

**GREATER SUDBURY HYDRO INC./
HYDRO DU GRAND SUDBURY INC.**

Financial Statements

Year Ended December 31, 2009



To: The Shareholder of
**GREATER SUDBURY HYDRO INC./
HYDRO DU GRAND SUDBURY INC.**

We have audited the balance sheet of **GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.** as at **December 31, 2009** and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. 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 management, 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 company as at December 31, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Freelandt Caldwell Reilly LLP

FREELANDT CALDWELL REILLY LLP

Chartered Accountants

Licensed Public Accountants

Sudbury, Canada

March 29, 2010

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.**Balance Sheet****December 31, 2009 with comparative figures for 2008**

	2009	2008
Assets		
Current		
Cash and investments (note 3)	\$ 10,634,296	\$ 7,993,950
Accounts receivable (note 4)	3,349,077	3,439,400
Inventory	1,211,259	1,339,934
Prepaid expenses	-	400
Payment in lieu of taxes	1,543,669	-
Advances to related companies (note 5)	-	1,911,077
Unbilled revenue - distribution	3,687,004	3,054,710
Unbilled revenue - energy sales	12,237,062	12,411,853
	32,662,367	30,151,324
Capital assets (note 6)	64,210,832	62,004,161
Payment in lieu of future taxes (note 7)	6,335,809	6,075,549
Regulatory assets (note 8)	21,180	62,394
Other assets	232,146	232,146
Investment in 1700211 Ontario Inc.	400,000	400,000
	\$ 103,862,334	\$ 98,925,574

Approved on behalf of the Board

Director Director 

See accompanying notes to financial statements

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Statement of Operations and Deficit
For the year ended December 31, 2009 with comparative figures for 2008

	2009	2008
Revenue		
Energy sales	\$ 77,140,065	\$ 71,781,064
Distribution	21,567,284	21,183,692
	<u>98,707,349</u>	<u>92,964,756</u>
Cost of energy	<u>77,140,065</u>	<u>71,781,064</u>
Gross profit	21,567,284	21,183,692
Expenses		
Amortization	4,634,610	4,514,642
Distribution - operations	3,827,389	3,655,811
General administration	3,669,706	2,819,191
Interest on promissory note payable	3,531,660	3,531,660
Billing and collecting	2,629,034	2,315,831
Distribution - maintenance	1,677,666	2,091,845
Interest on long-term obligations	942,024	939,043
	<u>20,912,089</u>	<u>19,868,023</u>
Earnings before undernoted items and payment in lieu of taxes	<u>655,195</u>	<u>1,315,669</u>
Other income (expenses)		
Other operating revenue	1,240,122	1,747,422
Gain (loss) on disposal of capital assets	(1,334,963)	13,703
	<u>(94,841)</u>	<u>1,761,125</u>
Earnings before payment in lieu of taxes	<u>560,354</u>	<u>3,076,794</u>
Payment in lieu of taxes (note 7)		
Current	652,158	2,251,653
Future	(260,260)	307,737
	<u>391,898</u>	<u>2,559,390</u>
Net earnings	168,456	517,404
Deficit, beginning of year	(5,546,880)	(3,888,384)
Dividends	-	(2,175,900)
Deficit, end of year	<u>\$ (5,378,424)</u>	<u>\$ (5,546,880)</u>

See accompanying notes to financial statements

**GREATER SUDBURY HYDRO INC./
HYDRO DU GRAND SUDBURY INC.**
Notes to Financial Statements
December 31, 2009

1. Nature of operations

Greater Sudbury Hydro Inc./Hydro 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's principal business activity involves the distribution of electricity in the City of Greater Sudbury and the Municipality of West Nipissing.

2. Significant accounting policies

(a) Basis of accounting

These 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.

(b) 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.

(c) Use of estimates

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 and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to the estimation of unbilled distribution revenue, unbilled revenue for energy sales, employee future benefit obligation, regulatory assets and liabilities, inventory obsolescence and allowances for uncollectible accounts at the balance sheet date, estimated useful life of capital assets and fair value determinations.

2. Significant accounting policies (continued)

(i) Payment in lieu of taxes (continued)

Payment in lieu of future tax assets and liabilities are recognized for the future tax consequences attributable to 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 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.

(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) Employee future benefits

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

(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 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.

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3. Cash and investments

The Corporation and its related companies, Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., 1627596 Ontario Inc. and 1700211 Ontario Inc., have a banking arrangement with the Toronto Dominion Bank. Under the banking arrangement, at the end of each banking day, the balance in each entity's account is exactly offset by a contra balance in a related offset account. The offset account shall then be offset by withdrawing a similar amount from or depositing a similar amount to the concentration account. As a result, the amount owed to or from the related company is included in advances to/from related companies (note 5).

The Corporation and its related companies have 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 Corporation, Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., 1627596 Ontario Inc., 1700211 Ontario Inc., and a subordination agreement regarding the promissory note payable to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. At December 31, 2009 the balance outstanding on this credit facility is nil (2008 - nil).

4. Accounts receivable

	2009	2008
Electricity receivables	\$ 4,467,009	\$ 3,755,979
Other receivables	947,068	1,608,421
	5,414,077	5,364,400
Allowance for doubtful accounts	(2,065,000)	(1,925,000)
	<u>\$ 3,349,077</u>	<u>\$ 3,439,400</u>

5. Related party transactions

- (a) The Corporation subcontracts its billing and collecting of revenue, building and maintenance of capital assets, payment of purchases and all related government remittances, engineering, information services, accounting, payroll processing, financial reporting and treasury services to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. The Corporation entered into a Service Level Agreement with Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. for a monthly base cost of \$3,500.
- (b) The Corporation provides electrical energy to the City of Greater Sudbury "City" at the same price protected rates and terms as other similar customers based on the amount of electricity consumed.

Included in accounts payable and accrued liabilities is \$731,827 (2008 - \$1,075,448) relating to amounts collected by the Corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is \$51,666 (2008 - \$351,545) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the Corporation paid \$197,209 (2008 - \$184,469) to the City on account of municipal taxes.

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

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7. Payment in lieu of taxes

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

	2009	2008
Difference between tax basis of capital assets and carrying value	\$ 2,747,312	\$ 2,426,432
Difference between carrying value of net regulatory liabilities and tax basis	733,063	1,018,291
Difference between tax basis of employee future benefit obligation and carrying value	2,855,434	2,630,826
	<u>\$ 6,335,809</u>	<u>\$ 6,075,549</u>

- b) The provision for payments in lieu of taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 33.00% (2008 - 33.50%) to the earnings for the year as follows:

	2009	2008
Earnings before payment in lieu of taxes	\$ 560,354	\$ 3,076,794
Anticipated payment in lieu of tax expense	184,917	1,030,726
Effect of change in tax rates	206,044	1,388,053
Other	937	140,611
Provision for payment in lieu of taxes	<u>\$ 391,898</u>	<u>\$ 2,559,390</u>

8. Regulatory assets and liabilities

- (a) Regulatory assets:

	2009	2008
Pre-market opening energy variances	\$ 211	\$ 62,394
Smart Grid	20,969	-
	<u>\$ 21,180</u>	<u>\$ 62,394</u>

- (b) Regulatory liabilities:

	2009	2008
Retail settlement variances (ii)	\$ 2,973,315	\$ 3,016,699
Deferred transition costs (i)	17,837	264,054
Smart meters (iv)	283,398	238,657
Demand side management costs (iii)	332,593	97,245
	<u>\$ 3,607,143</u>	<u>\$ 3,616,655</u>

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9. Promissory note payable

The promissory note payable to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. is unsecured and bears interest at a rate of 7.26% 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 March 29, 2010, the holder has not issued a demand to repay the note.

During the year interest totaling \$3,531,660 (2008 - \$3,531,660) was charged by Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. on the promissory note payable.

10. Long-term obligations

	2009	2008
Employee future benefit liability - payable to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.	\$ 18,212,495	\$ 17,314,063
Customer deposits	1,751,559	1,749,878
Developer contributions	403,179	152,770
	20,367,233	19,216,711
Less current portion	(753,179)	(350,000)
	\$ 19,614,054	\$ 18,866,711

The Corporation assigned the employee future benefit liability to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. who will recover the costs through the Service Level Agreement described in note 5(a).

11. Share capital

	2009	2008
Authorized		
Unlimited common shares		
Issued		
1,001 common shares	\$ 20,848,052	\$ 20,848,052

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b) **Interest rate risk**

The Corporation is exposed to interest rate risk with respect to its operating line of credit facilities and promissory note payable.

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

The Corporation's promissory note payable is not sensitive to interest rate movements as it bears interest at a fixed rate.

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 investment in 1700211 Ontario Inc. 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.

14. **Pension agreements**

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

Contributions of \$10,551 (2008- \$10,774) were paid during the year.

15. **Comparative figures**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 financial statements. These changes do not affect prior year earnings.

16. **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.

	2009	2008
Promissory note payable	\$ 48,645,457	\$ 48,645,457
Common shares	20,848,052	20,848,052
Deficit	(5,378,424)	(5,546,880)
Subtotal	<u>15,469,628</u>	<u>15,301,172</u>
Total capital	<u>\$ 64,115,085</u>	<u>\$ 63,946,629</u>

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.