

SECTION 5

Consolidated Financial Statements of
GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND
SUDBURY INC.

Year ended December 31, 2004

AUDITORS' REPORT

To: The Shareholder of
GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.

We have audited the consolidated balance sheet of **GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.** (the "Company"), as at **December 31, 2004** and the consolidated statements of operations and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

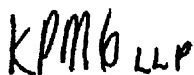
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



COLLINS BARROW, SUDBURY-NIPISSING, LLP
Chartered Accountants



FREELANDT CALDWELL REILLY LLP
Chartered Accountants



KPMG LLP
Chartered Accountants

Sudbury, Canada

March 10, 2005

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Consolidated Balance Sheet
December 31, 2004, with comparative figures for 2003

	2004	2003
Assets		
Current:		
Cash (note 3)	\$ 9,006,181	\$ 8,114,897
Accounts receivable (note 4)	3,912,014	4,622,434
Current portion of regulatory assets	-	402,249
Current portion of other assets	26,250	26,250
Unbilled revenue - distribution	2,959,000	1,348,083
Unbilled revenue - energy sales	12,763,937	4,589,674
Inventory	1,238,040	1,325,240
Prepaid expenses	292,172	219,496
	30,197,594	20,648,323
Capital assets (note 5)	65,464,990	67,535,873
Payment in lieu of future taxes (note 6)	2,542,623	1,171,660
Regulatory assets (note 7)	450,196	2,735,719
Other assets (note 8)	442,146	468,396
	\$ 99,097,549	\$ 92,559,971

Approved on behalf of the Board

Director _____

Director _____

See accompanying notes to consolidated financial statements

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Consolidated Balance Sheet
December 31, 2004, with comparative figures for 2003

	2004	2003
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	\$ 4,235,165	\$ 2,708,132
Payable for energy purchases	8,576,110	5,893,643
Payment in lieu of taxes	993,550	98,130
Promissory note payable (note 9)	52,340,819	52,340,819
Interest payable on promissory note	-	1,394,710
Current portion of retail settlement variances (note 7)	117,100	-
Current portion of deferred revenue	43,750	43,750
<u>Current portion of long-term obligations</u>	<u>369,465</u>	<u>345,297</u>
	66,675,959	62,824,481
Deferred revenue (note 10)	252,625	196,875
Long-term obligations (note 11)	10,395,403	8,748,845
Preferred shares (note 13)	4,184,127	2,789,418
	<u>81,508,114</u>	<u>74,559,619</u>
Shareholder's equity		
Share capital (note 14)	22,431,779	22,431,779
<u>Deficit</u>	<u>(4,842,344)</u>	<u>(4,431,427)</u>
	17,589,435	18,000,352
Commitments and contingencies (note 15)		
	<u>\$ 99,097,549</u>	<u>\$ 92,559,971</u>

See accompanying notes to consolidated financial statements.

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Consolidated Statement of Operations and Deficit
Year ended December 31, 2004, with comparative figures for 2003

	2004	2003
Revenue		
Energy sales	\$ 59,419,958	\$ 55,850,206
Distribution	15,703,837	15,873,605
	<u>75,123,795</u>	<u>71,723,811</u>
Cost of energy	59,419,958	55,850,206
	<u>15,703,837</u>	<u>15,873,605</u>
Gross profit	15,703,837	15,873,605
Other operating revenue and expenses:		
Gain on sale of capital assets	48,665	19,684
Other operating revenue	5,664,287	4,900,935
Actuarial loss on employee future benefits (Note 12)	(1,206,138)	-
	<u>4,506,814</u>	<u>4,920,619</u>
	<u>20,210,651</u>	<u>20,794,224</u>
Expenses:		
Operating and administration	11,391,125	11,140,346
Amortization	4,985,043	4,969,424
Interest on promissory note payable	3,799,943	3,799,943
Interest	458,036	387,308
Loss on writedown of inventory to net realizable value	130,444	-
	<u>20,764,591</u>	<u>20,297,021</u>
Earnings (loss) before payment in lieu of taxes	(553,940)	497,203
Payment in lieu of taxes (note 6)		
Current	1,227,940	265,034
Future	(1,370,963)	11,478
	<u>(143,023)</u>	<u>276,512</u>
Net earnings (loss)	(410,917)	220,691
Deficit, beginning of year	(4,431,427)	(4,652,118)
Deficit, end of year	<u>\$ (4,842,344)</u>	<u>\$ (4,431,427)</u>

See accompanying notes to consolidated financial statements.

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Consolidated Cash flows Statement
Year ended December 31, 2004 with comparative figures for 2003

	2004	2003
Cash flows from operating activities		
Net earnings (loss)	\$ (410,917)	\$ 220,691
Adjustments for:		
Amortization	4,985,043	4,969,424
Payment in lieu of future income taxes	(1,370,963)	11,478
Other amortization	195,601	190,436
Gain on the sale of assets	(48,665)	(19,684)
Employee future benefit obligation	1,542,802	280,408
	<u>4,892,901</u>	<u>5,652,753</u>
Change in non-cash operating working capital (note 17)	(5,350,026)	4,515,386
	(457,125)	10,168,139
Cash flows from investing activities:		
Purchase of capital assets	(4,519,084)	(6,070,459)
Proceeds on disposal of capital assets	55,349	38,480
Contributions in aid of construction	1,402,640	1,003,825
Regulatory assets	2,804,872	(180,536)
Other assets	26,250	(262,500)
	<u>(229,973)</u>	<u>(5,471,190)</u>
Cash flows from financing activities:		
Issuance of preferred shares	1,394,709	1,394,709
Long term obligations	127,923	229,518
Deferred revenue	55,750	240,625
	<u>1,578,382</u>	<u>1,864,852</u>
Increase in cash	891,284	6,561,801
Cash, beginning of year	8,114,897	1,553,096
Cash, end of year	<u>\$ 9,006,181</u>	<u>\$ 8,114,897</u>
Other information		
Interest paid	\$ (4,161,831)	\$(5,101,047)
Interest received	6,482	189,922
Payment in lieu of taxes recovered	(568,235)	(457,061)

See accompanying notes to consolidated financial statements.

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2004

1. Nature of operations

Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. was incorporated under the Business Corporations Act of 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, provisioning of broadband telecommunications services and competitive rental and customer support services.

2. Significant accounting policies

(a) General

These consolidated financial statements are the representation of the Corporation's management and are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies as 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 fulfil 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.

(c) Basis of accounting

(i) 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 financial statements and the reported amounts of revenue and expenses during the reported 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, regulatory assets and allowances for uncollectible accounts at the balance sheet date.

(ii) Cash

Cash 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.

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2004

2. Significant accounting policies (continued)

(iii) Accounts receivable

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

(iv) Inventory

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

(v) 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 consumers 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.

(vi) Capital assets

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

Buildings	25 - 40 years
Distribution systems	25 years
Automotive	4 - 8 years
Office and other equipment	5 - 10 years
Water heaters	10-15 years
Fibre optics	5 -25 years
System supervisory equipment	15 years
Computer equipment	5 years
Water heaters	10 - 15 years

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2004

2. Significant accounting policies (continued)

(vii) Payment in lieu of taxes

Effective October 1, 2001 and pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act ("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.

Payment in lieu of future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amount 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 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.

(viii) Financial instruments

Short-term financial assets and liabilities, including cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, payable for energy purchases, and payment in lieu of taxes are valued at their carrying amounts as presented in the consolidated balance sheet. The carrying values are reasonable estimates of fair value due to the short period to maturity of the financial instruments.

It is management's estimate that the fair value of the Company's other assets, long-term obligations, promissory note payable and preferred shares are not materially different from the carrying value based on current rates for instruments with similar terms and maturities

(ix) Contributions in aid of construction

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

GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2004

2. Significant accounting policies (continued)

(x) Future employee 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.

(xi) Deferred transition costs

The Corporation has incurred costs related to the transition to a competitive electricity market mandated by the Electricity Act, 1998. The OEB has established rules in respect of transition costs which qualify for deferral and amortization against future revenue. Transition costs which are capital in nature, such as software, are not recorded as part of capital assets. These assets were initially recorded as part of construction in progress until placed in service. Once completed, amortization commenced with the amortization charge recorded to the deferred transition cost account. To the extent that transition costs have been incurred which do not qualify for deferral, these costs have been capitalized or expensed during the period they were incurred.

(xii) Revenue recognition

Revenue is recognized in the period of energy consumption by the customer or the period in which the service is provided to the customer.

(xiii) Asset retirement obligations

During 2004, the company adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3110, Asset Retirement Obligations. This accounting standard requires the Company 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 Company's distribution system assets may have asset retirement obligations. As the Company 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 Company is legally required to remove, an asset retirement obligation will be recognized at that time.

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2004

3. Cash

The Company 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. and Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., and a subordination agreement regarding the Promissory Note owing to the City of Greater Sudbury. At December 31, 2004 no amount is owing on this line of credit.

4. Accounts receivable

	2004	2003
Electrical energy receivable	\$ 1,472,933	\$ 3,817,289
Other receivables	4,164,081	2,215,145
	<u>5,637,014</u>	<u>6,032,434</u>
Allowance for doubtful accounts	(1,725,000)	(1,410,000)
	<u>\$ 3,912,014</u>	<u>\$ 4,622,434</u>

5. Capital assets

	Cost	Accumulated Amortization	2004 Net	2003 Net
	\$			
Land	756,820	-	\$ 756,820	\$ 756,820
Buildings	8,496,688	2,970,831	5,525,857	5,671,516
Distribution systems	114,273,214	62,692,337	51,580,877	53,096,697
System Supervisory equipment	1,245,223	773,410	471,813	553,522
Automotive	2,872,774	2,496,931	375,843	357,736
Office and other equipment	4,561,682	3,980,762	580,920	643,096
Water Heaters	8,084,782	6,838,262	1,246,520	1,281,619
Fibre optics	7,975,564	3,456,653	4,518,911	4,712,346
Construction in progress	8,195	-	8,195	92,044
Computer equipment	3,290,451	2,891,217	399,234	370,477
	<u>\$ 151,565,393</u>	<u>\$ 86,100,403</u>	<u>\$ 65,464,990</u>	<u>\$ 67,535,873</u>

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2004

5. Capital assets, continued

Contributions in aid of construction received during the year totaled \$1,402,641 (2003 - \$1,003,824). Total contributions in aid of construction received at December 31, 2004 were \$5,407,168 (2003 - \$4,004,527) with related accumulated amortization of \$680,297 (2003 - \$425,473) resulting in a net contra-asset of \$4,726,871 (2003 - \$3,579,054) which has been offset against the assets to which they relate.

6. Payment in lieu of future taxes

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

	<u>2004</u>	<u>2003</u>
Payment in lieu of future taxes		
Non-capital loss carry-forwards	\$ 452,453	\$ 1,012,772
Difference between tax basis of capital assets and carrying value	1,828,537	1,501,904
Difference between carrying value of regulatory assets and tax basis	26,755	(1,040,351)
Difference between tax basis of employee future benefits and carrying value	754,060	199,524
	<u>3,061,805</u>	<u>1,673,849</u>
Valuation allowance	(519,182)	(502,189)
	<u>\$2,542,623</u>	<u>\$ 1,171,660</u>

(b) The provision for payments in lieu of taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 36.12% (2003 - 36.62%) to the earnings (loss) for the year as follows:

	<u>2004</u>	<u>2003</u>
Earnings (loss) before payment in lieu of taxes	\$ (553,940)	\$ 497,203
Anticipated income tax expense (recovery)	(199,918)	182,076
Increase in valuation allowance	16,993	291,358
Large corporations tax not deductible for tax purposes	33,288	155,016
Effect of change in tax rate	25,854	95,169
Other	(19,240)	(447,107)
Provision for payment in lieu of taxes	<u>\$ (143,023)</u>	<u>\$ 276,512</u>

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2004

7. Regulatory assets

	2004	2003
Deferred transition costs (a)	\$ 926,039	\$ 869,426
Pre-market opening energy variances (b)	1,172,954	1,174,244
Retail settlement variances (c)	(1,765,897)	1,094,298
	333,096	3,137,968
Current portion of regulatory assets	-	(402,249)
Current portion of retail settlement variances	117,100	-
	<u>\$ 450,196</u>	<u>\$ 2,735,719</u>

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

- a) The OEB had established a process for the recording of costs incurred by the Corporation to be market ready, including relating carrying costs, as deferred transition costs to be recovered in the future through the regulatory rate setting process.

The OEB requires the Corporation to track variances for the following, that are to be disposed of pending further direction from the OEB.

- b) 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. The variances arise as a result of the differing rates on time of use energy purchases by the company as compared to the average rates charged to its customers.
- c) The amount paid to the Independent Market Operator "IMO" for energy less corresponding amounts billed by the company to its customers, as well as other deregulation costs incurred by the company and related carrying costs which will be recovered in the future.

8. Other assets

	2004	2003
Other assets	\$ 468,396	\$ 494,646
Less current portion	(26,250)	(26,250)
	<u>\$ 442,146</u>	<u>\$ 468,396</u>

During the prior year, the Corporation acquired land and disposed of it in exchange for the provision of future capacity services of an OC48 network from 360networks. Provision of these services covers a ten-year period commencing in 2003. The services are valued at \$262,500.

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2004

9. Promissory note payable

The promissory note payable to the City of Greater Sudbury is unsecured and bears interest at a rate of 7.25% per annum.

The note is repayable in full upon six months written notice of the holder of the note. As at December 31, 2004, the holder has not issued a demand to repay the note.

10. Deferred revenue

	2004	2003
City of Greater Sudbury	\$ 196,875	\$ 240,625
Dark Fibre capacity services	99,500	-
	<u>296,375</u>	<u>240,625</u>
Less current portion	(43,750)	(43,750)
	<u>\$ 252,625</u>	<u>\$ 196,875</u>

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.

The company has agreed to supply dark fibre capacity services to five public sector organizations commencing October 2003. Each of the five organizations have 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 customer on a straight line basis.

11. Long-term obligations

	2004	2003
Employee future benefit obligation (note 12)	\$ 8,878,414	\$ 7,335,612
Customer deposits	1,117,876	1,157,871
Deferred developer contributions	377,414	262,674
Deferred carrying charges	344,526	292,512
Vested sick leave	46,638	45,473
	<u>10,764,868</u>	<u>9,094,142</u>
Portion included in current liabilities	(369,465)	(345,297)
	<u>\$10,395,403</u>	<u>\$ 8,748,845</u>

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2004

12. Employee future benefit obligation

The Company 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 service. The employee future benefit obligation at December 31, 2004 and the expense for the year then ended was determined based on an actuarial valuation dated March 7, 2005 using the projected benefit method, prorated on service and a discount rate of 5.75%.

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

	2004	2003
Employee future benefit obligation, beginning of year	\$7,335,612	\$ 7,055,205
Expenses for the period	664,100	580,731
Benefits paid for the period	(327,436)	(300,324)
Actuarial loss	1,206,138	-
Employee future benefit obligation, end of year	\$ 8,878,414	\$ 7,335,612

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% to 4% over six years. Other medical and dental expenses are assumed to remain consistent at a 4.5% increase per year.

b) Interest (discount) rate:

The obligation at December 31, 2004, being the present value of future liabilities and the expense for the period then ended, were determined using a discount 5.75%.

c) Salary levels:

Future general salary and wage levels were assumed to increase at 3% per year.

**GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2004

13. Preferred shares

	<u>2004</u>	<u>2003</u>
Authorized		
Unlimited 7.25% non-cumulative class A preferred shares, non-voting, redeemable and retractable at \$100 per share		
Issued		
41,841 (2003 - 27,824) class A preferred shares	<u>\$ 4,184,127</u>	<u>\$ 2,789,418</u>

During the year the Company issued 13,947 class A preferred shares from treasury for cash consideration of \$1,394,709.

14. Share capital

	<u>2004</u>	<u>2003</u>
Authorized		
Unlimited common shares		
Issued		
1,001 common shares	<u>\$ 22,431,779</u>	<u>\$ 22,431,779</u>

15. Commitments and contingencies

- (a) The company has arranged and received approval for a \$9,048,386 Letter of Guarantee to the Independent Market Operator ("IMO"). This was a requirement of the IMO for market opening on May 1, 2002. At December 31, 2004, no amounts have been drawn down on this financing agreement.

The Company has issued a \$729,000 Letter of Guarantee to Hydro One Networks Inc. This was a requirement of Hydro One Networks as a result of deregistration of embedded distribution connection points from the IMO. Hydro One Networks is now billing the Company directly for these connection points.

- (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.

**GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2004

15. Commitments and contingencies, continued

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 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 Company.

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) In 2004, the Collective Agreement with CUPE Local 4705 was renewed. As part of the Memorandum of Settlement, 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 Company 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. Any further contributions to the Fund are to come from the employees themselves.
- (d) The company has entered into an agreement to buy the shares of West Nipissing Energy Services Ltd. The date for the execution of an agreement for the purchase has been set at March 24, 2005. The purchase is subject to the approval of the Ontario Energy Board.

Upon completion of the purchase, the company agrees to make an initial advance of \$2,000,000 as partial settlement of the purchase obligation to the Municipality of West Nipissing.

**GREATER SUDBURY UTILITIES INC./
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Notes to the Consolidated Financial Statements
December 31, 2004

16. Related party transactions

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

The company 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.

During the year, the company sold the City water billing administration services and streetlight maintenance services totaling \$473,000 (2003 - nil) and \$377,000 (2003 - \$386,000) respectively. Included in accounts receivable is \$630,000 (2003 - \$180,000) on account of these sales. Also included in accounts receivable from the City is \$312,000 on account of one-time set up and conversion costs for water billing implementation. Included in accounts payable and accrued liabilities is \$1,146,000 relating to amounts collected by the company on behalf of the City for water billing. Correspondingly, included in accounts receivable is \$189,000 relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the company paid \$145,000 to the City on account of municipal taxes.

17. Change in non-cash operating working capital

	2004	2003
Change in non-cash operating working capital:		
Accounts receivable	\$ 710,420	\$ 457,803
Unbilled revenues - distribution	(1,610,917)	748,876
Unbilled revenues - energy	(8,174,263)	3,662,732
Inventory	87,200	(174,803)
Prepaid expenses	(72,676)	(5,487)
Accounts payable and accrued liabilities	1,527,033	(25,421)
Payable for energy purchases	2,682,467	(399,847)
Payment in lieu of taxes	895,420	251,533
Interest payable	(1,394,710)	-
	<u>\$(5,350,026)</u>	<u>\$ 4,515,386</u>

18. Pension agreements

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer pension plan, on behalf of 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 \$272,523 (2003 - \$118,741) were paid during the year.

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
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19. Loss carryforwards

For payment in lieu of tax purposes Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc. has losses which can be applied to reduce future years taxable income. The 2001 losses totaling \$90,033 expire in 2008. The 2002 losses totaling \$579,253 expire in 2009. The 2003 losses totaling \$405,049 expire in 2010. The 2004 losses totaling \$178,303 expire in 2014.