Consolidated Financial Statements of

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

Year ended December 31, 2012

May 3, 2013

Independent Auditor's Report

To the Directors of
Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc.

We have audited the accompanying consolidated financial statements of Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of operations and deficit and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. and its subsidiaries as at December 31, 2012 and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Balance Sheet

Year ended December 31 *(in Canadian dollars)*	2012	2011
Assets		
Current		
Cash and cash equivalents (note 3)	$ 2,212,384	$ 7,479,511
Accounts receivable (note 4)	11,015,542	4,442,073
Unbilled revenue - distribution	3,223,113	3,526,857
Unbilled revenue - energy sales	13,263,399	14,040,593
Payment in lieu of taxes (note 8)	761,131	180,107
Inventory	473,103	266,564
Prepaid expenses	394,527	444,264
Current portion of other assets (note 10)	26,250	26,250
	31,369,449	30,406,219
Restricted cash (note 17(c))	308,236	280,299
Capital assets (note 5)	88,791,922	85,120,462
Intangible assets (note 7)	1,724,417	-
Payment in lieu of future taxes (note 8)	11,220,394	9,246,740
Regulatory assets (note 9)	5,656,741	5,291,311
Other assets (note 10)	-	76,811
	$ 139,071,159	$ 130,421,842

Approved on behalf of the Board

Director Frances Caldarelli

Director ____________________

See accompanying notes to financial statements

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Balance Sheet

Year ended December 31 *(in Canadian dollars)*		2012		2011
Liabilities and shareholder's equity				
Current				
Accounts payable and accrued liabilities	$	7,506,120	$	6,020,549
Payable for energy purchases		12,492,237		10,434,707
Promissory note payable (note 11)		52,340,819		52,340,819
Current portion of deferred revenue (note 12)		85,087		88,919
Current portion of long-term obligations (note 13)		1,099,089		1,088,374
Current portion of capital lease obligation (note 14)		95,951		91,278
		73,619,303		70,064,646
Deferred revenue (note 12)		756,354		841,441
Payment in lieu of future taxes (note 8)		641,042		-
Regulatory liabilities (note 9)		15,425,273		14,623,563
Long-term obligations (note 13)		26,554,649		24,466,700
Obligations under capital lease (note 14)		306,432		402,383
		117,303,053		110,398,733
Shareholder's equity				
Share capital (note 16)		22,431,779		22,431,779
Deficit		(663,673)		(2,408,670)
		21,768,106		20,023,109
	$	139,071,159	$	130,421,842

Commitments and contingencies (note 17)

See accompanying notes to financial statements

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Statement of Operations and Deficit

Year ended December 31 *(in Canadian dollars)*	2012	2011
Revenue		
Energy sales	$ 88,181,911	$ 85,008,941
Distribution	24,023,457	22,284,451
Other	10,584,444	9,311,500
	122,789,812	116,604,892
Expenses		
Cost of energy	88,181,911	85,008,941
Operating and administration	18,035,071	15,911,875
Amortization - capital assets	7,388,194	7,304,528
Amortization - intangibles	14,917	-
Interest on promissory note payable (note 11)	3,794,709	3,794,709
Interest on long-term obligations	1,241,059	1,101,057
Loss on disposal of capital assets	(19,432)	203,030
Loss (gain) on swaps (note 13)	(85,127)	852,437
Loss on employee future benefit obligation (note 15)	1,461,200	1,280,544
	120,012,502	115,457,121
Earnings before payment in lieu of taxes	2,777,310	1,147,771
Payment in lieu of taxes (note 8)		
Current	935,955	1,493,083
Future	96,358	(94,167)
	1,032,313	1,398,916
Net earnings (loss)	1,744,997	(251,145)
Deficit, beginning of year	(2,408,670)	(2,157,525)
Deficit, end of year	$ (663,673)	$ (2,408,670)

See accompanying notes to financial statements

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Cash Flow Statement

Year ended December 31 *(in Canadian dollars)*	2012	2011
Cash flows from operating activities		
Net earnings (loss)	$ 1,744,997	$ (251,145)
Adjustments for:		
Amortization - capital assets	7,388,194	7,304,528
Amortization of intangibles	14,917	-
Payment in lieu of future taxes	96,358	(94,167)
Non-cash employee future benefit obligation expense, net	2,283,374	2,057,956
Loss (gain) on swap contract	(85,127)	852,436
Other amortization	524,918	502,409
Non-cash expenses	76,811	258,396
Non-cash revenue	(88,918)	(73,231)
Loss (gain) on disposal of capital assets	(19,432)	203,030
Other	16,613	(232,147)
	11,952,705	10,528,065
Change in non-cash operating working capital (note 17)	(2,687,256)	3,671,229
	9,265,449	14,199,294
Cash flows from investing activities		
Purchase of capital assets (note 21)	(10,080,905)	(10,039,685)
Purchase of 359 Riverside	(4,120,000)	-
Proceeds on disposal of capital assets	28,947	29,117
Contributions in aid of construction	855,042	1,127,339
Contributions to restricted cash	(27,937)	(28,401)
	(13,344,853)	(8,911,630)
Cash flows from financing activities		
Repayment of term loans. Net	(195,196)	1,821,029
Developer contributions received	109,265	37,787
Deposits refunded	(17,827)	(447,707)
Payment of note payable	-	(4,184,100)
Capital lease repayments	(91,277)	-
Regulatory assets and liabilities	(992,688)	1,643,588
	(1,187,723)	(1,129,403)
Decrease in cash and cash equivalents	(5,267,127)	4,158,261
Cash and cash equivalents, beginning of year	7,479,511	3,321,250
Cash and cash equivalents, end of year	$ 2,212,384	$ 7,479,511
Other information		
Interest paid	$ (4,140,972)	$ (4,030,821)
Payment in lieu of taxes paid	(1,032,313)	(1,277,502)

See accompanying notes to financial statements

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**

The financial statements of the Corporation are prepared in accordance with Part V - Pre-changeover Accounting Standards of The Canadian Institute of Chartered Accountants (CICA) Handbook (Canadian GAAP or Part V) and policies set forth in the Accounting Procedures Manual issued by the OEB under the authority of the Ontario Energy Board Act, 1998. Amounts are stated in Canadian dollars unless otherwise noted.

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities in consolidated the financial statements. Significant estimates and assumptions used in the preparation of the financial statements include, but are not limited to: unbilled distribution revenue, unbilled energy revenue, employee future benefit obligation; regulatory assets and liabilities; amounts transferred to the variance account for the water billing study; allowance for doubtful accounts; estimated useful lives of capital assets; fair value of derivatives; payments in lieu of income taxes; and fair value of asset retirement obligations. Actual results could differ from those estimates.

(b) **Basis of presentation**

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.; 1627596 Ontario Inc.; and ConverGen Inc (formerly 1700211 Ontario Inc.). All intercompany accounts and transactions are eliminated upon consolidation.

(c) **Effects of rate regulation**

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 fulfill obligations to connect and service customers. 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.

(d) **Cash and cash equivalents**

Cash and restricted cash consists of cash on hand and in banks. Cash equivalents are short-term investments with initial maturities of less than 90 days.

(e) **Accounts receivable**

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

(f) **Inventory**

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

2. **Significant accounting policies (continued)**

(g) **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, over the useful life of the asset. The useful lives of the assets are as follows:

Buildings	15-50 years
Distribution systems	25-30 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

Construction in progress and capital inventory includes assets not currently in use and therefore not yet subject to amortization.

(h) **Intangible Assets**

Intangible assets include tenant relationships. Intangible assets are amortized over their respective useful lives. The annual rates and methods are as follows:

Tenant relationships	4 years

(i) **Goodwill**

Goodwill represents amounts arising on acquisitions which is the excess of the purchase consideration over the fair value attributable to the net identifiable assets acquired. Goodwill is tested for impairment annually or more frequently if there is an indicator of impairment.

(j) **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.

(k) **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.

(l) **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 computed there under 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.

Payment in lieu of future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the 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 re-measured annually for changes in these rates. Any payment in lieu of future income 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.

2. **Significant accounting policies (continued)**

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.

A separate regulatory asset or liability is recognized for the amount of payment in lieu of future taxes which are expected to be included in future rates and recovered from or refunded to customers in future periods through the rate setting and approval process.

(m) **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 a capital asset.

It is not possible to make a reasonable estimate of the asset retirement obligation due to the indeterminate timing of asset retirements. 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.

(n) **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 unbilled revenue - distribution and unbilled revenue - energy sales at the end of the year.

Other revenues include revenues from electricity distribution related services, telecommunications services, equipment and building rentals and other operating revenues. Revenues are recognized as the services are rendered.

(o) **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.

3. **Cash and cash equivalents**

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. has arranged for an operating line of credit up to $5,000,000 for operating purposes at the corporate bank prime rate of interest. In addition, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. has letters of credit available in the amount of $10,000,000 at the corporate bank prime rate of interest, and a Term Loan in the amount of $6,200,000 at a fixed rate of 3.47%. These credit facilities are secured by an unlimited guarantee by the Corporation, 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., 1627596 Ontario Inc., ConverGen Inc (formerly 1700211 Ontario Inc.), and a postponement and assignment of claim relating to the promissory note payable to the City of Greater Sudbury. At December 31, 2012 the balance outstanding on the operating line and the term loan credit facilities was $4,151,834 (2011 - $4,347,029).

4. Accounts receivable

	2012	2011
Accounts receivable	$ 12,827,724	$ 5,787,427
Allowance for doubtful accounts		
Opening Balance	(1,345,354)	(904,485)
Increase in provision	(460,130)	(453,859)
Accounts receivable written off	(6,698)	12,990
Closing Balance	(1,812,182)	(1,345,354)
	$ 11,015,542	$ 4,442,073

5. Capital assets

	Cost	Accumulated Amortization	2012 Net Book Value	2011 Net Book Value
Land	$ 1,538,800	$ -	$ 1,538,800	$ 862,547
Buildings	12,290,388	4,708,894	7,581,494	5,844,867
Distribution systems	156,317,305	99,716,755	56,600,550	54,796,646
System supervisory equipment	1,573,529	1,274,630	298,899	353,450
Automotive	5,258,638	3,864,505	1,394,133	1,631,123
Office and other equipment	4,985,196	3,992,948	992,248	791,433
Computer equipment	8,176,543	6,886,920	1,289,623	1,526,628
Water heaters	8,337,212	3,121,884	5,215,328	5,134,898
Generation	3,134,133	943,264	2,190,869	2,347,360
Fibre optics	19,353,340	10,234,903	9,118,437	9,556,931
Wireless towers	58,284	17,441	40,843	43,758
Construction in progress	899,160	-	899,160	846,300
Capital Inventory	1,631,538	-	1,631,538	1,384,521
	$ 223,554,066	$ 134,762,144	$ 88,791,922	$ 85,120,462

Contributions in aid of construction received during the year totalled $855,042 (2011 - $1,127,339). Total contributions in aid of construction received at December 31, 2012 were $17,599,844 (2011 - $16,744,803) with related accumulated amortization of $4,916,954 (2011 - $4,237,914) resulting in a net contra-asset of $12,682,890 (2011 - $12,506,889) which has been offset against the capital assets to which they relate.

At December 31, 2012, the net book value of stranded meters related to the deployment of smart meters amounted to $1,193,861 (2011 - $1,406,296) and is included in distribution systems. In the absence of rate regulation, capital assets would have been $1,193,861 (2011 - $1,406,296) lower at December 31, 2012.

6. Acquisition

In June 2012. the Corporation entered into a purchase and sale agreement to purchase the land and rental property located at 359 Riverside Drive (Riverside). Goodwill in the amount of $1,620,000 was recognized as the difference between the fair value of assets and liabilities acquired and the consideration paid. The total purchase price of $4,120,000 was allocated as follows:

Land	$	675,000
Building		1,705,666
Tenant Relationships		119,334
Goodwill		1,620,000
Net asset acquired	$	4,120,000

Transaction costs of $79,369 have been expensed in the current year.

Since the acquisition date, Riverside's revenue and net income before payments in lieu of taxes for the year ended December 31, 2012 were $232,515 and $184,984, respectively.

In order to comply with the requirements of the Access for Ontarians Disabilities Act, the GSU group of companies would have been required to renovate the existing head office location. The Riverside property was adjacent to the head office location and was considered an attractive and affordable alternative to a building renovation. While there was a premium paid in excess of the amounts attributable to the building and intangibles, which generated goodwill, the consideration was less than the anticipated costs of the potential building renovation.

7. Intangible Assets and Goodwill

		Tenant Relationships		Goodwill		Total		2011
Cost	$	119,334	$	1,620,000	$	1,739,334	$	-
Accumulated Amortization		(14,917)		-		(14,917)		-
	$	104,417	$	1,620,000	$	1,724,417	$	-

8. Payment in lieu of future taxes

a) The components of the payment in lieu of future tax asset are as follows:

		2012		2011
Non-capital loss carry-forwards	$	516,761	$	828,896
Difference between tax basis of capital assets and carrying value		2,457,302		1,489,133
Difference between carrying value of net regulatory liabilities and tax basis		1,493,944		1,601,613
Difference between tax basis of employee future benefit obligation and carrying value		3,621,628		2,868,688
Difference between the carrying value of the swap interest liability and the tax basis		203,337		53,932
Regulatory adjustment		2,927,422		2,404,478
	$	11,220,394	$	9,246,740

8. **Payment in lieu of future taxes (continued)**

b) The components of the payment in lieu of future tax liability are as follows:

		2012
Non-capital loss carry-forwards	$	(119,324)
Difference between tax basis of capital assets and carrying value		800,821
Difference between tax basis of employee future benefit obligation and carrying value		(24,275)
CMT		(16,180)
	$	641,042

c) The provision for payment 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 26.5% (2011-28.25%) to the earnings for the year as follows:

		2012		2011
Earnings before payment in lieu of taxes	$	2,777,310	$	1,147,771
Anticipated payment in lieu of tax provision		735,987		324,247
Effect of change in tax rates		20,759		80,322
Payment in lieu of future tax regulatory liability		473,219		1,243,718
Other		(197,652)		(249,371)
Provision for payment in lieu of taxes	$	1,032,313	$	1,398,916

9. **Impact of rate regulation**

(a) **Rate setting process**

The Corporation's annual rates are currently set using a modified incentive regulation model. The cost of electricity is passed on to customers as a flow-through. The Corporation's after-tax rate of return on common equity embedded in rates was 8.01% for the year ended December 31, 2012 (2011 - 8.01%) based on a 40% (2011 - 40%) deemed common equity component of capital for regulatory purposes.

(b) **Regulatory assets and liabilities**

As a result of rate regulation, the Corporation has recognized a number of regulatory assets and liabilities. Regulatory assets represent amounts that are expected to be recovered from customers in future periods through rates. Regulatory liabilities represent amounts that are expected to be refunded to customers in future periods through rates. Regulatory assets are assessed for impairment if the Corporation identifies an event indicative of possible impairment. In the absence of rate regulation, the Corporation would generally not recognize regulatory assets or liabilities and the earnings impact would be recorded in the period the expenses are incurred or revenues are earned.

(c) **Regulatory Risk and Uncertainties Affecting Recovery or Settlement**

The recognition of regulatory assets and liabilities is based on the actions, or an expectation of the future actions, of the OEB. To the extent that the OEB's future actions are different from the Corporation's current expectations, the timing and amount of recovery or settlement of regulatory balances could differ from those recorded.

(d) **Revenue**

To recognize the actions or expected actions of the OEB, the timing and recognition of certain revenues and expenses may differ from that otherwise expected for non rate-regulated entities.

(e) **Operating Cost Capitalization**

With the approval of the OEB, the Corporation capitalizes a percentage of certain operating costs. The Corporation is authorized to charge depreciation and earn a return on the net book value of such capitalized costs in future years. In the absence of rate regulation, a portion of such operating costs may be charged to earnings in the year incurred.

9. **Impact of rate regulation (continued)**

(f) **Capital assets**

In the absence of rate regulation, capital assets would not include some operating costs since these costs would have been charged to earnings in the period incurred.

		2012		2011
(g) Regulatory assets:				
Pre-market opening energy variances	$	-	$	210
IFRS deferral (vi)		136,274		82,866
Late payment penalties settlement (v)		-		71,721
Special purpose charge variance (viii)		-		10,596
Deferred transition costs (i)		-		2,528
Smart grid (iv)		131,406		78,171
Smart meters (v)		5,389,061		5,045,219
	$	5,656,741	$	5,291,311
(h) Regulatory liabilities:				
Retail settlement variances (ii)	$	1,101,917	$	3,601,864
Demand side management costs (iii)		3,276,487		1,403,800
Payment in lieu of future taxes (ix)		11,046,869		9,617,899
	$	15,425,273	$	14,623,563

The regulatory assets and liabilities arise as a result of the rate setting process by the OEB. The OEB authorizes 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, Canadian GAAP 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) Retail settlement variances represent the difference between the amount paid by the Corporation to the Independent Electricity 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, Canadian GAAP 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.

(iii) The Minister of Energy has granted approval to all distributors to apply to the OEB for an increase in their distribution rates, conditional on a commitment by the Corporation to spend an equivalent amount on conservation and demand management initiatives. In 2008, the OEB approved additional conservation and demand management initiatives to be collected and spent over a three year period. In the absence of rate regulation, Canadian GAAP would require the Corporation to recognize such revenues and costs in the operating results in the year they were earned or incurred.

(iv) The Ontario Government has established objectives for the implementation of a smart grid in Ontario. For the year ended December 31, 2011, the Corporation has incurred $51,717 (2011 - $39,602) of costs relating to smart grid. In absence of rate regulation, generally accepted accounting principles would require the Corporation to recognize the costs incurred be recognized as an expense or capital asset, as applicable, when incurred.

In connection with smart grid activities, the Corporation has incurred operating expenses amounting to $47,865 (2011 - $28,750) and capital expenditures of $3,852 (2011 - $10,852)

9. **Impact of rate regulation (continued)**

(v) The Ontario Government has established targets for the installation of smart meters for all Ontario customers by December 31, 2010. Smart meter regulatory assets represent the excess of costs incurred by the Corporation on smart meter activities compared to the amounts billed by the Corporation. In the absence of rate regulation, Canadian GAAP would require the Corporation to recognize the amounts billed to customers as revenue in the year and the costs incurred be recognized as an expense or capital asset, as applicable, when incurred.

In connection with smart meter activities, the Corporation has incurred operating expenses amounting to $388,434 (2011 - $350,351), capital expenditures of $247,120 (2011 - $767,424) and has collected $366,501 (2011 - $1,099,644) from its customers.

(vi) The late payment penalties settlement account relates to the settlement costs accrual associated with the late payment charges class action (note 17(b)) . Most of the municipal electric utilities involved in the settlement, including the Corporation, have requested an order from the OEB allowing for future recovery from customers of all costs related to the settlement. The Corporation received approval for a rate rider in its 2011 rate filing. The Corporation no longer has an accrued liability and corresponding regulatory asset as the amount has been fully recovered (net liability in 2011 - $71,721) as at December 31, 2012. In the absence of rate regulation, revenues for the year ended December 31, 2011, would have been $71,121 higher.

(vii) For the year ended December 31, 2011, the Corporation has incurred $51,934 (2011 - $39,039) of costs relating to the IFRS conversion project. These costs have been recorded to regulatory assets as the Corporation expects to obtain recovery of these costs in the future. In the absence of rate regulation, for the year ended December 31, 2012, operating expenses would have been $51,934 higher.

(viii) On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment under Section 26.1 of the Ontario Energy Board Act, 1998, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed the corporation the amount of $378,888 for its apportioned share of the total provincial amount of the SPC of $53,695,000 in accordance with the rules set out in Ontario Regulation 66/10 (the "SPC Regulation"). In accordance with Section 9 of the SPC Regulation, the Corporation is allowed to recover this balance. The recovery is expected to be achieved over a one-year period, which began on May 1, 2010. In the absence of rate regulation, for the year ended December 31, 2011, revenues would have been $137,200 higher .

(ix) This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of future tax assets. At December 31, 2012 the Corporation has recorded a future tax asset and corresponding regulatory liability of $11,046,869 (2011- $9,617,899) with respect to its rate-regulated activities that will be in cluded in the rate-setting process. In the absence of rate regulation this regulatory balance and the related earnings impact would not be recorded.

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 purpose. 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 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.

10. **Other assets**

	2012	2011
Other assets	$ -	$ 50,561
360networks	26,250	52,500
	26,250	103,061
Less current portion	(26,250)	(26,250)
	$ -	$ 76,811

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 were valued at $262,500 and are being recognized on a straight-line basis over the period in which the capacity services are provided.

11. 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 April 25, 2013, the holder has informed the company that it will not demand repayment of the note within one year.

During the year interest totalling $3,794,709 (2011 - $3,794,709) was charged by the City of Greater Sudbury on the promissory note payable.

12. Deferred revenue

	2012	2011
HOTelecom (a)	$ 358,498	$ 403,310
Dark Fibre capacity services (b)	379,543	414,850
Telus (c)	103,400	112,200
	841,441	930,360
Less current portion	(85,087)	(88,919)
	$ 756,354	$ 841,441

(a) During the year 2006, the Greater Sudbury Telecommunications Inc. 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.

(b) The Greater Sudbury Telecommunications Inc. 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.

(c) During the year 2009, the Greater Sudbury Telecommunications Inc. entered into a Fibre Optic Cable IRU Agreement with Telus Corporation for a twenty-five year period ending December 31, 2034. This revenue is being recognized over the term of the agreement on a straight-line basis as the service is delivered to the customer.

13. Long-term obligations

	2012	2011
Employee future benefit obligation (note 15)	$ 20,548,886	$ 18,265,512
Multiple draw term loan (b)	1,815,834	1,914,029
Swap contract (a) & (b)	767,309	852,436
Loan payable (a)	2,336,000	2,433,000
Customer deposits	1,327,991	1,345,818
Developer contributions	852,154	742,889
Vested sick leave	5,564	1,390
	27,653,738	25,555,074
Less current portion	(1,099,089)	(1,088,374)
	$ 26,554,649	$ 24,466,700

(a) ConverGen Inc (formerly 1700211 Ontario Inc.) 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, 2000 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% per annum. The debt facility has a termination date of July 12, 2027 with an optional exit strategy at 5, 10 and 15 years.

13. **Long-term obligations (continued)**

The debt facilities are secured by a general security agreement (GSA) representing a first charge on all of the assets and undertakings of ConverGen Inc. (formerly 1700211 Ontario Inc.) The agreement contains covenants requiring a total debt to total capitalization ratio of less than 50% and an interest coverage ratio of not less than 1.2:1 be maintained by the company and its affiliates: ConverGen Inc., Greater Sudbury Hydro Plus Inc., Greater Sudbury Telecommunications Inc., 1627596 Ontario Inc., and Greater Sudbury Hydro Inc. At year end these covenants were met.

(b) The term loaned has a fixed/floating interest swap, 15 years, payable monthly, secured by a general security agreement representing a first charge on all the borrower's assets and undertakings; and an unlimited guarantee of advances executed by the borrower.

On January 14, 2011, Greater Sudbury Hydro Inc/Hydro du Grand Sudbury Inc. was advanced monies under a reducing term, floating rate facility at a face amount of $2,000,000 to finance the purchase of the smart meters. 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, 2002 Master Agreement. The interest rate swap is used for non-speculative purposes to convert floating rate debt into fixed rate debt bearing interest at 3.7%. the debt facility has a termination date of January 19, 2026.

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

2013	205,910
2014	127,844
2015	239,028
2016	242,090
2017	3,336,962
	$ 4,151,834

14. **Obligation under a Capital Lease**

	Cost	Accumulated Amortization	2012 Net Book Value	2011 Net Book Value
Assets under capital lease:				
Electronics	$ 452,618	90,524	362,094	407,356
Software	41,042	8,208	32,834	36,938
	$ 493,660	$ 98,732	$ 394,928	$ 444,294

Obligation under a capital lease	2012	2011
Capital lease, secured, fixed rate 2.732%, 5 year term	$ 402,383	$ 493,661
Current portion	95,951	91,278
	$ 306,432	$ 402,383

Repayment schedule	2012
2013	$ 105,742
2014	105,742
2015	105,742
2016	105,742
2017	2,012
	$ 424,980

15. **Employee future benefit obligation**

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. The Corporation recognizes these post-retirement costs in the period in which the employees rendered their services. The employee future benefit obligation at December 31, 2012 and the expense for the year then ended was determined based on an actuarial valuation dated March 4, 2013 using the projected benefit method, prorated on service and a discount rate of 4.0%.

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

	2012	2011
Employee future benefit obligation, beginning of year	$ 18,265,513	$ 16,207,556
Service cost	387,990	330,757
Interest	894,798	880,107
Actuarial loss (gain)	1,461,200	1,280,544
Benefits paid	(460,614)	(433,451)
Employee future benefit obligation, end of year	$ 20,548,887	$ 18,265,513
Unamortized net actuarial loss	$ 1,696,925	$ 1,461,200

The unamortized actuarial loss is related to the discount rate decreasing by 0.5% to 4.0% (2011 - 4.5%) as of the updated actuarial valuation prepared as at January 1 subsequent to the year end.

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) Discount rate:

The obligation at December 31, 2012, being the present value of future liabilities and the expense for the period then ended, were determined using a discount rate of 4.0%.

16. **Share capital**

	2012	2011
Authorized		
Unlimited common shares		
Issued		
1,001 common shares	$ 22,431,779	$ 22,431,779

17. **Commitments and contingencies**

(a) Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. 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, 2012, no amounts have been drawn on this letter of guarantee.

(b) Litigation:

By Order dated July 22, 2010, the Ontario Superior Court of Justice consolidated and approved the settlement of the class action lawsuit against all MEU's that commenced in 1998. The July 22, 2010 court order formalized a settlement pursuant to which the defendant MEU's will pay the amount of $17,000,000 plus cost and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The Corporation's share of the settlement amount is expected to be $149,791, payable on June 30, 2011. Under the settlement, all the MEU's involved in the settlement, including the Corporation, have requested an order from the OEB allowing for future recovery from customers of all costs related to the settlement. In 2011 the Corporation collected $78,070 with the adjusted balance being $71,721. In the absence of rate regulation, $78,070 would have been recognized as revenue.

(c) The Collective Agreement with CUPE Local 4705 from 2004 included a Memorandum of Settlement which stated that Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. 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 calculation. Effective April 1, 2009 and every April 1st through to April 1, 2012, the Corporation shall make a contribution into the Trust Fund in an amount equal to the greater of $25,000 or one-half of one percent (1/2 of 1%) of net income after taxes as outlined on the Consolidated Statement of Operations and Deficit for Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.

At the balance sheet date the trust fund has not yet been established and correspondingly these payments have not been made by the Greater Sudbury Hydro Plus Inc. The amounts have been segregated from the Corporations cash reserves and have been disclosed as restricted cash in the consolidated balance sheet.

(d) In 2011 the OEB concluded its hearings and reviews of PiLs variances for the period October 1, 2001 to April 30, 2006. All LDCs were directed to file for disposition of the variances with their 2012 rate filings. At the issuance of these statements, based on the Decision and Order for 2012 rates, from the Ontario Energy Board, the Corporation recorded the liability in 2011 for the approved rate rider. A liability of $134,182 and an offsetting adjustment to distribution revenues and interest on the regulatory balance was recorded.

18. **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 "City" at the same regulated rates and terms as other similar customers based on the amount of electricity consumed.

During the year, the Corporation sold the City water billing administration services and streetlight maintenance services totalling $834,185 (2011 - $764,156) and $697,181 (2011 - $517,653) respectively. Included in accounts receivable is $414,544 (2011 - $414,544) on account of these sales.

Included in accounts payable and accrued liabilities is $2,164,948 (2011 - $1,116,870) relating to amounts collected by the Corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is $136,020 (2011 - $46,197) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the Corporation paid $278,211 (2011 - $176,887) 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.

19. Change in non-cash operating working capital

	2012	2011
Accounts receivable	$ (6,573,469)	$ 430,068
Unbilled revenues - distribution	303,744	1,946,149
Unbilled revenues - energy	777,194	5,108,653
Inventory	(206,539)	1,234
Prepaid expenses	49,737	90,408
Accounts payable and accrued liabilities	1,485,571	(1,061,033)
Payable for energy purchases	2,057,530	(2,256,357)
Payment in lieu of taxes	(581,024)	(587,893)
	$ (2,687,256)	$ 3,671,229

20. Financial instruments

a) *Credit risk*

The Corporation is exposed to credit risk with respect to its cash and cash equivalents, derivative instruments, 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, 2012, there were no significant concentrations of credit risk with respect to these financial assets.

The Corporation's credit risk associated with the accounts receivable is primarily related to electricity bill payments from customers. The corporation has approximately 47,000 customers, the majority of which are residential. The Corporation collects security deposits from customers in accordance with direction provided by the OEB. As at December 31, 2012, the Corporation held security deposits in the amount of $1,327,991 (2011 - $1,345,818)

The carrying amount of accounts receivable is reduced through an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the Statement of Operations. Subsequent recoveries of receivables previously provisioned are credited to the Statement of Operations. The total credit risk related to accounts receivable has been disclosed in note 4.

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 swap contract.

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

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

20. **Financial instruments (continued)**

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

At inception, all financial instruments which meet the definition of a financial asset or financial liability are to be recorded at fair value, unless fair value cannot be reliably determined. All financial instruments are classified into one of five categories namely, held-to-maturity investments, loans and receivables, held-for-trading, other liabilities or available-for-sale. Gains and losses related to the measurement of financial instruments are reported in the statement of operations. Subsequent measurement of each financial instrument will depend on the balance sheet classification elected by the Corporation. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

The following summarizes the accounting classification the Corporation has elected to apply to each of its significant categories of financial instruments:

Cash and cash equivalents	Held for trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Promissory Note Payable	Other financial liabilities
Payable for energy	Other financial liabilities
Swap contracts	Held for trading
Obligation under Capital Lease	Other financial liabilities
Long term Obligations	Other financial liabilities

Cash and cash equivalents and swap contracts are e classified as held for trading and are initially recorded at fair value. These instruments are subsequent recorded at fair value with changes in fair value being recorded through net income.

Accounts receivable, and unbilled revenue are classified as "loans and receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. The carrying amounts approximate fair value because of the short maturity of these instruments.

Accounts payable and accrued liabilities, and payable for energy are classified as "other financial liabilities" and are initially measured at their fair value. The carrying amounts approximate fair value because of the short maturity of these instruments.

Obligations under capital lease, long term obligations, and promissory note payable are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are based on discounted cash flow analysis and approximate their carrying values as management believes that the fixed interest rates are representative of current market rates.

The fair value of the Corporation's advances from related parties, and promissory note payable cannot be reliably determined because there is no active market for these instruments and expected future cash flows cannot be reliably predicted.

d) ***Fair value measurements***

The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liabilities is a market in which transactions for the asset or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The Corporation as classified cash and cash equivalents as level 1;

Level 2 - Observable inputs other than level 1 prices , such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Corporation as classified swap contracts as level 2; and

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Corporation has no instruments classified as level 3.

20. **Financial instruments (continued)**

e) ***Liquidity Risk***

Liquidity risk is the risk the Corporation may encounter difficulties in meeting obligations associated with financial liabilities and commitments. The Corporation has a credit agreement in place related to the long term debt. This credit agreement contains a number of standard financial and other covenants. A failure by the Corporation to comply with the obligations in this credit agreement could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

There can be no assurance the Corporation could:

- generate sufficient cash flow from operations to pay outstanding indebtedness, or to fund any other liquidity needs; or
- refinance this credit agreement or obtain additional financing on commercially reasonable terms, if at all. The Corporation's credit facility is, and future borrowings may be, at variable rates of interest, which exposes the Corporation to the risk of increased interest rates.

The Corporation maintains a capital structure, including access to a revolving credit facility of $5,000,000, which helps to mange the risk of default under these credit agreements.

21. **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 $837,076 (2011 - $686,265) were paid during the year.

22. **Loss carryforwards**

For payment in lieu of tax purposes Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc. has $263,999 of losses which can be applied to reduce future years taxable income. Losses totalling $239,203 expire in 2028. Losses totalling $24,796 expire in 2030.

For payment in lieu of tax purposes, ConverGen Inc (formerly 1700211 Ontario Inc.) has $1,950,041 of losses which can be applied to reduce future years taxable income. Losses totalling $431,874 expire in 2027. Losses totalling $990,375 expire in 2028. Losses totalling $404,558 expire in 2029. Losses totalling $123,234 expire in 2030.

23. **Capital disclosures**

The Corporation's objective with respect to its capital structure is to maintain effective access to capital on an ongoing basis at reasonable rates while achieving appropriate rates of financial return for its shareholder.

The Corporation considers its capital structure to consist of shareholder's equity and a promissory note held by the Corporation's shareholder which has been subordinated to the Toronto Dominion Bank as security on the Corporation's operating credit facilities.

	2012	2011
Promissory note payable	$ 52,340,819	$ 52,340,819
Common shares	22,431,779	22,431,779
Retained Earning (deficit)	(663,673)	(2,408,669)
Subtotal	21,768,106	20,023,110
Total capital	$ 74,108,925	$ 72,363,929

In addition to the subordination agreement referred to above, the Corporation is subject to a shareholder's agreement which has restrictive covenants typically associated with such an agreement. At December 31, 2012 the Corporation is in compliance with all of the covenants and restrictions.

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. is a Corporation regulated by the Ontario Energy Board. The regulator has prescribed a phased in capital structure of 60% debt and 40% equity. For rate setting purposes the Corporation has complied with these requirements.