

Consolidated Financial Statements of

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

Year ended December 31, 2008

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Balance Sheet
December 31, 2008 with comparative figures for 2007

	2008	2007
Assets		
Current		
Cash and investments (note 4)	\$ 12,909,935	\$ 11,381,362
Accounts receivable (note 5)	5,635,137	5,121,271
Unbilled revenue - distribution	3,054,710	3,084,651
Unbilled revenue - energy sales	12,411,854	11,533,848
Inventory	1,953,303	1,922,892
Payment in lieu of taxes	139,930	-
Prepaid expenses	238,481	311,812
Current portion of other assets	26,250	26,250
	36,369,600	33,382,086
Capital assets (note 6)	76,310,169	73,873,423
Payment in lieu of future taxes (note 7)	6,070,528	6,458,394
Regulatory assets (note 8)	62,394	60,638
Other assets (note 9)	387,707	413,957
	\$ 119,200,398	\$ 114,188,498

Approved on behalf of the Board

Director _____

Director _____

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Balance Sheet
December 31, 2008 with comparative figures for 2007

	2008	2007
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	\$ 5,355,622	\$ 5,631,663
Payable for energy purchases	10,091,847	7,942,242
Payment in lieu of taxes	-	524,431
Promissory note payable (note 10)	52,340,819	52,340,819
Current portion of deferred revenue	101,994	134,432
Current portion of regulatory liabilities	-	104,888
Current portion of long-term obligations	555,000	666,963
	68,445,282	67,345,438
Deferred revenue (note 11)	969,111	1,071,105
Regulatory liabilities (note 8)	3,616,655	1,694,451
Long-term obligations (note 12)	21,525,526	21,113,165
Preferred shares (note 14)	4,184,127	4,184,127
	98,740,701	95,408,286
Shareholder's equity		
Share capital (note 15)	22,431,779	22,431,779
Deficit	(1,972,082)	(3,651,567)
	20,459,697	18,780,212
Commitments and contingencies (note 16)		
	\$ 119,200,398	\$ 114,188,498

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Statement of Operations and Deficit
Year ended December 31, 2008 with comparative figures for 2007

	2008	2007
Revenue		
Energy sales	\$ 71,781,064	\$ 71,996,069
Distribution	21,183,692	21,618,634
	92,964,756	93,614,703
Cost of energy	71,781,064	71,996,069
Gross profit	21,183,692	21,618,634
Expenses		
Operating and administration	16,308,112	15,643,647
Amortization	6,095,787	5,978,172
Interest on promissory note payable	3,794,709	3,794,793
Interest on long-term obligations	1,153,754	990,213
	27,352,362	26,406,825
Loss before undernoted items and payment in lieu of taxes	(6,168,670)	(4,788,191)
Other operating revenue (expenses)		
Gain (loss) on disposal of capital assets	13,703	(10,236)
Other operating revenue	10,747,226	9,480,934
Actuarial loss on employee future benefit obligation (Note 13)	-	(5,912,439)
	10,760,929	3,558,259
Earnings (loss) before payment in lieu of taxes	4,592,259	(1,229,932)
Payment in lieu of taxes (note 7)		
Current	2,664,202	2,689,117
Recovery due to loss carry-forwards	(139,294)	(86,117)
Future	387,866	(1,879,911)
	2,912,774	723,089
Net earnings (loss)	1,679,485	(1,953,021)
Deficit, beginning of year	(3,651,567)	(1,698,546)
Deficit, end of year	\$ (1,972,082)	\$ (3,651,567)

GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.
Consolidated Cash Flow Statement
Year ended December 31, 2008 with comparative figures for 2007

	2008	2007
Cash flows from operating activities		
Net earnings (loss)	\$ 1,679,485	\$ (1,953,021)
Adjustments for:		
Amortization	6,095,787	5,978,172
Payment in lieu of future taxes	387,866	(1,879,911)
Other amortization	417,211	286,738
(Gain) loss on disposal of capital assets	(13,703)	10,236
	8,566,646	2,442,214
Change in non-cash operating working capital (note 18)	(109,808)	(1,540,122)
	8,456,838	902,092
Cash flows from investing activities		
Purchase of capital assets	(10,821,941)	(13,647,908)
Proceeds on disposal of capital assets	13,703	29,437
Contributions in aid of construction	1,872,197	1,857,265
Regulatory assets/liabilities	1,815,560	488,304
Other assets	26,250	26,250
	(7,094,231)	(11,246,652)
Cash flows from financing activities		
Proceeds from long-term obligations	-	2,800,000
Repayment of long-term obligations	(489,802)	(219,375)
Deferred revenue	(134,432)	(134,614)
Employee future benefit obligation	790,200	6,715,988
	165,966	9,161,999
Increase (decrease) in cash and investments	1,528,573	(1,182,561)
Cash and investments, beginning of year	11,381,362	12,563,923
Cash and investments, end of year	\$ 12,909,935	\$ 11,381,362
Other information		
Interest paid	\$ (4,054,284)	\$ (3,909,561)
Payment in lieu of taxes paid	(3,436,997)	(2,952,862)

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2008

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. Change in accounting policy

Effective January 1, 2008 the Corporation adopted the CICA Handbook Section 1535 - "Capital Disclosures" which requires disclosure of the Corporation's objectives, policies and processes for managing capital as well as its compliance with any external capital requirements. The implementation of this standard did not have any impact on the Corporation's results of operations or financial position. The resulting disclosures from implementation are presented in note 23.

3. Significant accounting policies

(a) Basis of accounting

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

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries: Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc.; Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.; Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc.; 1627596 Ontario Inc.; and 1700211 Ontario Inc.

(c) Effects of rate regulation

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in a non rate regulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, that are expected to be recovered from customers in future periods through the rate setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate setting and approval process.

3. Significant accounting policies (continued)

(d) Use of estimates

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

(e) Cash and investments

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

(f) Accounts receivable

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

(g) Inventory

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

(h) Unbilled revenues

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

(i) Capital assets

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

Buildings	15-50 years
Distribution systems	25 years
Fibre optics	5-25 years
Water heaters	10-15 years
Office and other equipment	5-10 years
Computer equipment	5 years
Automotive	4-8 years
System supervisory equipment	15 years
Wireless towers	20 years
Generation	20 years

3. Significant accounting policies (continued)

(j) Payment in lieu of taxes

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

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

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

(k) Contributions in aid of construction

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

(l) Developer contributions

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

(m) Employee future benefits

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

(n) Asset retirement obligations

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

3. Significant accounting policies (continued)

(n) Asset retirement obligations (continued)

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

(o) Revenue recognition

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

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

(p) Financial instruments

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

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

(q) Future accounting pronouncements

In December 2007, the Accounting Standards Board issued revisions to CICA Handbook Section 1100 - "Generally Accepted Accounting Principles" to remove the temporary exemption from the requirement to apply Canadian generally accepted accounting principles to the recognition and measurement of assets and liabilities arising from rate regulation, and a disclosure requirement relating to this exemption. On adoption of this standard, all amounts currently recorded on the Corporation's balance sheet as regulatory assets and liabilities will be charged to retained earnings. The new rules will apply prospectively to fiscal years beginning on or after January 1, 2009.

**GREATER SUDBURY UTILITIES INC./
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December 31, 2008

4. Cash and investments

The Corporation has arranged for a line of credit up to \$7,500,000 for operating purposes at the Corporate Bank prime rate of interest. The line of credit is secured by an unlimited guarantee by the Company, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc., Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., 1627596 Ontario Inc., 1700211 Ontario Inc., and a subordination agreement regarding the Promissory Note owing to the City of Greater Sudbury. At December 31, 2008 no amount is outstanding on this credit facility.

5. Accounts receivable

	2008	2007
Electricity receivables	\$ 3,755,979	\$ 2,610,870
Other receivables	3,942,222	4,420,573
	7,698,201	7,031,443
Allowance for doubtful accounts	(2,063,064)	(1,910,172)
	<u>\$ 5,635,137</u>	<u>\$ 5,121,271</u>

6. Capital assets

	Cost	Accumulated Amortization	2008 Net	2007 Net
Land	\$ 896,021	\$ -	\$ 896,021	\$ 896,021
Buildings	9,445,491	3,767,312	5,678,179	5,700,187
Distribution systems	133,167,067	81,832,212	51,334,855	51,515,945
System supervisory equipment	1,245,223	1,049,030	196,193	246,819
Automotive	4,056,282	2,829,949	1,226,333	700,302
Office and other equipment	4,314,437	3,492,372	822,065	697,984
Computer equipment	5,648,548	5,107,827	540,721	635,976
Water heaters	3,461,066	669,316	2,791,750	1,682,209
Generation	3,134,133	317,301	2,816,832	3,055,402
Fibre optics	15,105,005	6,196,641	8,908,364	8,636,170
Wireless towers	42,710	6,172	36,538	32,736
Construction in progress	1,062,318	0	1,062,318	73,672
	<u>\$ 181,578,301</u>	<u>\$ 105,268,132</u>	<u>\$ 76,310,169</u>	<u>\$ 73,873,423</u>

Contributions in aid of construction received during the year totaled \$1,872,197 (2007 - \$1,857,265). Total contributions in aid of construction received at December 31, 2008 were \$13,002,810 (2007 - \$11,130,613) with related accumulated amortization of \$2,476,663 (2007 - \$1,917,111) resulting in a net contra-asset of \$10,526,147 (2007 - \$9,213,502) which has been offset against the capital assets to which they relate.

**GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2008

7. **Payment in lieu of taxes**

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

	2008		2007
Non-capital loss carry-forwards	\$ 882,109	\$	787,650
Difference between tax basis of capital assets and carrying value	1,549,258		2,581,045
Difference between carrying value of net regulatory liabilities and tax basis	1,018,291		597,404
Difference between tax basis of employee future benefit obligation and carrying value	2,630,826		2,822,600
Valuation allowance	6,080,484		6,788,699
	(9,956)		(330,305)
	<u>\$ 6,070,528</u>	\$	<u>6,458,394</u>

- b) 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 33.50% (2007 - 36.12%) to the earnings for the year as follows:

	2008		2007
Earnings (loss) before payment in lieu of taxes	\$ 4,592,259	\$	(1,229,932)
Anticipated payment in lieu of tax expense (recovery)	1,538,407		(444,251)
Effect of change in tax rates	1,417,460		1,029,644
Effect of items not deductible for payment in lieu of tax purposes	184,076		199,035
Increase (decrease) in valuation allowance	(320,347)		16,484
Other	93,178		(77,823)
Provision for payment in lieu of taxes	<u>\$ 2,912,774</u>	\$	<u>723,089</u>

**GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2008

8. Regulatory assets and liabilities

	2008	2007
(a) Regulatory assets:		
Pre-market opening energy variances (ii)	\$ 62,394	\$ 60,638
(b) Regulatory liabilities:		
Retail settlement variances (iii)	\$ 3,016,699	\$ 1,480,079
Deferred transition costs (i)	264,054	77,649
Demand side management costs (iv)	97,245	82,677
Smart meters (v)	238,657	158,934
	<u>3,616,655</u>	<u>1,799,339</u>
Less current portion	-	(104,888)
	<u>\$ 3,616,655</u>	<u>\$ 1,694,451</u>

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

- (i) The OEB established a process for the recording of costs incurred by the Corporation to be market ready, including related carrying costs, as deferred transition costs to be recovered in the future through the regulatory rate setting process. In the absence of rate regulation, generally accepted accounting principles would require that the costs be recognized as an expense or capital asset, as applicable, when incurred and the related recovery of these costs in income when received or receivable.
- (ii) Pre-market opening energy variance represents the difference between the cost of energy purchased and amounts billed to customers from January 1, 2002 to April 30, 2002. The electricity market was opened to competition on May 1, 2002. These variances arise as a result of the differing rates on time of use energy purchases by the Corporation as compared to the average rates charged to its customers. In the absence of rate regulation, generally accepted accounting principles would require that the total cost of energy be charged to operations when incurred and the total amount of energy sales be credited to operations when earned.
- (iii) Retail settlement variances represent the difference between the amount paid by the Corporation to the Independent Market System Operator ("IESO") for the cost of energy and the amount billed by the Corporation to its customers as energy sales, and related carrying costs, which are recorded on the balance sheet as retail settlement variances until their final disposition is decided by the OEB. The Corporation recognizes retail settlement variances as an asset or liability based on the expectation these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The retail settlement variance liability represents the deficiency of amounts billed by the IESO for the cost of energy compared to the amounts charged to customers as energy sales. In the absence of rate regulation, generally accepted accounting principles would require that the total cost of energy be charged to operations when incurred and the total amount of energy sales be credited to operations when earned.

**GREATER SUDBURY UTILITIES INC./
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December 31, 2008**

8. Regulatory assets and liabilities (continued)

- (iv) In May 2004, the Minister of Energy granted approval to all distributors to apply to the OEB for an increase in their 2005 distribution rates, conditional on a commitment by the Corporation to spend an equivalent amount on conservation and demand management initiatives. The Corporation received approval to collect \$1,263,659 to be spent on these initiatives prior to September 30, 2009. In the absence of rate regulation, generally accepted account principles would require the company to recognize such revenues and costs in the operating results in the year they were earned or incurred.
- (v) The Ontario Government has established targets for the installation of smart meters for all Ontario customers by December 31, 2010. Smart meter regulatory liabilities represent the excess of amounts billed by the Corporation to customers compared to costs incurred by the Corporation on smart meter activities. In the absence of rate regulation, generally accepted accounting principles 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.

For certain of the regulatory assets and liabilities identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. The Corporation continually assesses the likelihood of recovery of each of its regulatory assets and refund of each of its regulatory liabilities and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the Corporation determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

9. Other assets

	2008	2007
Other assets	\$ 282,707	\$ 282,707
360networks	131,250	157,500
	413,957	440,207
Less current portion	(26,250)	(26,250)
	<u>\$ 387,707</u>	<u>\$ 413,957</u>

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

10. Promissory note payable

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

The note is repayable in full upon six months written notice of the holder of the note. As at December 31, 2008, the holder has not issued a demand to repay the note.

During the year interest totaling \$3,794,709 (2007 - \$3,794,793) was charged by the City of Greater Sudbury on the promissory note payable.

**GREATER SUDBURY UTILITIES INC./
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December 31, 2008

11. Deferred revenue

	2008	2007
City of Greater Sudbury (a)	\$ -	\$ 65,625
HOTelecom (b)	543,937	566,874
Dark Fibre capacity services (c)	520,768	556,075
Internet services (d)	6,400	16,963
	<u>1,071,105</u>	<u>1,205,537</u>
Less current portion	(101,994)	(134,432)
	<u>\$ 969,111</u>	<u>\$ 1,071,105</u>

- (a) During the year 2003, the Corporation acquired land from the City of Greater Sudbury. In settlement of its obligation, the Corporation is supplying dark fibre capacity services to the City of Greater Sudbury for a six-year period ending October 15, 2009. This revenue is being recognized on a straight-line basis over the period in which the capacity services are provided.
- (b) During the year 2006, the Corporation entered into a Fibre Optic Cable IRU Agreement with Hydro One Telecom (HOTelecom) for a fourteen year period ending December 31, 2020. This revenue is being recognized on a straight-line basis over the term of the agreement.
- (c) The Corporation agreed to supply dark fibre capacity services to five public sector organizations commencing October 2003. Each of the five organizations agreed to make a lump sum payment of \$120,000 as well as payments of \$500 per month for a 20-year period or a further lump sum payment, in exchange for the provision of these services by the Company. The amounts received in advance will be recognized over the 20 year period that the service is delivered to the customers on a straight-line basis.
- (d) The Corporation agreed to supply bandwidth to certain customers over two to five year periods, paid in advance. Revenue is recognized as services are rendered on a straight-line basis.

12. Long-term obligations

	2008	2007
Employee future benefit obligation (note 13)	\$ 17,314,063	\$ 16,523,863
Loan payable (a)	2,693,000	2,770,000
Customer deposits	1,749,877	1,964,005
Note payable (b)	125,000	325,000
Developer contributions	152,770	152,770
Vested sick leave	45,816	44,490
	<u>22,080,526</u>	<u>21,780,128</u>
Less current portion	(555,000)	(666,963)
	<u>\$ 21,525,526</u>	<u>\$ 21,113,165</u>

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12. Long-term obligations (continued)

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

The debt facilities are secured by a general security agreement (GSA) representing a first charge on all of the assets and undertakings of 1700211 Ontario Inc. and an unlimited guarantee of advances executed by 1700211 Ontario Inc.

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

2009	\$	80,000
2010	\$	87,000
2011	\$	93,000
2012	\$	97,000
2013	\$	103,000
2014 and subsequent years	\$	2,233,000
	<u>\$</u>	<u>2,693,000</u>

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

2009	\$	<u>125,000</u>
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The long-term obligation is secured by a first position security interest in the purchased assets as long as there remains an outstanding balance. Interest is calculated at the Royal Bank of Canada prime borrowing rate plus 2% per annum.

13. Employee future benefit obligation

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which the employees rendered their services. The employee future benefit obligation at December 31, 2008 and the expense for the year then ended was determined based on an actuarial valuation dated March 14, 2008 using the projected benefit method, prorated on service and a discount rate of 5.0%.

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

	2008	2007
Employee future benefit obligation, beginning of year	\$ 16,523,863	\$ 9,807,875
Actuarial loss	-	5,912,439
Balance restated	\$ 16,523,863	\$ 15,720,314
Expenses for the year	1,143,686	1,149,549
Benefits paid for the year	(353,486)	(346,000)
Employee future benefits obligation, end of year	<u>\$ 17,314,063</u>	<u>\$ 16,523,863</u>

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13. Employee future benefit obligation (continued)

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, 2008, being the present value of future liabilities and the expense for the period then ended, were determined using a discount rate of 5.0%.

c) Salary levels:

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

14. Preferred shares

	2008	2007
Authorized		
Unlimited 7.25% non-cumulative class A preferred shares, non-voting, redeemable and retractable at \$100 per share.		
Issued		
41,841 class A preferred shares	\$ 4,184,127	\$ 4,184,127

15. Share capital

	2008	2007
Authorized		
Unlimited common shares		
Issued		
1,001 common shares	\$ 22,431,779	\$ 22,431,779

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16. 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, 2008, no amounts have been drawn on this letter of guarantee.

- (b) Litigation:

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

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

The Electricity Distributors' Association (EDA) has undertaken the defense of this class action. At this time it is not possible to quantify the effect, if any on the financial statements of the Corporation. Accordingly, no provision has been made in these financial statements with respect to any possible losses that may arise as a result of this matter.

- (c) 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 the one-time payment has not been made by the Corporation.

17. Related party transactions

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

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

The Corporation provides water billing services to the City of Greater Sudbury. Included in accounts payable and accrued liabilities is \$1,075,448 (2007 - \$1,040,663) relating to amounts collected by the Corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is \$351,545 (2007 - \$43,448) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the Corporation sold the City water billing administration services and streetlight maintenance services totaling \$710,064 (2007 - \$715,618) and \$489,098 (2007 - \$539,121) respectively. Included in accounts receivable is \$369,176 (2007 - \$157,076) on account of these sales.

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17. Related party transactions (continued)

During the year, the Corporation paid \$190,036 (2007 - \$175,400) 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.

18. Change in non-cash operating working capital

	2008	2007
Accounts receivable	\$ (513,866)	\$ 1,806,067
Unbilled revenues - distribution	29,941	(7,059)
Unbilled revenues - energy	(878,006)	23,543
Inventory	(30,411)	46,451
Prepaid expenses	73,331	(404)
Accounts payable and accrued liabilities	(276,041)	836,807
Payable for energy purchases	2,149,605	(3,887,651)
Payment in lieu of taxes	(664,361)	(357,876)
	<u>\$ (109,808)</u>	<u>\$ (1,540,122)</u>

19. Financial instruments

a) Credit risk

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

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

The Corporation has accounts receivable and unbilled revenue receivable from a large number of private individual and business customers in many industries located within the service territory. The Corporation monitors and limits its exposure to customers defaulting on their obligations. The Corporation provides an allowance for uncollectible accounts to absorb estimated credit losses. At December 31, 2008, there were no significant concentrations of credit risk with respect these financial assets.

b) Interest rate risk

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

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

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

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19. Financial instruments (continued)

c) Fair value of financial instruments

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

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

At December 31, 2008, the fair value of the long term obligations and deferred revenue are not considered to be materially different from their carrying value.

20. 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 \$538,926 (2007 - \$497,608) were paid during the year.

21. Loss carryforwards

For payment in lieu of tax purposes Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc. has \$835,195 of losses which can be applied to reduce future years taxable income. The 2003 losses totaling \$191,008 expire in 2010. The 2004 losses totaling \$178,300 expire in 2014. The 2006 losses totaling \$182,944 expire in 2026. The 2007 losses totaling \$282,943 expire in 2027.

For payment in lieu of tax purposes, 1700211 Ontario Inc. has \$1,797,967 of losses which can be applied to reduce future years taxable income. The 2007 losses totaling \$807,592 expire in 2027. The 2008 losses totaling \$990,375 expire in 2028.

22. Comparative figures

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

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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.

	2008	2007
Promissory note payable	\$ 52,340,819	\$ 52,340,819
Preferred shares	4,184,127	4,184,127
Common shares	22,431,779	22,431,779
Retained deficit	(1,972,082)	(3,651,567)
Subtotal	<u>20,459,697</u>	<u>18,780,212</u>
Total capital	<u>\$ 76,984,643</u>	<u>\$ 75,305,158</u>

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, 2008 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 50% debt and 50% equity. For rate setting purposes the Corporation has complied with these requirements.