

Consolidated Financial Statements of

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

And Auditors' Independent Report thereon

Year ended December 31, 2019



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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. (the "Corporation), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of income and comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with the Group Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for the audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sudbury, Canada

May 25, 2020

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

Consolidated Statement of Financial Position

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,359,297	\$ -
Accounts receivable (note 3)	12,145,843	12,338,312
Unbilled revenue:		
Distribution	1,940,997	2,153,638
Energy sales	11,395,307	8,634,427
Payments in lieu of taxes recoverable (note 6)	868,268	-
Inventory	262,317	172,442
Prepaid expenses	970,496	538,664
	<u>32,942,525</u>	<u>23,837,483</u>
Restricted cash	-	324,664
Property, plant and equipment (note 4)	119,807,139	115,608,079
Intangible assets (note 5)	2,124,971	2,119,987
Right-of-use assets (note 19)	501,828	-
Deferred payment in lieu of taxes (note 6)	6,204,619	6,822,404
Investment in associates (note 20)	1,424,686	586,020
Total assets	<u>163,005,768</u>	<u>149,298,637</u>
Regulatory deferral account debit balances (note 7)	5,621,072	4,950,304
Total assets and regulatory balances	<u>\$ 168,626,840</u>	<u>\$ 154,248,941</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Financial Position (continued)

December 31, 2019, with comparative information for 2018

	2019	2018
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank indebtedness	\$ -	\$ 1,697,005
Accounts payable and accrued liabilities	8,840,037	5,485,007
Payment in lieu of taxes (note 6)	-	242,945
Payable for energy purchases	11,359,691	3,720,032
Current portion of deferred revenue (note 18)	467,587	439,414
Current portion of finance lease obligations (note 19)	42,819	25,262
Current portion of long-term obligations (note 8)	1,305,120	1,335,502
	<u>22,015,254</u>	<u>12,945,167</u>
Deferred revenue (note 18)	7,506,939	5,671,866
Promissory note payable (note 16)	52,340,819	52,340,819
Finance lease obligations (note 19)	463,574	-
Long-term obligations (note 8)	25,652,974	23,125,608
Total liabilities	<u>107,979,560</u>	<u>94,083,460</u>
Shareholder's equity:		
Share capital (note 10)	22,431,779	22,431,779
Retained earnings	24,655,851	21,307,166
Accumulated other comprehensive income	1,565,480	3,304,124
	<u>48,653,110</u>	<u>47,043,069</u>
Total liabilities and shareholder's equity	<u>156,632,670</u>	<u>141,126,529</u>
Regulatory deferral account credit balances (note 7)	11,994,170	13,122,412
Commitments and contingencies (note 12)		
Guarantees (note 13)		
Subsequent event (note 23)		
	<u>\$ 168,626,840</u>	<u>\$ 154,248,941</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_____ Director

_____ Director

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

Consolidated Statement of Income and Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Revenue (note 11):		
Energy sales	\$ 104,241,225	\$ 99,204,797
Distribution	23,707,377	23,023,347
	127,948,602	122,228,144
Other	18,480,186	18,239,529
	146,428,788	140,467,673
Expenses:		
Cost of energy	105,740,499	97,703,066
Operating and administration	28,004,405	25,795,700
Depreciation of property, plant and equipment	6,475,761	6,651,046
Depreciation of intangible assets	165,652	169,809
Interest on promissory note payable (note 16)	3,794,709	3,794,709
Interest on long-term obligations	585,459	851,045
Loss on disposal of property, plant and equipment	659,811	614,283
	145,426,296	135,579,658
Other income:		
Share of comprehensive income of associates (note 20)	801,805	580,552
Income before payment in lieu of taxes and regulatory items	1,804,297	5,468,567
Payment in lieu of taxes (recovery) (note 6)	800,906	835,827
Net income	1,003,391	4,632,740
Net movement on regulatory balances, net of tax (note 7)	2,345,294	(925,999)
Income for the year after net movements in regulatory balances - net of tax	3,348,685	3,706,741
Other comprehensive income - item that will not be reclassified to income or loss - remeasurement of employee future benefit obligation, net of tax (note 9)	(1,738,644)	1,192,589
Total comprehensive income	\$ 1,610,041	\$ 4,899,330

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Changes in Equity

Year ended December 31, 2019, with comparative information for 2018

	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2018	\$ 22,431,779	17,600,425	2,111,535	\$ 42,143,739
Income for the year	-	3,706,741	-	3,706,741
Remeasurement of employee future benefit obligation	-	-	1,192,589	1,192,589
Balance, December 31, 2018	22,431,779	21,307,166	3,304,124	47,043,069
Income for the year	-	3,348,685	-	3,348,685
Remeasurement of employee future benefit obligation	-	-	(1,738,644)	(1,738,644)
Balance, December 31, 2019	\$ 22,431,779	24,655,851	1,565,480	\$ 48,653,110

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Comprehensive income	\$ 1,610,041	\$ 4,899,330
Adjustments for:		
Depreciation of property, plant and equipment	7,006,315	6,651,046
Depreciation of intangible assets	165,652	169,809
Payment in lieu of taxes	800,906	835,827
Non-cash employee future benefit obligation expense (gain)	3,405,731	(585,321)
Gain on swap contract (note 8)	(36,905)	(76,098)
Equity income of associate	(801,805)	(580,552)
Amortization on deferred revenue	(235,729)	(194,286)
Loss on disposal of property, plant and equipment	659,811	614,283
	<u>12,574,017</u>	<u>11,734,038</u>
Change in non-cash operating working capital (note 21)	6,573,663	(4,018,309)
	<u>19,147,680</u>	<u>7,715,729</u>
Payment in lieu of taxes (paid) recovered	(716,941)	40,390
Employee future benefits paid	(731,217)	(558,366)
	<u>17,699,522</u>	<u>7,197,753</u>
Investing activities:		
Purchase of property, plant and equipment	(11,950,799)	(12,643,752)
Purchase of intangibles	(170,636)	(222,078)
Contributions in aid of construction	1,441,667	1,285,358
Proceeds on disposal of property, plant and equipment	85,613	108,552
Contributions to (transfers from) restricted cash	324,664	(3,609)
Investment in associates	(200,000)	-
Dividend from associates	163,139	-
	<u>(10,306,352)</u>	<u>(11,475,529)</u>
Financing activities:		
Repayment of long-term obligations	(378,272)	(359,044)
Developer contributions received	62,101	22,224
Finance lease repayments	(20,697)	(35,081)
	<u>(336,868)</u>	<u>(371,901)</u>
Increase (decrease) in cash during the year	7,056,302	(4,649,677)
Cash and cash equivalents, beginning of year	(1,697,005)	2,952,672
Cash and cash equivalents (bank indebtedness), end of year	<u>\$ 5,359,297</u>	<u>\$ (1,697,005)</u>

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. (the Corporation) 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 located in the City of Greater Sudbury. The address of the Corporation's registered office is 500 Regent Street, P.O Box 250/500 rue Regent; CP 250, Sudbury ON P3E 3Y2.

The Corporation is an investment holding company with its wholly owned subsidiaries involved in the distribution of electricity, provision of broadband telecommunications services, competitive rental and customer support services.

The consolidated financial statements comprise the Corporation and its subsidiaries as at and for the year ended December 31, 2019.

1. Basis of presentation:

(a) Statement of compliance:

The Corporation's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were approved by the Board of Directors on May 25, 2020.

(b) Basis of accounting:

These consolidated financial statements have been prepared on the historical cost basis, unless otherwise stated.

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest dollar.

(c) Use of estimates and judgments:

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements is included in the following notes:

- Note 4 – Property, plant and equipment
- Note 9 - Employee future benefits
- Note 12 - Commitments and contingencies

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

1. Basis of presentation (continued):

(d) Rate regulation:

The Corporation has adopted IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

The Corporation is regulated by the Ontario Energy Board (OEB), under the authority granted by the Ontario Energy Board Act, 1998. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies (LDCs), such as the Corporation, which may include, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

(e) Rate setting:

i) Distribution revenue:

For the distribution revenue included in electricity sales, the Corporation typically files a Cost of Service (COS) rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenses, debt and shareholder's equity required to support the Corporation's business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and intervenors and rates are approved based upon this review, including any revisions resulting from that review.

In the intervening years an Incentive Rate Mechanism application (IRM) is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflation for Final Domestic Demand (GDP IPI-FDD) net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

1. Basis of presentation (continued):

(e) Rate setting (continued):

i) Distribution revenue (continued):

The Corporation filed an IRM in 2018 requesting a 1.20% inflationary increase to distribution rates for the period of May 1, 2019 to April 30, 2020. The IRM was approved on March 28, 2019.

On October 31, 2019 the Corporation filed a COS application requesting a rate increase effective May 1, 2020. The Corporation submitted a proposal, which resulted from a settlement agreement with intervening parties, to the Ontario Energy Board on April 20, 2020. The settlement proposal was approved as submitted by the Ontario Energy Board by way of a decision and rate order on May 7, 2020.

ii) Electricity rates:

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

2. Summary of significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these consolidated financial statements.

(a) Regulation:

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14, Regulatory Accounts (IFRS 14).

(b) Regulatory balances:

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. The Corporation early adopted IFRS 14 in 2015.

The Corporation has adopted IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant accounting policies (continued):

(b) Regulatory balances (continued):

Regulatory deferral account asset balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account liability balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account asset balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in income and loss. The asset balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

Regulatory deferral account liability balances are recognized if it is probable that future billings in an amount at least equal to the liability balance will be reduced as a result of rate-making activities. The offsetting amount is recognized in income and loss. The liability balance is reduced by the amounts returned to customers as electricity is delivered to the customer at rates approved by the OEB for the return of the regulatory account liability balance.

The probability of recovery or repayment of the regulatory account balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover or repay the balance. Any resulting impairment loss is recognized in income and loss in the year incurred.

Regulatory deferral accounts attract interest at OEB prescribed rates. In 2019, the interest rate was 2.25%. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, the balances are recorded in the Corporation's consolidated statement of income and comprehensive income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the consolidated statement of financial position as regulatory deferral account debit/credit balances and on the consolidated statement of income and comprehensive income as net movements in regulatory balances, net of tax. The netting of regulatory debit and credit balances is not permitted.

The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant accounting policies (continued):

(c) Basis of consolidation:

These consolidated financial statements include the accounts of the following Corporations:

- 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.; and
- ConverGen Inc.

Subsidiaries are entities controlled by the Corporation. The financial statements of the subsidiaries are included in these consolidated financial statements from the date on which control commences until the date on which control ceases.

All significant inter-company accounts and transactions have been eliminated.

(d) Financial instruments:

All financial assets and all financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 2(j).

Hedge accounting has not been used in the preparation of these consolidated financial statements.

(e) Cash and cash equivalents:

Cash and restricted cash consist of cash on hand and in banks. Cash equivalents are short-term investments with maturities of three months or less when purchased.

(f) Revenue recognition:

i) Energy sales:

Energy sales are recognized as the electricity is delivered to customers and include the amounts billed to customers for electricity, including the cost of electricity supplied, distribution, and any other regulatory charges. Energy revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of energy is recorded on the basis of power used.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant accounting policies (continued):

(f) Revenue recognition (continued):

i) Energy sales (continued):

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this revenue stream.

ii) Capital contributions:

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions are not accounted for under IFRS 15 Revenue from Contracts with Customers. Cash contributions, received from developers are recorded as deferred revenue. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Certain customers are also required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. These contributions fall within the scope of IFRS 15 Revenue from Contracts with Customers. The contributions are received to obtain a connection to the distribution system in order to receive ongoing access to electricity. The Corporation has concluded that the performance obligation is the supply of electricity over the life of the relationship with the customer which is satisfied over time as the customer receives and consumes the electricity. Revenue is recognized on a straight-line basis over the useful life of the related asset.

iii) Other revenue:

Other revenue includes revenue from services ancillary to the electricity distribution, delivery of street lighting services, and other regulatory service charges. Other revenue includes electricity generation, other charges, and service contracts and rentals. Revenue earned from electricity generation, rentals and other charges is recognized as the service is rendered, when it is measurable and collection of the receivable is probable. Revenues earned from service contracts fall within the scope of IFRS 15 Revenue from Contracts with Customers and revenue is recognized over the period that services are provided. Commission expenses are considered to be incremental costs in obtaining service contracts and are recorded as a contract asset and recognized as an expense over the contract period as the services are provided.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant accounting policies (continued):

(f) Revenue recognition (continued):

iv) Conservation programs:

Incentive payments to which the Corporation is entitled from the Independent Electricity Systems Operator (IESO) are recognized as revenue in the period when they are determined as earned by the IESO and the amount is communicated to the Corporation.

(g) Inventory:

Inventory, comprising of material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

(h) Property, plant and equipment:

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

When parts of an item of property, plant and equipment ("PP&E") have different useful lives, they are accounted for as separate items (major components) of PP&E.

Gains and losses on the disposal of an item of PP&E are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of PP&E and are recognized as a gain or loss on disposition of PP&E within other income in the consolidated statement of income and comprehensive income.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in income as incurred.

Depreciation is calculated over the depreciable amount and is recognized in income on a straight-line basis over the estimated useful life of each part or component of an item of PP&E. The depreciable amount is cost. Land is not depreciated. Construction-in-progress assets are not amortized until the project is complete and in service.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant accounting policies (continued):

(h) Property, plant and equipment (continued):

The estimated useful lives are as follows:

Buildings	15 - 50 years
Distribution equipment	20 – 50 years
Automotive	8 – 12 years
Office and other equipment	5 – 10 years
System supervisory equipment	20 years
Computer equipment	5 years
Fibre optics	25 years
Water heaters	10 – 15 years
Wireless towers	20 years
Generation	20 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate. Assets under construction are not amortized until they are put into use.

(i) Intangible assets:

i) Computer software:

Computer software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

ii) Land rights:

Payments to obtain rights to assess land (land rights) are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Corporation does not hold title.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant accounting policies (continued):

(i) Intangible assets (continued):

iii) Goodwill:

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses.

iv) Depreciation:

Depreciation is recognized within profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than land rights and goodwill, from the date that they are available for use. The estimated useful lives are:

Computer software	5 years
Tenant relationships	4 years
Land rights	Not amortized
Goodwill	Not amortized

Depreciation methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively, if appropriate.

(j) Impairment:

i) Financial assets measured at amortized cost:

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for that asset.

ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than capital inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant accounting policies (continued):

(j) Impairment (continued):

ii) Non-financial assets (continued):

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in income or loss.

An impairment loss in respect of goodwill is not reversed. For assets other than goodwill, impairment recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(k) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(l) Employee future benefits:

i) Pension plan:

The Corporation provides a pension plan for all its full-time employees through the Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant account policies (continued):

(l) Employee future benefits (continued):

ii) Post-employment benefits, other than pension:

The Corporation provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and the current service costs are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Actuarial gains and losses arising from defined benefit plans are recognized immediately in other comprehensive income and reported in accumulated other comprehensive income.

(m) Deferred revenue and assets transferred from customers:

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as a developer contribution within long-term obligations. When the capital project is completed, the amount is transferred to deferred revenue. Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity, and is amortized to income on a straight-line basis over the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

(n) Leased assets:

At inception of a contract, the Corporation assess whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Corporation with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant account policies (continued):

(n) Leased assets (continued):

The lease liability is initially measured at the present value of lease payments plus the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Corporation's incremental borrowing rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Corporation has elected not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less or for leases of low value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(o) Finance income and finance costs:

Finance income comprises interest earned on cash and cash equivalents and on regulatory assets.

Finance costs comprise interest expense on borrowing and regulatory liabilities. Finance costs are recognized as an expense.

(p) Payment in lieu of taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in income or loss except to the extent that it relates to items recognized directly in other comprehensive income, in which case, the tax is also recognized directly in other comprehensive income, respectively.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the Tax Acts). Under the Electricity Act, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC). These payment are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulation. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant account policies (continued):

(p) Payment in lieu of taxes (continued):

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

(q) Investment in associates:

Associates are those entities in which the Corporation has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Corporation holds between 20 and 50 percent of the voting power of another entity.

Associates are accounted for using the equity method and are recognized initially at cost. The financial statements include the Corporation's share of the income and expenses and equity movements of the associate, after adjustments to align the accounting policies with those of the Corporation and other adjustments arising from the elimination of intercompany transactions, from the date that significant influence commences until the date that significant influence ceases. When the Corporation's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Corporation has an obligation or has made payments on behalf of the investee.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant account policies (continued):

(r) Change in accounting policy:

The Corporation has applied IFRS 16 *Leases* with a date of initial application of January 1, 2019. The Corporation applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. The details of the changes in accounting policies are disclosed below.

Except for the changes below, the Corporation has consistently applied the accounting policies to all periods presented in these financial statements.

Previously, the Corporation determined, at contract inception, whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Corporation assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(k). On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which contracts are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether they contained a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee, the Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet. The Corporation has decided to apply recognition exemptions to short-term leases and leases for which the value of the underlying asset is of low value.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

2. Summary of significant account policies (continued):

(r) Change in accounting policy (continued):

The Corporation used the following practical expedients and recognition exemptions when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Applied the exemption not to recognize right-of-use assets and liabilities for leases for which the underlying asset is of low value;
- Applied this standard to all contracts that were previously identified as leases by applying IAS 17 *Leases* and IFRIC 4 *Determining whether and Arrangement contains a Lease*;
- Applied this standard to a portfolio of leases with similar characteristics using estimates and assumptions that reflect the size and composition of the portfolio;
- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

On transition to IFRS 16, the Corporation recognized an additional \$548,376 of right-of-use assets and \$548,376 of lease liabilities. When measuring lease liabilities, the Corporation discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.976%.

3. Accounts receivable:

	2019	2018
Electricity	\$ 8,646,583	8,617,229
Other	4,623,736	4,788,340
	13,270,319	13,405,569
Allowance for doubtful accounts:		
Balance, beginning of year	(1,067,257)	(1,563,897)
Decrease (increase) in provision	(512,070)	79,466
Accounts receivable write-offs	454,851	417,174
Balance, end of year	(1,124,476)	(1,067,257)
	\$ 12,145,843	12,338,312

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

4. Property, plant and equipment:

Cost or deemed cost:

		Land and Buildings	Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance, January 1, 2018	\$	13,279,099	82,302,565	31,216,231	2,592,816	129,390,711
Additions		217,132	10,354,927	1,915,934	188,451	12,676,444
Transfers		-	-	-	98,742	98,742
Disposals/retirements		-	(3,786,033)	(289,120)	(66,214)	(4,141,367)
Balance, December 31, 2018		13,496,231	88,871,459	32,843,045	2,813,795	138,024,530
Additions		335,690	9,399,370	2,440,689	(224,950)	11,950,799
Disposals/retirements		-	(2,679,489)	(507,630)		(3,187,119)
Balance, December 31, 2019	\$	13,831,921	95,591,340	34,776,104	2,588,845	146,788,210

Accumulated depreciation:

		Land and Buildings	Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance, January 1, 2018	\$	1,535,352	5,831,800	11,685,351	-	19,052,503
Depreciation charges		444,103	3,320,658	2,886,285	-	6,651,046
Disposals		-	(3,134,417)	(152,681)	-	(3,287,098)
Balance, December 31, 2018		1,979,455	6,018,041	14,418,955	-	22,416,451
Depreciation charges		453,454	3,606,811	2,946,050	-	7,006,315
Disposals			(2,080,774)	(360,921)	-	(2,441,695)
Balance, December 31, 2019	\$	2,432,909	7,544,078	17,004,084	-	26,981,071

Carrying amounts:

		Land and Buildings	Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
At December 31, 2018	\$	11,516,776	82,853,418	18,424,090	2,813,795	115,608,079
At December 31, 2019		11,399,012	88,047,262	17,772,020	2,588,845	119,807,139

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

5. Intangible assets:

(a) Cost or deemed cost:

		Computer Software	Goodwill and land rights	Total
Balance, at January 1, 2018	\$	1,585,391	1,746,605	3,331,996
Additions		222,078	–	222,078
Balance, at December 31, 2018		1,807,469	1,746,605	3,554,074
Additions		170,636	–	170,636
Balance, at December 31, 2019	\$	1,978,105	1,746,605	3,724,710

(b) Accumulated depreciation:

		Computer Software	Goodwill and land rights	Total
Balance, at January 1, 2018	\$	1,189,694	74,584	1,264,278
Depreciation charges		169,809	–	169,809
Balance, at December 31, 2018		1,359,503	74,584	1,434,087
Depreciation charges		165,652	–	165,652
Balance, at December 31, 2019	\$	1,525,155	74,584	1,599,739

		Computer Software	Goodwill and land rights	Total
At December 31, 2018	\$	447,966	1,672,021	2,119,987
At December 31, 2019		452,950	1,672,021	2,124,971

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

6. Payment in lieu of taxes (PILS):

	2019	2018
Current tax	\$ (394,272)	847,795
Payment in lieu of future taxes	1,195,178	(11,968)
	<u>\$ 800,906</u>	<u>835,827</u>
Rate reconciliation before net movements in regulatory balances:		
Profit before PILS and regulatory items	\$ 1,804,297	5,468,567
Statutory Canadian federal and provincial income tax rate	26.50%	26.50%
PILS using the Corporation's statutory rate	478,138	1,449,170
2014 loss carry back treated as instalment	-	(41,675)
Prior period adjustments	155,313	(607,229)
Other	167,455	35,561
	<u>800,906</u>	<u>835,827</u>

The tax effect of temporary differences that give rise to deferred tax assets are as follows:

	Plant and Equipment	Employee Benefits	Non-capital loss carried forward/ CMT Credit	Regulatory Adjustment	Other	2019 Total
Balance, January 1	\$ (240,455)	4,688,674	149,240	2,275,716	(50,771)	6,822,404
Change in deferred tax balance	(730,826)	706,790	(24,062)	(419,012)	(150,675)	(617,785)
Balance, December 31	<u>\$ (971,281)</u>	<u>5,395,464</u>	<u>125,178</u>	<u>1,856,704</u>	<u>(201,446)</u>	<u>6,204,619</u>

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

6. Payment in lieu of taxes (PILS) (continued):

Deferred tax assets:

	Plant and Equipment	Employee Benefits	Non-capital loss carried forward/ CMT Credit	Regulatory Adjustment	Other	2018 Total
Balance, January 1	\$ (611,187)	4,973,447	485,363	2,042,428	321,249	7,211,300
Change in deferred tax balance	370,732	(284,773)	(336,123)	233,288	(372,020)	(388,896)
Balance, December 31	\$ (240,455)	4,688,674	149,240	2,275,716	(50,771)	6,822,404

7. Regulatory balances:

	January 1, 2019	Balances arising in the period	Recovery/ (reversal)	December 31, 2019
Smart grid/renewable connection (a)	\$ 908,930	178,644	(646,350)	441,224
IFRS deferral (b)	2,902,214	519,757	–	3,421,971
Other regulatory assets deferral	151,847	46,342	(9,258)	188,931
LRAMVA (f)	987,313	685,772	(422,953)	1,250,132
Cost of service (g)	–	318,814	–	318,814
Regulatory assets	\$ 4,950,304	1,749,329	(1,078,561)	5,621,072
Demand side management costs (c)	\$ 513,952	–	–	513,952
Group 1 variance accounts (d)	4,603,334	230,821	(1,504,986)	3,329,169
Deferred payment in lieu of taxes (e)	7,957,543	(368,036)	–	7,589,507
Incremental pole rental revenue (h)	38,629	513,959	–	552,588
Smart meters/stranded meters	8,954	–	–	8,954
Regulatory liabilities	\$ 13,122,412	376,744	(1,504,986)	11,994,170

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

7. Regulatory balances (continued):

	January 1, 2018	Balances arising in the period	Recovery/ (reversal)	December 31, 2018
Smart grid/renewable connection (a)	\$ 880,056	28,874		908,930
IFRS deferral (b)	2,274,212	628,002	–	2,902,214
Other regulatory assets deferral	339,463	43,484	(231,100)	151,847
LRAMVA (f)	684,005	303,308	–	987,313
Regulatory assets	\$ 4,177,736	1,003,668	(231,100)	4,950,304
Demand side management costs (c)	\$ 513,952	–	–	513,952
Group 1 variance accounts (d)	3,052,749	2,168,398	(617,813)	4,603,334
Deferred payment in lieu of taxes (e)	7,842,394	115,149	–	7,957,543
Incremental pole rental revenue (h)	–	38,629	–	38,629
Smart meters/stranded meters	8,954	–	–	8,954
Regulatory liabilities	\$ 11,418,049	2,322,176	(617,813)	13,122,412

The regulatory deferral account balances are recovered or settled through rates set by the OEB which are determined using estimates of the Corporation's future number of electricity customers as well as estimates of future electricity consumption by customers.

The Corporation has received approval from the OEB to establish its regulatory deferral account balances.

The regulatory balances of the Corporation consist of the following:

a) Smart grid/renewable connection:

The Ontario Government has established objectives for the implementation of a smart grid and renewable connection in Ontario. The Corporation has been approved to dispose of the balance over 1 year as part of its 2020 Cost of Service application.

In connection with smart grid and renewable connection activities, the Corporation has recorded \$155,024 in revenue requirement to be recovered from ratepayers on smart grid investments, \$18,087 in deferred operating expenses, carrying charges of \$5,533, reversals amounting to \$106,637 and has capitalized \$539,713 of assets previously recorded in this account (2018 - \$9,955 in deferred operating expenses, capital expenditures of \$2,801, carrying charges of \$16,118).

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

7. Regulatory balances (continued):

b) IFRS deferral:

For the year ended December 31, 2019, the Corporation recorded \$519,757 (2018 - \$628,002) of costs relating to the IFRS-CGAAP transitional property, plant and equipment losses that did not form part of the rate base. The Corporation has been approved to dispose of these costs over 5 years as part of its 2020 Cost of Service application.

c) Demand side management costs:

The Minister of Energy has granted approval to all distributors to apply to the OEB for an increase in their distribution rates, conditional on a commitment by the Corporation to spend an equivalent amount on conservation and demand management initiatives. In 2008, the OEB approved additional conservation and demand management initiatives to be collected and spent over a three-year period. The amount remaining in this account resulted from underspending on the initiatives. The Corporation has been approved to dispose of these funds for repayment to the rate payers over 1 year as part of its 2020 Cost of Service application.

d) Group 1 variance accounts:

Group 1 variance accounts consist materially of retail settlement variance accounts. These accounts represent the difference between the amount paid by the Corporation to its power suppliers 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 consolidated statement of financial position 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. Settlement of the deferral accounts is done on an annual basis through the rate application to the OEB. The net balance of the retail settlement variances must meet a certain threshold in order to dispose of these balances. The Corporation was approved to dispose of a portion of these balances for repayment to the rate payers through its 2019 IRM application and has been approved to continue the disposition through its 2020 Cost of Service application.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

7. Regulatory balances (continued):

e) Deferred payment in lieu of taxes:

This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. As at December 31, 2019, the Corporation has recorded a deferred tax asset of \$7,589,506 (2018 - \$7,957,543) with respect to its rate-regulated activities. In the absence of rate regulation this regulatory balance and the related earnings impact would not be recorded.

For certain of the regulatory assets and liabilities identified above, the expected recovery or settlement period, or likelihood of recovery or settlement is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting 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 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.

f) LRAMVA:

The Lost Revenue Adjustment Mechanism variance account (LRAMVA) was established to capture the variance between the Conservation and Demand Management (CDM) adjustment to a distributor's OEB-approved load forecast and the actual CDM results at the customer rate class level. When disposing of this regulatory asset, the Corporation must provide evidence to the OEB to support the claim. The Corporation was approved to dispose of these funds for recovery from rate payers through its 2019 IRM application and has been approved to continue the recovery through its 2020 Cost of Service application.

In relation to the LRAMVA, the Corporation has deferred \$685,772 (2018 - \$303,309) and recovered \$422,953 (2018 - \$0) from ratepayers.

g) Cost of service accrual:

The Ontario Energy Board's Accounting Procedure Handbook allows for regulatory expenses that by approval or direction of the Board are to be spread over future periods. During 2019, the Corporation began work on its 2020 Cost of Service application and the amounts in this account reflect the costs incurred to the end of 2019. The Corporation will continue to accrue charges to this account until the application is complete. The amount in this account will be amortized to the income statement annually over 5 years by charges to this account.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

7. Regulatory balances (continued):

h) Incremental pole rental revenue:

Pole attachment charges are what electricity distributors charge third parties, such as telecommunications and cable companies, for access to their network of electricity poles. During 2018, the Ontario Energy Board adjusted the rate electricity distributors were to charge the third-party companies and the increase in revenue is included in this account. The Corporation has been approved to dispose of these funds for repayment to the rate payers over 1 year as part of its 2020 Cost of Service application.

i) Net movement on regulatory accounts consist of:

	2019	2018
Net movement on regulatory accounts related to income or loss	\$ 2,017,062	(819,445)
Net movement on regulatory accounts from deferred taxes related to income	945,429	(516,013)
Net movement on regulatory accounts from deferred taxes related to other comprehensive income	(617,197)	409,459
Total net movement on regulatory accounts	\$ 2,345,294	(925,999)

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Notes to Consolidated Financial Statements

Year ended December 31, 2019

8. Long-term obligations:

	2019	2018
Employee future benefit obligation (note 9)	\$ 20,360,853	17,686,339
Loan payable (a)	1,465,000	1,613,000
Swap contract interest (a) and (b)	251,317	288,222
Multiple draw term loan (b)	983,203	1,119,553
Customer deposits (d)	2,315,105	2,139,559
Developer contributions (e)	1,036,084	973,983
Bank loan (c) and (f)	546,532	640,454
	26,958,094	24,461,110
Less: current portion	(1,305,120)	(1,335,502)
	\$ 25,652,974	23,125,608

- a) ConverGen Inc. was advanced monies under a reducing term, floating rate facility at a face amount of \$2,800,000 to finance the construction of a landfill gas generation plant. Concurrent with the entry into the loan facility, to mitigate the Corporation's exposure to interest rate risk, the Corporation entered into an International Swaps and Derivatives Association, 2000 Master Agreement. The interest rate swap is used for non-speculative purposes to convert floating rate debt into fixed rate debt bearing interest at 5.97% per annum. The debt facility has a termination date of July 12, 2027 with an optional exit strategy at five, ten 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 ConverGen Inc. The agreement contains covenants requiring a total debt to total capitalization ratio of less than 50% and an interest coverage ratio of not less than 1.2:1 be maintained by the Corporation and its affiliates: ConverGen Inc., Greater Sudbury Hydro Plus Inc., Greater Sudbury Telecommunications Inc., 1627596 Ontario Inc. and Greater Sudbury Hydro Inc. At year-end these covenants were met.

- b) On January 14, 2011, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. was advanced monies under a reducing term, floating rate facility at a face amount of \$2,000,000 to finance the purchase of the smart meters. Concurrent with the entry into the loan facility, to mitigate the Corporation's exposure to interest rate risk, the Corporation entered into an International Swaps and Derivatives Association, 2002 Master Agreement. The interest rate swap is used for non-speculative purposes to convert floating rate debt into fixed rate debt bearing interest at 3.7%. The debt facility has a termination date of January 19, 2026. The facility loaned has a fixed/floating interest swap, 15 years, payable monthly, secured by a general security agreement representing a first charge on all the borrower's assets and undertakings, and an unlimited guarantee of advances executed by the borrower.

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Notes to Consolidated Financial Statements

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8. Long-term obligations (continued):

- c) The Corporation entered into a financing agreement on January 12, 2015, in the amount of \$971,604. The finance term is 120 months at a fixed interest rate of 4.33% and is secured by the underlying specified assets under financing. Annual payments of \$119,805 are required as a result of this financing facility.
- d) Customer deposits represent cash deposits from electricity distribution customers and retailers. Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.
- e) Upon expansion of the Corporation's electricity distribution customer base, a developer is required to incur the cost to establish any necessary electricity infrastructure. This infrastructure is contributed to the Corporation and the Corporation then assumes the risks and responsibilities associated with the infrastructure. The Corporation is required to perform an analysis of the ongoing economic benefit it receives from the expansion, and a formulaic approach determines if a developer is entitled to recovery of the capital it contributed to the Corporation. These developer contributions represent the Corporation's estimated liability of amounts owed to developers pertaining to these expansions.
- f) Subsequent to year-end, the Corporation entered into a new third-party debt arrangement in the form of funds available via multiple draws, up to a maximum of \$10,000,000 in total debt. The Corporation arranged a draw of \$5,500,000 on March 26, 2020. The Term of the draw is 10 years with 25-year amortization, bearing interest at a fixed rate of 1.976%.

9. Employee future benefits:

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2019 of \$20,360,853 was based on an actuarial valuation completed in 2019 using a discount rate of 3.10%.

The cost of providing benefits under the benefit plans is actuarially determined using the projected unit credit method, which incorporates management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses. Actuarial gains and losses on medical, dental and life insurance benefits are recognized in OCI as they arise. Actuarial gains and losses related to rate-regulated activities are subsequently reclassified from OCI to a regulatory balance on the consolidated statement of financial position. Actuarial gains and losses on accumulated sick leave credits are recognized in the consolidated statement of income and comprehensive income in the period in which they arise.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019

9. Employee future benefits (continued):

Changes in the present value of the defined benefit unfunded obligation and the accrued benefit liability are as follows:

	2019	2018
Employee future benefit obligation, beginning of year	\$ 17,686,339	18,830,026
Current service cost	374,383	404,550
Interest costs	675,508	612,177
Benefits paid during the year	(731,217)	(558,366)
Actuarial losses (gains) recognized in other comprehensive income	2,355,840	(1,602,048)
Employee future benefit obligation, end of year	\$ 20,360,853	17,686,339

Components of net benefit expense recognized are as follows:

	2019	2018
Current service cost	\$ 374,383	404,550
Interest costs	675,508	612,177
Net benefit expense recognized	\$ 1,049,891	1,016,727

Actuarial gains and losses recognized net of tax in other comprehensive income are as follows:

	2019	2018
Cumulative amount at January 1	\$ 3,304,124	2,111,535
Recognized during the year, net of tax	(1,738,644)	1,192,589
Cumulative amount at December 31	\$ 1,565,480	3,304,124

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9. Employee future benefits (continued):

The significant actuarial assumptions used in the valuation are as follows (weighted average):

	2019	2018
Accrued benefit obligation:		
Discount rate	3.10%	3.60%
Benefit cost for the year:		
Withdrawal rate	4.50%	4.50%
Assumed health care cost trend rates:		
Initial health care cost trend rate	5.56%	5.78%
Cost trend rate declines to year that rate reaches the rate it is assumed to remain at	4.50%	4.50%

The main actuarial assumptions utilized for the valuation are as follows:

- General inflation – future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2.00% in 2019, and thereafter (2018 – 2.00%).
- Discount (interest) rate – the discount rate used to determine the present value of future liabilities and the expense for the year ended December 31, 2019, was 3.10% (2018 – 3.60%).
- Salary levels – future general salary and wage levels were assumed to increase at 2.30% (2018 – 2.00%) per annum.
- Medical costs – medical costs were assumed to be 5.56% for 2019 and 4.50% thereafter.
- Dental costs – dental costs were assumed to be 4.50% for 2019 and 4.50% thereafter.

10. Share capital:

	2019	2018
Authorized:		
Unlimited common shares		
Issued:		
1,002 common shares	\$ 22,431,779	22,431,779

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Notes to Consolidated Financial Statements

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11. Revenues (in thousands):

The following table disaggregates revenues by type of customer (in thousands):

	2019	2018
Revenue from contracts with customers:		
Energy sales:		
Residential service	\$ 41,705	38,563
General service	58,408	59,547
Other	4,128	1,095
	104,241	99,205
Distribution revenue:		
Residential service	14,137	13,751
General service	8,772	8,485
Other	798	787
	23,707	23,023
Revenue from other sources:		
Conservation recoveries	3,066	2,718
Conservation performance incentive	97	470
Pole rental	1,035	560
Contracts and rentals	11,230	10,960
Electricity generation	1,009	1,399
Other charges	2,043	2,133
	18,480	18,240
	\$ 146,428	140,468

12. Commitments and contingencies:

General:

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General liability insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDSc in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2019, no assessments have been made.

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13. Guarantees:

The Corporation has issued a \$9,048,386 letter of guarantee to the IESO. This was a requirement of the IESO for market opening on May 1, 2002. At December 31, 2019, no amounts have been drawn on this letter of guarantee.

14. Pension agreement:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, defined contribution plan benefit with equal contributions by the employer and its employees. In 2019, the Corporation made employer contributions of \$1,222,191 to OMERS (2018 - \$1,188,870).

The Corporation estimates a contribution of \$1,357,143 will be made to OMERS during the next fiscal year.

15. Employee compensation:

	2019	2018
Salaries, wages and benefits	\$ 16,046,916	14,406,745
Contributions to OMERS	1,222,191	1,188,870
	<u>\$ 17,269,107</u>	<u>15,595,615</u>

16. Related party transactions:

Parent and ultimate controlling party:

Greater Sudbury Utilities./Services Publics du Grand Sudbury Inc. is a wholly-owned subsidiary of the City of Greater Sudbury (the "City"). The City produces consolidated financial statements that are available for public use.

Transactions with ultimate parent (the City):

During the year, the Corporation paid the City interest on a promissory note totaling \$3,794,709 (2018 - \$3,794,709). The promissory note is repayable in full on six months' written notice of the holder of the note. As at May 25, 2020, the City has informed the Corporation it will not demand repayment of the promissory note within one year.

The Corporation had the following significant transactions with its ultimate parent, a government entity:

- i) electricity sales;
- ii) streetlight maintenance;
- iii) telecommunications; and
- iv) water and wastewater billing.

Transactions with the ultimate parent relating to the above transactions in 2019 amounted to \$10,695,548 (2018 - \$10,826,999).

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16. Related party transactions (continued):

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

During the year, the Corporation sold the City water billing administration services and streetlight maintenance services totaling \$1,584,325 (2018 - \$1,520,584) and \$500,418 (2018 - \$497,976), respectively. Included in accounts receivable is \$1,176,325 (2018 - \$1,598,008) on account of these sales.

Included in accounts payable and accrued liabilities is \$1,581,320 (2018 - \$932,877) relating to amounts collected by the Corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is \$29,229 (2018 - \$28,974) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the Corporation paid \$307,037 (2018 - \$300,940) to the City on account of municipal taxes.

Key management personnel:

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members, and their compensation is summarized below.

	2019	2018
Directors' fees	\$ 129,103	53,489
Salaries and benefits	1,058,699	1,039,418
	<u>\$ 1,187,802</u>	<u>1,092,907</u>

17. Financial instruments and risk management:

(a) Fair value disclosure:

Cash and cash equivalents are measured at fair value. The carrying values of accounts receivables, unbilled revenue, bank indebtedness and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

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Year ended December 31, 2019

17. Financial instruments and risk management (continued):

(b) Financial risks:

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

i) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Greater Sudbury. No single customer accounts for a balance in excess of 8% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for estimated credit losses and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously provisioned are credited to net income. The balance of the allowance for impairment at December 31, 2019 is \$1,124,476 (2018 - \$1,067,257). An impairment loss (recovery) of (\$57,219) (2018 - \$496,641) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2019, approximately \$1,481,346 (2018 - \$1,491,128) is considered 46 days past due. The Corporation has over 47,000 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2019, the Corporation holds security deposits in the amount of \$2,315,105 (2018 - \$2,139,559).

ii) Market risk:

Market risk primarily refers to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

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Notes to Consolidated Financial Statements

Year ended December 31, 2019

17. Financial instruments and risk management (continued):

(b) Financial risks (continued):

iii) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to an \$8,000,000 credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due. As at December 31, 2019, \$Nil (2018 - \$1,374,078) was drawn under the Greater Sudbury Utilities Inc. \$8,000,000 credit facility (2018 - \$8,000,000).

The majority of accounts payable, as reported on the consolidated statement of financial position, are due within 30 days.

iv) Capital disclosures:

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2019, shareholder's equity amounts to \$48,653,110 (2018 - \$47,043,069) and long-term debt amounts to \$85,964,306 (2018 - \$81,138,293).

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Notes to Consolidated Financial Statements

Year ended December 31, 2019

18. Deferred revenue:

	2019	2018
Contributions in aid of capital (a)	\$ 6,947,130	5,336,192
HOTelecom (b)	44,813	89,625
Dark fibre capacity services (c)	132,909	168,215
Telus (d)	68,623	73,591
1627596 Ontario Inc. deferred revenue (e)	382,500	354,327
Other	98,551	89,330
	7,974,526	6,111,280
Less: current portion	(467,587)	(439,414)
	\$ 7,506,939	5,671,866

- (a) Under IFRS, contributions in aid of capital are to be classified as deferred revenue, and amortized into income over the life of the capital asset.
- (b) During 2006, Greater Sudbury Telecommunications Inc. entered into a Fibre Optic Cable IRU Agreement with Hydro One Telecom (HOTelecom) for a fourteen-year period ending December 31, 2020. This revenue is being recognized on a straight-line basis over the term of the agreement.
- (c) Greater Sudbury Telecommunications Inc. agreed to supply dark fibre capacity services to five public sector organizations commencing October 2003. Each of the five organizations agreed to make a lump sum payment of \$120,000 as well as payments of \$500 per month for a 20-year period or a further lump sum payment, in exchange for the provision of these services by the Corporation. 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) During 2009, Greater Sudbury Telecommunications Inc. entered into a Fibre Optic Cable IRU Agreement with Telus Corporation for a twenty-five year period ending December 31, 2034. This revenue is being recognized over the term of the agreement on a straight-line basis as the service is delivered to the customer.
- (e) 1627596 Ontario Inc. o/a @home Energy bills their customers on a quarterly basis. The deferred revenue represents the amount billed before year-end that pertains to future periods.

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19. Finance lease obligations:

	Indefeasible Right of Use
Right-of-use assets	
Cost	
Balance at January 1, 2019	\$ 548,376
Additions	–
Balance at December 31, 2019	\$ 548,376
Accumulated depreciation	
Balance at January 1, 2019	\$ –
Additions	46,548
Balance at December 31, 2019	\$ 46,548
Carrying amounts	
At December 31, 2019	\$ 501,828
Finance lease liability	
Balance at January 1, 2019	\$ 548,376
Additions	–
Accretion	10,371
Disposals/retirements	(52,354)
Balance at December 31, 2019	\$ 506,393
Made up of	
Current portion	\$ 42,819
Long-term finance lease liability	463,574
	\$ 506,393

Certain leases held by the Corporation provide the Corporation with extension options and termination options that may impact the term of the Lease which can impact the finance lease liability recognized in the statement of financial position. The Corporation has determined the lease term for all contracts based on all available information as at the reporting date.

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Notes to Consolidated Financial Statements

Year ended December 31, 2019

20. Investment in associates:

	2019	2018
Investment in Ecobility (i)	\$ 1,224,686	586,020
Investment in 17 Trees (ii)	200,000	–
	<u>\$ 1,424,686</u>	<u>586,020</u>

(i) Investment in Ecobility:

At December 31, 2019, the Corporation owns 1 Class A voting share and 46,879 Class B shares of a corporation responsible for conservation programs, representing approximately 32.6% of the outstanding shares. A shareholder of the associate disposed of their shares, resulting in Greater Sudbury Utilities gaining significant influence over the corporation and, therefore, it is accounted for using the equity method. In prior periods, this investment was accounted for utilizing the cost method.

The Corporation's investment in associate is as follows:

	Number of Shares	Amount
Balance, December 31, 2018	46,879	\$ 586,020
Loss on change of equity interest	–	(39,145)
Share of comprehensive income of associate, for the year ending December 31, 2019	–	840,950
Dividend received	–	(163,139)
	<u>46,879</u>	<u>638,666</u>
Balance, December 31, 2019		<u>\$ 1,224,686</u>

Summarized financial information of the associate for the year ended December 31, 2019:

	Statement of Financial Position
Current assets	\$ 5,821,263
Non-current assets	48,312
Long-term liabilities	401,829
Net assets	<u>2,672,849</u>

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20. Investment in associates (continued):

(i) Investment in Ecobility (continued):

	Statement of Income and Comprehensive Income	
Net income for the period	\$	2,579,837
Percentage ownership in associate		32.60%
Share of income		840,950

(ii) Investment in 17 Trees:

At December 31, 2019, the Corporation also owns 100 common shares of a Corporation responsible for arbor services representing approximately 33.3% of the outstanding common shares. The initial investment was \$200,000.

21. Change in non-cash operating working capital items:

	2019	2018
Accounts receivable	\$ 192,469	(307,738)
Inventory	(89,875)	30,062
Deferred revenue related to other changes	657,308	142,976
Unbilled revenue – distribution revenue	212,641	25,561
Unbilled revenue – energy sales	(2,760,880)	143,087
Customer deposits	175,546	19,328
Payable for energy purchases	7,639,659	(4,773,644)
Change in regulatory assets/liabilities	(2,008,367)	1,217,509
Change in deferred tax liability	(368,036)	115,149
Prepaid expenses	(431,832)	297,124
Accounts payable and accrued liabilities	3,355,030	(927,723)
	\$ 6,573,663	(4,018,309)

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22. Comparative information:

Certain of the 2018 comparative information have been restated to conform with the 2019 presentation.

23. Subsequent event:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact. At the time of approval of these financial statements, the Corporation has undertaken the following activities in relation to the COVID-19 pandemic:

- Closure of the 500 Regent Street offices to the public
- Mandatory working from home requirements for those able to do so
- Capital projects delayed with emergency-only repairs performed for a period of time during the peak of the pandemic

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation is not known at this time.