SECTION 6

Consolidated Financial Statements of

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

Year ended December 31, 2007

Consolidated Financial Statements of

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

Year ended December 31, 2007

Collins Barrow
Chartered Accountants / Comptables agréés

FCR | FREELANDT CALDWELL REILLY LLP
CHARTERED ACCOUNTANTS

KPMG

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, 2007** 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, 2007, 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

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Chartered Accountants
Licensed Public Accountants

Sudbury, Canada

March 14, 2008

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Balance Sheet
December 31, 2007 with comparative figures for 2006

	2007	2006
Assets		
Current		
Cash and investments (note 3)	$ 11,381,362	$ 12,563,923
Accounts receivable (note 4)	5,121,271	6,927,338
Unbilled revenue - distribution	3,084,651	3,077,592
Unbilled revenue - energy sales	11,533,848	11,557,391
Inventory	1,922,892	1,969,343
Prepaid expenses	311,812	311,408
Current portion of regulatory assets	-	285,336
Current portion of other assets	26,250	26,250
	33,382,086	36,718,581
Capital assets (note 5)	73,873,423	68,387,363
Payment in lieu of future taxes (note 6)	6,458,394	4,578,483
Regulatory assets (note 7)	60,638	46,123
Other assets (note 8)	413,957	440,207
	$ 114,188,498	$ 110,170,757

Approved on behalf of the Board

Director ____________________

Director ____________________

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Balance Sheet
December 31, 2007 with comparative figures for 2006

	2007	2006
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	$ 5,631,663	$ 4,794,856
Payable for energy purchases	7,942,242	11,829,893
Payment in lieu of taxes	524,431	882,307
Promissory note payable (note 9)	52,340,819	52,340,819
Current portion of deferred revenue	134,432	134,618
Current portion of regulatory liabilities	104,888	916,110
Current portion of long-term obligations	666,963	595,418
	67,345,438	71,494,021
Deferred revenue (note 10)	1,071,105	1,205,533
Regulatory liabilities (note 7)	1,694,451	665,746
Long-term obligations (note 11)	21,113,165	11,888,097
Preferred shares (note 13)	4,184,127	4,184,127
	95,408,286	89,437,524
Shareholder's equity		
Share capital (note 14)	22,431,779	22,431,779
Deficit	(3,651,567)	(1,698,546)
	18,780,212	20,733,233
Commitments and contingencies (note 15)		
	$ 114,188,498	$ 110,170,757

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Statement of Operations and Deficit
Year ended December 31, 2007 with comparative figures for 2006

	2007	2006
Revenue		
Energy sales	$ 71,996,069	$ 70,852,192
Distribution	21,493,855	19,706,132
	93,489,924	90,558,324
Cost of energy	71,996,069	70,852,192
Gross profit	21,493,855	19,706,132
Expenses		
Operating and administration	15,643,646	14,094,566
Amortization	5,978,172	5,704,018
Interest on promissory note payable	3,794,793	3,794,793
Interest on long-term obligations	990,213	603,069
	26,406,824	24,196,446
Loss before undernoted items and payment in lieu of taxes	(4,912,969)	(4,490,314)
Other operating revenue and expenses:		
Gain (loss) on disposal of capital assets	(10,236)	10,596
Other operating revenue	9,605,713	8,146,823
Actuarial loss on employee future benefit obligation (Note 12)	(5,912,439)	-
	3,683,038	8,157,419
Earnings (loss) before payment in lieu of taxes	(1,229,932)	3,667,105
Payment in lieu of taxes (note 6)		
Current	2,689,117	2,408,884
Recovery due to loss carry-forwards	(86,117)	(167,479)
Future	(1,879,911)	(842,151)
	723,089	1,399,254
Net earnings (loss)	(1,953,021)	2,267,851
Deficit, beginning of year	(1,698,546)	(3,966,397)
Deficit, end of year	$ (3,651,567)	$ (1,698,546)

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Cash Flow Statement
Year ended December 31, 2007 with comparative figures for 2006

	2007	2006
Cash flows from operating activities		
Net earnings (loss)	$ (1,953,021)	$ 2,267,851
Adjustments for:		
Amortization	5,978,172	5,704,018
Payment in lieu of future taxes	(1,879,911)	(842,151)
Other amortization	286,738	259,507
(Gain) loss on disposal of capital assets	10,236	(10,596)
Employee future benefit obligation	6,715,988	464,384
	9,158,202	7,843,013
Change in non-cash operating working capital (note 17)	(1,540,122)	(3,681,302)
	7,618,080	4,161,711
Cash flows from investing activities		
Purchase of capital assets	(13,647,908)	(8,921,123)
Proceeds on disposal of capital assets	29,437	10,596
Contributions in aid of construction	1,857,265	1,833,510
Regulatory assets/liabilities	488,304	761,381
Other assets	26,250	26,250
	(11,246,652)	(6,289,386)
Cash flows from financing activities		
Proceeds from long-term obligations	2,800,000	-
Repayment of long-term obligations	(219,375)	(198,372)
Deferred revenue	(134,614)	520,885
	2,446,011	322,513
Decrease in cash and investments	(1,182,561)	(1,805,162)
Cash and investments, beginning of year	12,563,923	14,369,085
Cash and investments, end of year	$ 11,381,362	$ 12,563,923
Other information		
Interest paid	$ (3,909,561)	$ (3,851,163)
Payment in lieu of taxes paid	(2,952,862)	(1,164,591)

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 Corporation 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 Corporation'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 fullfil obligations to connect and service customers.

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation 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 Ltée.; 1627596 Ontario Inc.; and 1700211 Ontario Inc.

(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.

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, allowances for uncollectible accounts at the balance sheet date and fair value determinations.

(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.

2. **Significant accounting policies, continued**

(i) **Capital assets**

Capital assets are recorded at cost less government grants received, 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
Generation	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 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 also 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.

(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 charged to operations at the same rate as the capital assets to which they relate.

2. Significant accounting policies, continued

(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 capital assets to which they relate. Contributions refunded reduce the corresponding contra-asset account of the capital 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 actuarially determined.

(n) Asset retirement obligations

Accounting standards require the Corporation 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 Corporation's distribution system assets may have asset retirement obligations. As the Corporation 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 Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

(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 Corporation 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 the end of the year.

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

2. **Significant accounting policies, continued**

(p) **Financial instruments**

Effective January 1, 2007, the Corporation adopted the CICA Handbook Sections 3855 "Financial Instruments - Recognition and Measurement", 3861 "Financial Instruments - Disclosure and Presentation", 1530 "Comprehensive Income" and the revised CICA Handbook Section 3251 "Equity". As provided under the standards, the comparative figures have not been restated. These new Handbook sections have lead to changes in the accounting for financial instruments. All relevant changes are outlined below.

Financial Instruments - Recognition and Measurement - Section 3855

This section establishes the standards for the recognition and measurement of financial assets and financial liabilities. At inception, all financial instruments which meet the definition of a financial asset or financial liability are to be recorded at their fair value, unless fair value cannot be reliably determined. Depending on the nature of the financial instrument, revenues, expenses, gains and losses theron would be reported in either net income or other comprehensive income. Subsequent measurement of each financial instrument will depend on the balance sheet classification selected by the Corporation. As of January 1, 2007, the Corporation has selected the following balance sheet classifications with respect to its financial assets and financial liabilities:

- Cash is a financial asset classified as "held for trading" and is measured at fair value";
- Cash equivalents, comprising short-term investments, are financial assets classified as "held to maturity investments" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value;
- Accounts receivable and unbilled revenue are financial assets classified as "loans and receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value; subsequent measurements are recorded at amortized cost using the effective interest rate method; and,
- Accounts payable and accrued liabilities, payable for energy purchases, promissory note payable, long-term obligations, deferred revenue and preferred shares are financial liabilities classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Comprehensive Income - Section 1530

This Section describes the recognition and disclosure requirements with respect to comprehensive income. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income represents the change in the fair value of a financial instrument which has not been included in net income.

As the Corporation had no adjustments to other comprehensive income during the year ended December 31, 2007, the adoption of this standard does not have an impact on the December 31, 2007 consolidated financial statements.

3. **Cash and investments**

The Corporation 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., West Nipissing Energy Services Ltd./Services D'Energie du Nipissing-Ouest Ltee., 1627596 Ontario Inc., 1700211 Ontario Inc., and a subordination agreement regarding the Promissory Note owing to the City of Greater Sudbury. At December 31, 2007 no amount is outstanding on this credit facility.

4. **Accounts receivable**

	2007	2006
Electricity receivables	$ 2,610,870	$ 5,101,613
Other receivables	4,420,573	3,571,040
	7,031,443	8,672,653
Allowance for doubtful accounts	(1,910,172)	(1,745,315)
	$ 5,121,271	$ 6,927,338

5. **Capital assets**

	Cost	Accumulated Amortization	2007 Net	2006 Net
Land	$ 896,021	$ -	$ 896,021	$ 896,021
Buildings	9,279,485	3,579,298	5,700,187	5,611,193
Distribution systems	129,171,776	77,655,831	51,515,945	51,364,339
System supervisory equipment	1,245,223	998,404	246,819	7,183,702
Automotive	3,332,294	2,631,992	700,302	1,224,692
Office and other equipment	5,719,140	5,021,156	697,984	598,192
Computer equipment	4,645,342	4,009,366	635,976	379,120
Water heaters	2,005,418	323,209	1,682,209	664,209
Generation	3,216,213	160,811	3,055,402	-
Fibre optics	14,009,402	5,373,232	8,636,170	306,010
Wireless towers	36,774	4,038	32,736	31,962
Construction in progress	73,672		73,672	127,923
	$ 173,630,760	$ 99,757,337	$ 73,873,423	$ 68,387,363

Contributions in aid of construction received during the year totalled $1,857,265 (2006 - $1,833,510). Total contributions in aid of construction received at December 31, 2007 were $11,130,613 (2006- $9,273,348) with related accumulated amortization of $1,917,111 (2006 - $1,430,865) resulting in a net contra-asset of $9,213,502 (2006 - $7,842,483) which has been offset against the capital assets to which they relate.

6. Payment in lieu of taxes

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

	2007	2006
Payment in lieu of future tax assets:		
Non-capital loss carry-forwards	$ 787,650	$ 393,749
Difference between tax basis of capital assets and carrying value	2,581,045	2,800,306
Difference between carrying value of net regulatory liabilities and tax basis	597,404	608,467
Difference between tax basis of employee future benefit obligation and carrying value	2,822,600	1,089,782
	6,788,699	4,892,304
Valuation allowance	(330,305)	(313,821)
	$ 6,458,394	$ 4,578,483

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% (2006 - 36.12%) to the earnings for the year as follows:

	2007	2006
Earnings (loss) before payment in lieu of taxes	$ (1,229,932)	$ 3,667,105
Anticipated provision for (recovery of) payment in lieu of taxes	(444,251)	1,324,559
Effect of reduction of payment in lieu of future income tax asset due to reduction in tax rates	1,029,644	-
Effect of items not deductible for payment in lieu of tax purposes	199,035	-
Increase (decrease) in valuation allowance	16,484	(22,129)
Other	(77,823)	96,824
Provision for (recovery of) payment in lieu of taxes	$ 723,089	$ 1,399,254

7. **Regulatory assets and liabilities**

(a) Regulatory assets:

	2007	2006
Deferred transition costs (i)	$ -	$ 272,127
Pre-market opening energy variances (ii)	60,638	59,332
	60,638	331,459
Less current portion	-	(285,336)
	$ 60,638	$ 46,123

(b) Regulatory liabilities:

	2007	2006
Retail settlement variances (iii)	$ 1,480,079	$ 851,189
Deferred transition costs (i)	77,649	$ -
Demand side management costs (iv)	82,677	730,667
Smart meters (v)	158,934	-
	1,799,339	1,581,856
Less current portion	(104,888)	(916,110)
	$ 1,694,451	$ 665,746

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 Corporation 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 Corporation 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.

7. **Regulatory assets and liabilities, continued**

(iii) Retail settlement variances represent the difference between the amount paid by the Corporation to the Independent Market System Operator ("IESO") for the cost of energy and the amount billed by the Corporation 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 Corporation 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 Corporation to spend an equivalent amount on conservation and demand management initiatives. The Corporation received approval to collect $1,263,659 to be spent on these initiatives prior to March 31, 2008. During the year, the Corporation earned $nil (2006 - $201,353) in its distribution rates and spent $647,990 (2006 - $325,338) on demand side management initiatives. In the absence of rate regulation, generally accepted account principles would require the company to recognize such revenues and costs in the operating results in the year they were earned or incurred.

(v) Effective May 1, 2006, the OEB has allowed the Corporation to defer capital expenditures, operating expenditures, amortization and revenues relating to smart meters. Accordingly, the Corporation has deferred these items in acccordance with criteria set out in the Accounting Procedures Manual. In 2007, smart meter customer revenues of $224,383 and expenditures of $65,449 were deferred. In the absence of rate regulation, generally accepted accounting principles would require the Corporation to recognize such revenues and expenses in the operating results in the year they were 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 Corporation 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 Corporation 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**

	2007	2006
Other assets	$ 282,707	$ 282,707
360networks	157,500	183,750
	440,207	466,457
Less current portion	(26,250)	(26,250)
	$ 413,957	$ 440,207

The Corporation 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 Corporation'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, 2007, the holder has not issued a demand to repay the note.

During the year interest totalling $3,794,793 (2006 - $3,794,793) was charged by the City of Greater Sudbury on the promissory note payable.

10. **Deferred revenue**

	2007	2006
City of Greater Sudbury (a)	$ 65,625	$ 109,375
HOTelecom (b)	566,874	611,687
Dark Fibre capacity services (c)	556,075	591,381
Internet services (d)	16,963	27,708
	1,205,537	1,340,151
Less current portion	(134,432)	(134,618)
	$ 1,071,105	$ 1,205,533

(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.

10. **Deferred revenue, continued**

(c) The Corporation agreed to supply dark fibre capacity services to five public sector organizations commencing October 2003. Each of the five organizations 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 customers on a straight-line basis.

(d) The Corporation 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**

	2007	2006
Employee future benefit obligation (note 12)	$ 16,523,863	$ 9,807,875
Loan payable (a)	2,770,000	-
Customer deposits	1,964,005	1,696,537
Note payable (b)	325,000	561,750
Developer contributions	152,770	152,770
Carrying charges	-	220,034
Vested sick leave	44,490	44,549
	21,780,128	12,483,515
Less current portion	(666,963)	(595,418)
	$ 21,113,165	$ 11,888,097

(a) The Corporation was advanced monies under a reducing term, floating rate facility at a face amount of $2,800,000 to finance the construction of a landfill gas generation plant. Concurrent with the entry into the loan facility, to mitigate the Corporation's exposure to interest rate risk, the Corporation entered into an International Swaps and Derivatives Association, 200 Master Agreement. The interest rate swap is used for non-speculative purposes to convert floating rate debt into fixed rate debt bearing interest at 5.97%. The debt facility has a termination date of July 12, 2027 with an optional exit strategy at 5, 10 and 15 years.

The debt facilities are secured by a general security agreement (GSA) representing a first charge on all the borrower's assets and undertakings; and an unlimited guarantee of advances executed by the borrower.

Principal repayments in each of the next five years are as follows:

2008	$ 77,000
2009	$ 80,000
2010	$ 87,000
2011	$ 93,000
2012	$ 97,000

11. **Long-term obligations, continued**

(b) The Corporation has entered into an agreement with Muskoka Worldlink Corporation and Ratio & 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:

2008	$	200,000
2009		125,000
	$	325,000

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.

12. **Employee future benefit obligation**

The Corporation 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, 2007 and the expense for the year then ended was determined based on an actuarial valuation dated March 14, 2008 using the projected benefit method, prorated on service and a discount rate of 5.0%.

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

	2007	2006
Employee future benefit obligation, beginning of year	$ 9,807,875	$ 9,343,491
Actuarial loss	5,912,439	-
Balance restated	$ 15,720,314	$ 9,343,491
Expenses for the period	1,149,549	712,481
Benefits paid for the period	(346,000)	(248,097)
Employee future benefits obligation, end of year	$ 16,523,863	$ 9,807,875

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 10.0% to 5.0% over six years. Other medical and dental expenses are assumed to remain consistent at a 5.0% increase per year.

b) Interest (discount) rate:

The obligation at December 31, 2007, being the present value of future liabilities and the expense for the period then ended, were determined using a discount rate of 5.0%.

c) Salary levels:

Future general salary and wage levels were assumed to increase at 3.0% per year.

13. **Preferred shares**

	2007	2006
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

14. **Share capital**

	2007	2006
Authorized		
Unlimited common shares		
Issued		
1,001 common shares	$ 22,431,779	$ 22,431,779

15. **Commitments and contingencies**

(a) The Company has issued a $9,048,386 letter 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, 2007, no amounts have been drawn on this letter 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 defendent 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 (EDA) 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 Corporation. 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 claims:

In the spring of 2007, the Company sustained significant damage to two of its distribution substations. Pending the outcome of an insurance claim that has been filed, expenditures in the amount of $175,000 have been capitalized. At the financial statement date, these claims have not been finalized. Any insurance proceeds will be applied against the capital assets to which they relate in the year they are determined.

15. **Commitments and contingencies, continued**

(d) In 2004, the Collective Agreement with CUPE Local 4705 was renewed. As part of the Memorandum of Settlement the Corporation 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 Corporation 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 calcultion. 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 Corporation.

16. **Related party transactions**

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

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

The Corporation provides water billing services to the City of Greater Sudbury. Included in accounts payable and accrued liabilities is $1,040,663 (2006 - $1,220,265) relating to amounts collected by the Corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is $43,448 (2006 - $49,064) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the Corporation sold the City water billing administration services and streetlight maintenance services totalling $715,619 (2006 - $619,379) and $539,121 (2006 - $426,351) respectively. Included in accounts receivable is $157,076 (2006 - $35,418) on account of these sales.

During the year, the Corporation paid $175,400 (2006 - $164,000) 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.

17. Change in non-cash operating working capital

	2007	2006
Accounts receivable	$ 1,806,067	$ (824,033)
Unbilled revenues - distribution	(7,059)	(337,881)
Unbilled revenues - energy	23,543	162,142
Inventory	46,451	(46,664)
Prepaid expenses	(404)	72,214
Accounts payable and accrued liabilities	836,807	(5,573,754)
Payable for energy purchases	(3,887,651)	1,946,173
Payment in lieu of taxes	(357,876)	920,501
	$ (1,540,122)	$ (3,681,302)

18. Financial instruments

a) *Credit risk*

The Corporation is exposed to credit risk with respect to its cash and investments, accounts receivable and unbilled revenue receivable.

The Corporation has deposited the cash and investments with large reputable financial institutions, from which management believes the risk of loss to be remote.

The Corporation has accounts receivable and unbilled revenue receivable from a large number of private individual and business customers in many industries located within the service territory. The Corporation monitors and limits its exposure to customers defaulting on their obligations. The Corporation provides an allowance for uncollectible accounts to absorb estimated credit losses. At December 31, 2007, there were no significant concentrations of credit risk with respect these financial assets.

b) *Interest rate risk*

The Corporation is exposed to interest rate risk with respect to its operating line of credit facilities, promissory note payable, long-term debt and preferred shares.

The Corporation's operating line of credit facilities and long-term debt are sensitive to interest rate movements as they consist of prime rate based loans and advances.

The Corporation's promissory note payable and preferred shares are not sensitive to interest rate movements as they bear interest at fixed rates.

c) *Fair value of financial instruments*

The carrying value of cash and investments, accounts receivable, unbilled revenue receivable, and accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these financial instruments.

The fair value of the Corporation's promissory note payable and preferred shares cannot be reliably determined bacause there is no active market for these instruments and expected future cash flows cannot be reliably predicted.

18. **Financial instruments, continued**

c) ***Fair value of financial instruments, continued***

At December 31, 2007, the fair value of the long term obligations and deferred revenue are not considered to be materially different from their carrying value.

19. **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 $497,608 (2006 - $476,802) were paid during the year.

20. **Loss carryforwards.**

For payment in lieu of tax purposes Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc. has $1,373,057 of losses which can be applied to reduce future years taxable income. The 2002 losses totalling $323,821 expire in 2009. The 2003 losses totalling $405,049 expire in 2010. The 2004 losses totalling $178,300 expire in 2014. The 2006 losses totalling $182,944 expire in 2026. The 2007 losses totalling $282,943 expire in 2027.

For payment in lieu of tax purposes, 1700211 Ontario Inc. has $807,592 of losses which can be applied to reduce future years taxable income. These losses expire in 2027.

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.