

Audited Financial Statements of

THE ONTARIO NFWA TRUST

December 31, 2007

Auditors' Report

To the Trustee of The Ontario NFWA Trust:

We have audited the statement of net assets of The Ontario NFWA Trust (the "Trust") as at December 31, 2007 and the statements of operations and comprehensive income and of changes in net assets for the year then ended. These financial statements are the responsibility of the Trustee of the Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and the results of its operations and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants
February 25, 2008

THE ONTARIO NFWA TRUST

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THE ONTARIO NFWA TRUST

Statement of Net Assets

As at December 31, 2007
(in thousands of dollars)

	2007	2006
ASSETS		
INVESTMENTS (Note 3)		
Cash	\$ 88	\$ 128
Short term investments	74,770	162,183
Fixed income investments	1,163,441	935,950
	1,238,299	1,098,261
OTHER		
Interest receivable (Note 4)	5,597	6,254
Receivable for investment transactions (Note 8)	233	200
	5,830	6,454
	1,244,129	1,104,715
LIABILITIES		
Accounts payable and accruals (Note 5)	403	1,005
Payable for investments transactions (Note 8)	-	1,405
	403	2,410
NET ASSETS	\$ 1,243,726	\$ 1,102,305

THE ONTARIO NFWA TRUST
Statement of Operations and Comprehensive Income
For the year ended December 31, 2007
(in thousands of dollars)

	2007	2006
INVESTMENT INCOME (Note 6)		
Interest	\$ 56,357	\$ 48,184
Net realized (losses) / gains	(602)	2,613
	55,755	50,797
EXPENSES		
Administration fees (Note 9)	1,553	1,387
NET INVESTMENT INCOME	54,202	49,410
NET UNREALIZED LOSSES (Note 6)	(12,598)	(5,220)
NET INCOME AND COMPREHENSIVE INCOME	\$ 41,604	\$ 44,190

THE ONTARIO NFWA TRUST
Statement of Changes in Net Assets
For the year ended December 31, 2007
(in thousands of dollars)

	2007	2006
NET ASSETS, BEGINNING OF YEAR	\$ 1,102,305	\$ 1,008,115
January 1, 2007 bid pricing adjustment (Note 2)	(183)	-
	1,102,122	\$ 1,008,115
NET INCOME	41,604	44,190
CONTRIBUTIONS (Note 7)	100,000	50,000
NET ASSETS, END OF YEAR	\$ 1,243,726	\$ 1,102,305

THE ONTARIO NFWA TRUST

Notes to the Financial Statements

December 31, 2007
(in thousands of dollars, unless otherwise stated)

1. THE ONTARIO NFWA TRUST

Bill C-27, the Nuclear Fuel Waste Act (“NFWA”), received royal assent on June 13, 2002 and was proclaimed into force on November 15, 2002. Bill C-27 is a key component of the Government of Canada’s 1996 Policy Framework for Radioactive Waste. Under this policy, the Federal Government, through effective oversight, will ensure that the long-term management of radioactive waste is carried out in a comprehensive, integrated and economically sound manner.

As required under the NFWA, owners of nuclear fuel waste established, by incorporation, the Nuclear Waste Management Organization (“NWMO”), whose purpose is to propose to the Government of Canada approaches for the management of nuclear fuel waste, and to implement the approach that is selected by the Federal Government. In accordance with the NFWA, the NWMO submitted its recommendations for a long-term nuclear used fuel management strategy to the Federal Government in November 2005. In June 2007, the Federal Government selected the NWMO’s recommended option titled Adaptive Phased Management.

Upon the NFWA coming into force in November 2002, the owners of nuclear fuel waste were required to establish trust funds and to make annual payments into those trust funds to finance the long-term management of nuclear fuel waste. Accordingly, Ontario Power Generation Inc. (“OPG”), established The Ontario NFWA Trust (the “Trust”), and made an initial deposit of \$500 million into this trust fund on November 25, 2002. Under the NFWA, OPG is required to deposit an additional \$100 million into the Trust each year, no later than the anniversary of the NFWA being proclaimed into force, until such time as an approach for long-term used fuel management is approved by the Federal Government. To comply with this requirement, OPG contributed \$100 million to the Trust in each of 2003 and 2004, \$150 million in 2005, \$50 million in 2006, and \$100 million in 2007. Future contributions to the Trust beyond 2007 will be based on the direction approved by the Federal Government in June 2007. Contribution amounts are being finalized by OPG and the other Canadian used fuel waste owners in the first quarter of 2008.

The funds in the Trust will be used for the purposes of managing used fuel. These financial statements do not portray the funding requirements of the long-term management of nuclear fuel waste obligations.

The Trustee of the Trust is CIBC Mellon Trust Company. The Province of Ontario (the “Province”) and OPG are the beneficiaries of the Trust. The Trust is part of the Used Fuel Segregated Fund set up by OPG pursuant to the Ontario Nuclear Funds Agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

THE ONTARIO NFWA TRUST
Notes to the Financial Statements
December 31, 2007
(in thousands of dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and short term investments

Cash includes cash on deposit. Liquid money market securities with a term to maturity that is less than one year from the financial statement date are recorded as short term investments. Interest earned on cash and short term investments is recognized as interest income.

Changes in Accounting Policies and Estimates

On January 1, 2007, the Trust adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”): Handbook Section 1530, Comprehensive Income; Handbook Section 3855, Financial Instruments – Recognition and Measurement; Handbook Section 3865, Hedges; and Handbook Section 3861, Financial Instruments – Disclosure and Presentation, in accordance with Handbook Section 1506, Accounting Changes. The comparative amounts for prior periods have not been restated.

As a result of adopting these standards, financial assets are classified as loans and receivables or held-for-trading and financial liabilities are classified as other than held-for-trading. Financial assets held-for-trading are measured at fair value with gains and losses recognized in results of operations. Loans and receivables, and financial liabilities other than those held-for-trading, are measured at amortized cost. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a trade-date basis. All derivatives, including embedded derivatives that must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the statement of net assets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

The new standard permits designation of any financial instrument as held-for-trading (the fair value option) upon initial recognition. This designation by the Trust requires that the financial instrument be reliably measurable, and eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities.

Impact of Adoption

Prior to adoption of the financial instruments accounting standards, the assets in the Trust were carried at fair value based on the market value of securities in the Trust using the closing price of the securities at the end of each reporting period. Starting January 1, 2007, the investments in the Trust were classified as held-for-trading, and bid pricing was used to determine the fair value of the securities. As a result, the fair value of the Trust on January 1, 2007, based on bid pricing, is lower than that reported as at December 31, 2006, in the financial statements of the Trust. Consequently a transition adjustment of \$183 was recorded to reduce the opening balance of net assets at January 1, 2007.

THE ONTARIO NFWA TRUST
Notes to the Financial Statements
December 31, 2007
(in thousands of dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment valuation

Investments are presented in the financial statements at fair value with the changes between fair value and average cost recorded as unrealized gains / (losses) on the value of the investments.

The carrying value of liquid money market securities with a remaining term to maturity that is less than one year approximates their fair value due to their immediate or short term maturity.

The market values of foreign investments are translated into Canadian dollars at the exchange rates prevailing at the close of each business day. Purchases and sales of foreign securities and income and expenses are translated into Canadian dollars at the exchange rates prevailing on the transaction dates. The gains and losses on foreign exchange are recorded in the statement of operations and comprehensive income.

Prior to January 1, 2007, securities traded on a national securities exchange were valued at the last reported traded price on the last business day of the period. Listed securities for which no trade was recorded on that date were valued at the last reported traded price on which the security traded. Starting January 1, 2007, securities traded on a national securities exchange are valued at the bid price on the last business day of the period. Listed securities for which no trades are recorded on the last business day of the period are valued at the last reported traded price on which the security traded. Pooled funds are valued based on the unit value of the pooled fund as reported by the investment manager. Security transactions are recorded on the trade date. Dividends are accrued as of the ex-dividend date. Stock dividends are recorded in income based on the market value of the security. The realized gains / (losses) on the sale of securities is calculated with reference to the average cost of the securities and included in investment income on the statement of operations and comprehensive income. The Trust follows the accrual method of recording investment income.

For certain other investments that do not have an established fair value, the fair value is estimated based on comparable securities of issuers with similar credit ratings or net realizable value using available information.

Forward foreign exchange contracts

The Trust may enter into forward foreign exchange contracts for risk management purposes where such activity is consistent with its investment objectives.

For 2007, the changes in the year end value of forward foreign exchange contracts have been included in the receivable for investment transactions on the statement of net assets, with the corresponding gain included as part of the net unrealized losses on the statement of operations and comprehensive income.

The gain or loss arising from the difference between the value of the original forward foreign exchange contract and the contract at close or delivery is realized and recorded as the net realized gains / (losses) on the statement of operations and comprehensive income.

THE ONTARIO NFWA TRUST
Notes to the Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

In 2002, a letter was received from the Senior Assistant Deputy Minister, Department of Finance Canada, stating the Department's overall intent to ensure that the legislative obligations under the NFWA do not cause the Trust to be subject to income taxes. As a result of the Department's recommendation, a proposed amendment to add subsection 149(1)(z.2) to the Income Tax Act was released by the Department on July 18, 2005. This new paragraph exempts the Trust from tax as it was created and maintained solely to meet the obligations of the NFWA. The new subsection 149(1)(z.2) was included as s. 148(3) in Bill C-10 and passed second Senate reading on December 4, 2007. Accordingly, the Trust has made no provision for income taxes in these financial statements.

Risk management

The primary objective of the Trust is to meet the payment obligations associated with the disposal costs associated with high level used nuclear fuel. In order to meet these liability payments, the long-term return objective of the Used Fuel Segregated Fund, of which the Trust is a part, is to achieve a total annual real return of 3.25% (i.e., the Ontario Consumer Price Index plus 3.25%).

A Statement of Investment Policies and Procedures ("SIPP") was established for the Trust which sets out the investment framework of the Trust, including the investment assumptions, permitted investments and various investment constraints. Further, the SIPP provides the long-term asset mix of the Trust, considered in the context of the Used Fuel Segregated Fund, which considers its funded status and investment objectives in relation to its projected long-term liability profile and cash flows, historical experience of investment vehicles, the appropriate level of diversification to optimize risk and return, and the risk preferences of the Province and OPG. The management of OPG and the Province monitor investment compliance with the SIPP on a regular basis.

The SIPP is approved annually by the Deputy Minister of Finance, on behalf of the Province.

Future Accounting Changes

Section 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Trust is currently evaluating the impact of the adoption of these new sections on its financial statements.

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3. INVESTMENTS

The fair values and historical costs of the investments as at December 31, 2007 and 2006 included for comparison purposes were as follows:

	2007		2006	
	Fair Value	Historical Cost	Fair Value	Historical Cost
Cash	\$ 88	\$ 88	\$ 128	\$ 128
Short term investments	74,770	74,238	162,183	163,729
Fixed income investments	1,163,441	1,176,840	935,950	933,615
	\$ 1,238,299	\$ 1,251,166	\$ 1,098,261	\$ 1,097,472

Terms to maturity of interest bearing investments at December 31 were as follows:

	2007	2006
Fixed income investments		
1 to 5 years	\$ 615,510	\$ 493,221
5 to 10 years	299,431	206,933
Over 10 years	248,500	235,796
Total	\$ 1,163,441	\$ 935,950
Average yield	4.99%	4.58%

4. INTEREST RECEIVABLE

As at December 31, 2007, there was approximately \$5,597 (2006 – \$6,254) of interest receivable from cash, short term investments, and fixed income investments.

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Notes to the Financial Statements
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5. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable consists of the following:

	2007	2006
Audit fees	\$ 19	\$ 19
Trustee fees	7	8
Investment management fees	377	343
Unrealized loss on forward foreign exchange contract	-	635
	\$ 403	\$ 1,005

For 2007, the unrealized gain of \$233 on the forward foreign exchange contract is reported as part of the receivable for investment transactions on the statement of net assets (Note 8). The 2006 unrealized loss on the forward foreign exchange contract of \$635 is made up of the December 31, 2006 market value of forward foreign exchange contract receivable of \$42,208 and forward foreign exchange contract payable of \$42,843. The term to maturity of the forward foreign exchange contract at December 31, 2006 was less than one month.

6. INVESTMENT INCOME, REALIZED AND UNREALIZED GAINS AND LOSSES

Investment income and realized and unrealized gains and losses for the years ended December 31, 2007 and 2006 consists of the following:

	2007	2006
Interest from cash, short term investments and bonds and debentures	\$ 56,357	\$ 48,184
Net realized (losses) / gains		
Realized gains	\$ 1,222	\$ 2,958
Realized foreign exchange losses	(1,824)	(345)
	\$ (602)	\$ 2,613
Net unrealized (losses) / gains		
Unrealized (losses) / gains	\$ (13,758)	\$ (5,308)
Unrealized foreign exchange gains	1,160	88
	\$ (12,598)	\$ (5,220)

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7. CONTRIBUTIONS

Cash contributions to the Trust during the year were \$100 million (2006 – \$50 million).

8. RECEIVABLE/PAYABLE FOR INVESTMENT TRANSACTIONS

There were no investments sold at the end of the year that had not settled at December 31, 2007, to be presented as a receivable (2006 – \$200). The forward foreign exchange contract has been reported on a net basis. In 2007, the unrealized gain of \$233 was as a result of the difference in market value of the contract receivable of \$13,151 and contract payable of \$12,918. In 2006, there was an unrealized loss on the forward foreign exchange contract of \$635 which is presented in accounts payable and accruals (Note 5). The term to maturity for the forward foreign exchange contract at December 31, 2007 was under one month.

	2007	2006
Receivable for investments sold	\$ -	\$ 200
Unrealized gain on forward foreign exchange contracts	233	-
	\$ 233	\$ 200

There were no investments purchased at the end of the year that had not settled at December 31, 2007, to be presented as a payable (2006 – \$1,405).

	2007	2006
Payable for investments purchased	\$ -	\$ 1,405

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(in thousands of dollars, unless otherwise stated)

9. ADMINISTRATION FEES

Administration fees for the years ended December 31, 2007 and December 31, 2006 were as follows:

	2007	2006
Audit fees	\$ 19	\$ 17
Trustee fees	44	36
Investment management fees	1,490	1,334
	\$ 1,553	\$ 1,387

10. PAYMENTS/WITHDRAWALS

There were no payments or withdrawals made from the Trust relating to the disposal of long-term nuclear fuel waste as permitted under the NFWA.