to the Independent Market System Operator ("IESO") for the cost of energy and the amount billed by the company to its customers as energy sales, and related carrying costs, which are recorded on the balance sheet as retail settlement variances until their final disposition is decided by the OEB. The company recognizes retail settlement variances as an asset or liability based on the expectation these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The retail settlement variance liability represents the deficiency of amounts billed by the IESO for the cost of energy compared to the amounts charged to customers as energy sales. In the absence of rate regulation, generally accepted accounting principles would require that the total cost of energy be charged to operations when incurred and the total amount of energy sales be credited to operations when earned.
- (iv) In May 2004, the Minister of Energy granted approval to all distributors to apply to the OEB for an increase in their 2005 distribution rates, conditional on a commitment by the company to spend an equivalent amount on conservation and demand management initiatives. The company received approval to collect approximately \$1,263,659 to be spent on these initiatives prior to March 31, 2008. During the year, the company earned \$201,353 (2005 - \$1,062,306) in its distributions rates and spent \$325,338 (2005 - \$207,654) on demand side management initiatives. In the absence of rate regulation, generally accepted accounting principles would require the company to recognize such revenues and costs in the operating results in the year they are earned or incurred.

For certain of the regulatory assets and liabilities identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. The company continually assesses the likelihood of recovery of each of its regulatory assets and refund of each of its regulatory liabilities 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 determines 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 charged to operations in the period the determination is made.

8. Other assets

	2006	2005
Other assets	\$282,707	\$ 282,707
360networks	183,750	210,000
	466,457	492,707
Less current portion	(26,250)	(26,250)
	<u>\$440,207</u>	<u>\$ 466,457</u>

**GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2006

8. Other assets, continued

The company acquired land and disposed of it to 360networks Corporation in exchange for the provision of future capacity services on an OC48 network owned by 360networks. Provision of these services covers a ten-year period that expires in 2013. The services are valued at \$262,500 and are being recognized on a straight-line basis over the period in which the capacity services are provided.

9. Promissory note payable

The promissory note payable to the City of Greater Sudbury is unsecured and bears interest at a rate of 7.25% per annum and has been subordinated to the Toronto Dominion Bank as security on the Company's operating credit facilities.

The note is repayable in full upon six months written notice of the holder of the note. As at December 31, 2006, the holder has not issued a demand to repay the note.

During the year interest totalling \$3,799,943 (2005 - \$3,799,943) was charged by the City of Greater Sudbury on the promissory note payable.

10. Deferred revenue

	2006	2005
City of Greater Sudbury (a)	\$ 109,375	\$ 153,125
HOTelecom (b)	611,687	-
Dark Fibre capacity services (c)	591,381	626,688
Internet services (d)	27,708	39,453
	<u>1,340,151</u>	<u>819,266</u>
Less current portion	(134,618)	(90,801)
	<u>\$1,205,533</u>	<u>\$ 728,465</u>

a) During the year 2003, the Corporation acquired land from the City of Greater Sudbury. In settlement of its obligation, the Corporation is supplying dark fibre capacity services to the City of Greater Sudbury for a six-year period ending October 15, 2009. This revenue is being recognized on a straight-line basis over the period in which the capacity services are provided.

b) During the year 2006, the Corporation entered into a Fibre Optic Cable IRU Agreement with Hydro One Telecom (HOTelecom) for a fourteen year-period ending December 31, 2020. This revenue is being recognized on a straight-line basis over the term of the agreement.

GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2006

10. Deferred revenue, continued

- c) The company has agreed to supply dark fibre capacity services to five public sector organizations commencing October 2003. Each of the five organizations have agreed to make a lump sum payment of \$120,000 as well as payments of \$500 per month for a 20-year period or a further lump sum payment, in exchange for the provision of these services by the company. The amounts received in advance will be recognized over the 20-year period that the service is delivered to the customer on a straight-line basis.
- d) The company has agreed to supply bandwidth to certain customers over two to five year periods, paid in advance. Revenue is recognized as services are rendered on a straight line basis.

11. Long-term obligations

	2006	2005
Employee future benefit obligation (note 12)	\$ 9,807,875	\$ 9,343,491
Customer deposits	1,696,537	1,465,757
Note payable to Muskoka Worldlink Corporation	561,750	788,000
Developer contributions	152,770	216,925
Carrying charges	220,034	358,654
Vested sick leave	44,549	44,676
	<u>12,483,515</u>	<u>12,217,503</u>
Less current portion	<u>(595,418)</u>	<u>(531,128)</u>
	<u>\$11,888,097</u>	<u>\$ 11,686,375</u>

The company has entered into an agreement with Muskoka Worldlink Corporation and Radio & T.V. Distribution Limited to purchase fibre optic strands and other rights pursuant to a fibre transfer agreement for \$900,000 effective September 27, 2005. Payments on the purchase are due as follows:

2007	214,000
2008	214,000
2009	133,750
	<u>\$ 561,750</u>

The long-term obligation is secured by a first position security interest in the purchased assets as long as there remains an outstanding balance. Interest is calculated at the Royal Bank of Canada prime borrowing rate plus 2% per annum.

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December 31, 2006

12. Employee future benefit obligation

The Company pays certain health, dental and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which the employees rendered their services. The employee future benefit obligation at December 31, 2005 and the expense for the year then ended was determined based on an actuarial valuation dated March 7, 2006 using the projected benefit method, prorated on service and a discount rate of 5.75%.

Information about the Company's employee future benefit obligation is as follows:

	2006	2005
Employee future benefit obligation, beginning of year	\$9,343,491	\$8,878,414
Expenses for the period	712,481	686,507
Benefits paid for the period	(248,097)	(221,430)
Employee future benefit obligation, end of year	\$9,807,875	\$9,343,491

The main actuarial assumptions underlying the valuations are as follows:

a) General and medical inflation:

The health care costs trend is estimated to decrease from 10% to 4% over six years. Other medical and dental expenses are assumed to remain consistent at a 4.5% increase per year.

b) Interest (discount) rate:

The obligation at December 31, 2005, being the present value of future liabilities and the expense for the period then ended, were determined using a discount 5.75%.

c) Salary levels:

Future general salary and wage levels were assumed to increase at 3% per year.

13. Preferred shares

	2006	2005
Authorized		
Unlimited 7.25% non-cumulative class A preferred shares, non-voting, redeemable and retractable at \$100 per share		
Issued		
41,841 class A preferred shares	\$4,184,127	\$ 4,184,127

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14. Share capital

	<u>2006</u>	<u>2005</u>
Authorized Unlimited common shares		
Issued 1,001 common shares	<u>\$22,431,779</u>	<u>\$22,431,779</u>

15. Commitments and contingencies

(a) The company has issued \$9,371,010 letters of guarantee to the Independent Electricity System Operator ("IESO"). This was a requirement of the IESO for market opening on May 1, 2002. At December 31, 2006, no amounts have been drawn on these letters of guarantee.

(b) Litigation:

A class action lawsuit claiming \$500 million in restitutionary payments, plus interest, was served on Toronto Hydro Electric Commission, continuing as Toronto Hydro Corporation, on November 8, 1998. This action was initiated against Toronto Hydro-Electric Commission as the representative of the defendant class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under section 347(1)(b) of the Criminal Code.

The Electricity Distributors Association has undertaken the defense of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

Accordingly, no provision has been made in these financial statements with respect to any possible losses that may arise as a result of this matter.

(c) Insurance claim:

In July, 2006, the Company sustained significant damage to its distribution systems as a result of a severe storm. Pending the outcome of an insurance claim that has been filed, reconstruction costs in the amount of \$509,000 have been capitalized. At the financial statement date, this claim has not been finalized. Any insurance proceeds will be applied against the capital assets to which they relate in the year they are determined.

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15. Commitments and contingencies, continued

- (c) In 2004, the Collective Agreement with CUPE Local 4705 was renewed. As part of the Memorandum of Settlement the Company has agreed to contribute a one time payment of \$175,000 to an Employee Health Care Supplemental Fund. The funds were set aside in a short term investment pending finalization of the setup of a Trust Fund to administer the investment and subsequent contributions. Beyond this initial contribution, the Company also agrees to contribute a single payment representing 100% of the savings calculated for the period September 1, 2005 to August 31, 2006, within thirty days of the final savings calculation. Any further contributions to the Fund are to come from the employees themselves.

At the balance sheet date the trust fund has not yet been established and correspondingly the one-time payment has not been made by the Company.

16. Related party transactions

The company is wholly owned by the City of Greater Sudbury.

The company provides electrical energy to the City at the same price protected rates and terms as other similar customers based on the amount of electricity consumed.

The company provides water billing services to the City. Included in accounts payable and accrued liabilities is \$1,220,265 (2005 - \$593,913) relating to amounts collected by the company on behalf of the City for water billing. Correspondingly, included in accounts receivable is \$49,064 (2005 - \$86,951) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the company sold the City water billing administration services and streetlight maintenance services totaling \$619,379 (2005 - \$641,788) and \$426,351 (2005 - \$367,000) respectively. Included in accounts receivable is \$35,418 (2005 - \$91,885) on account of these sales.

During the year, the company paid \$159,000 (2005 - \$157,000) to the City on account of municipal taxes.

Transactions with the City are in the normal course of operations and are recorded at the exchange amount, which is the amount agreed to by the related parties. It is management's opinion that the exchange amount represents fair market value for these services.

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17. Change in non-cash operating working capital

	2006	2005
Change in non-cash operating working capital:		
Accounts receivable	\$ (824,033)	\$(2,191,291)
Unbilled revenues - distribution	(337,881)	219,289
Unbilled revenues - energy	162,142	1,044,404
Inventory	(46,664)	(684,639)
Prepaid expenses	72,214	(91,450)
Accounts payable and accrued liabilities	(5,573,754)	6,133,445
Payable for energy purchases	1,946,173	1,307,610
Payment in lieu of taxes	920,501	(1,031,744)
	\$ (3,681,302)	\$ 4,705,624

18. Pension agreements

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer pension plan, on behalf of approximately 100 members of its staff including part time contributing members. The plan is a defined benefit pension plan which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rates of pay.

Contributions of \$476,802 (2005 - \$405,645) were paid during the year.

19. Loss carryforwards

For payment in lieu of tax purposes Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc. has losses which can be applied to reduce future years taxable income. The 2002 losses totaling \$323,821 expire in 2009. The 2003 losses totaling \$405,049 expire in 2010. The 2004 losses totaling \$178,303 expire in 2014. The 2005 losses totalling \$182,944 expire in 2026.

For payment in lieu of tax purposes West Nipissing Energy Services Ltd./Services D'Energie du Nipissing-Ouest Ltée. has losses which can be applied to reduce future years taxable income. The 2004 losses totalling \$284,054 expire in 2014.

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20. Financial instruments

Short-term financial assets and liabilities, including cash and investments, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and payable for energy purchases are valued at their carrying amounts as presented in the consolidated balance sheet. The carrying values are reasonable estimates of fair value due to the short period to maturity of these financial instruments.

It is management's estimate that the fair value of the Company's other assets, deferred revenue, long-term obligations, promissory note payable and preferred shares are not materially different from the carrying value based on current rates for instruments with similar terms and maturities.

21. Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. These changes do not affect prior year earnings.