Greater Sudbury Utilities Inc./ Services Publics du Grand Sudbury Inc.

Consolidated Financial Statements
December 31, 2014
(expressed in Canadian dollars)

April 29, 2015

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2014 and the consolidated statements of earnings and retained earnings (deficit) and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. and its subsidiaries as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Greater Sudbury Utilities Inc./
Services Publics du Grand Sudbury Inc.

Consolidated Balance Sheet

As at December 31, 2014

(expressed in Canadian dollars)

	2014 $	2013 $
Assets		
Current assets		
Accounts receivable (note 4)	12,873,694	11,754,120
Unbilled revenue		
Distribution	2,999,866	3,117,759
Energy sales	14,735,593	15,332,127
Payment in lieu of taxes (note 7)	906,925	516,487
Inventory	258,412	273,152
Prepaid expenses	604,105	480,461
	32,378,595	31,474,106
Restricted cash (note 15(b))	315,079	311,643
Capital assets (note 5)	98,734,464	95,742,072
Intangible assets (note 6)	1,664,750	1,694,584
Payment in lieu of future taxes (note 7)	9,660,069	9,484,904
Regulatory assets (note 8)	1,141,237	1,351,180
Other assets	5,468	-
	143,899,662	140,058,489

Approved by the Board of Directors

______________________________ Director ______________________________ Director

The accompanying notes are an integral part of these consolidated financial statements.

Greater Sudbury Utilities Inc./
Services Publics du Grand Sudbury Inc.

Consolidated Balance Sheet ...*continued*

As at December 31, 2014

(expressed in Canadian dollars)

	2014 $	2013 $
Liabilities		
Current liabilities		
Bank indebtedness	1,129,385	216,673
Accounts payable and accrued liabilities	5,984,295	7,159,021
Payable for energy purchases	12,488,704	11,192,421
Promissory note payable (note 9)	52,340,819	52,340,819
Deferred revenue (note 10)	84,607	85,087
Long-term obligations (note 11)	1,377,207	1,276,089
Capital lease obligations (note 12)	176,267	98,590
	73,581,284	72,368,700
Deferred revenue (note 10)	881,479	946,634
Payment in lieu of future taxes (note 7)	759,246	727,873
Regulatory liabilities (note 8)	10,816,572	12,400,242
Long-term obligations (note 11)	28,358,556	25,251,305
Capital lease obligations (note 12)	311,499	207,842
	114,708,636	111,902,596
Shareholder's Equity		
Share capital (note 14)	22,431,779	22,431,779
Retained earnings	6,759,247	5,724,114
	29,191,026	28,155,893
	143,899,662	140,058,489

Commitments and contingencies (note 15)

The accompanying notes are an integral part of these consolidated financial statements.

Greater Sudbury Utilities Inc./
Services Publics du Grand Sudbury Inc.

Consolidated Statement of Earnings and Retained Earnings

For the year ended December 31, 2014

(expressed in Canadian dollars)

	2014 $	2013 $
Revenue		
Energy sales	105,387,759	97,542,827
Distribution	22,636,158	26,059,079
Other	11,106,137	11,060,285
	139,130,054	134,662,191
Expenses		
Cost of energy	105,387,759	97,542,827
Operating and administration	18,807,944	19,972,560
Amortization		
Capital assets	6,062,642	6,644,925
Intangible assets	29,834	29,834
Interest on promissory note payable (note 9)	3,794,641	3,794,709
Interest on long-term obligations	1,349,052	1,491,933
Gain on disposal of capital assets	(26,005)	(1,402)
Loss (gain) on swap contract (note 11)	142,857	(297,868)
Actuarial (gain) loss on employee future benefit obligation (note 13)	2,280,759	(1,599,055)
	137,829,483	127,578,463
Earnings before payment in lieu of taxes	1,300,571	7,083,728
Payment in lieu of taxes (note 7)		
Current	250,306	546,744
Future	15,132	149,197
	265,438	695,941
Net earnings for the year	1,035,133	6,387,787
Retained earnings (deficit) - Beginning of year	5,724,114	(663,673)
Retained earnings - End of year	6,759,247	5,724,114

The accompanying notes are an integral part of these consolidated financial statements.

Greater Sudbury Utilities Inc./
Services Publics du Grand Sudbury Inc.

Consolidated Statement of Cash Flows

For the year ended December 31, 2014

(expressed in Canadian dollars)

	2014 $	2013 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	1,035,133	6,387,787
Adjustments for amortization		
Capital assets	6,062,642	6,644,925
Intangible assets	29,834	29,834
Payment in lieu of future taxes	(143,792)	149,197
Non-cash employee future benefit obligation expense - net	3,035,028	(776,687)
Loss (gain) on swap contract	142,857	(297,868)
Other amortization	244,181	572,643
Non-cash revenue	(65,635)	(97,047)
Non-cash expenses - net	(51)	(4,118)
Gain on disposal of capital assets	(26,005)	(1,402)
Other	-	26,250
	10,314,192	12,633,514
Change in non-cash operating working capital (note 17)	(1,935,054)	(6,490,380)
	8,379,138	6,143,134
Investing activities		
Purchase of capital assets (note 19)	(10,372,292)	(9,679,107)
Investment in Customer First Inc.	(5,468)	-
Proceeds on disposal of capital assets	26,005	1,402
Contributions in aid of construction	1,073,077	1,375,969
Contributions to restricted cash	(3,436)	(3,407)
	(9,282,114)	(8,305,143)
Financing activities		
Repayment of term loan - net	(217,844)	(205,910)
Developer contributions received	26,774	34,813
Capital lease repayments	(120,648)	(95,951)
Increase in capital assets	301,982	-
	(9,736)	(267,048)
Decrease in cash and cash equivalents during the year	(912,712)	(2,429,057)
Cash and cash equivalents (bank indebtedness) - Beginning of year	(216,673)	2,212,384
Bank indebtedness - End of year	(1,129,385)	(216,673)
Supplementary information		
Interest paid	(5,143,762)	(4,014,297)
Payment in lieu of taxes paid	(250,306)	(1,121,659)

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in Canadian dollars)

1 Nature of operations

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

2 Summary of significant accounting policies

Basis of accounting

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

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

Basis of presentation

These consolidated financial statements include the accounts of the corporation and its wholly owned subsidiaries: Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc.; Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.; Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc.; 1627596 Ontario Inc.; and ConverGen Inc. All intercompany accounts and transactions are eliminated on consolidation.

Effects of rate regulation

The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would

(expressed in Canadian dollars)

have been applied in a non-rate regulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, that are expected to be recovered from customers in future periods through the rate setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate setting and approval process.

Future accounting changes - International Financial Reporting Standards (IFRS)

In February 2013, the Canadian Accounting Standards Board (AcSB) decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate regulated activities. The new changeover date for these entities is January 1, 2015. Accordingly, the Company will commence reporting on this basis effective January 1, 2015.

Cash and cash equivalents

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

Accounts receivable

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

Inventory

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

Capital assets

Capital assets are recorded at cost less government grants received and contributions in aid of construction and developer contributions and include an allocation of engineering and other overhead. Amortization is provided annually, on a straight-line basis, over the useful life of the asset. The useful lives of the assets are as follows:

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

(expressed in Canadian dollars)

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

Intangible assets

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

Tenant relationships	4 years

Goodwill

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

Contributions in aid of construction

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

Developer contributions

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

Payment in lieu of taxes

Pursuant to the EA, the corporation is required to compute taxes under the Income Tax Act (Canada) (ITA) and the Ontario Corporations Tax Act (OCTA) and remit such amounts computed 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 owed by the OEFC.

Payments in lieu of future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the consolidated financial statement carrying amount of assets and liabilities and their tax bases. Payments 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 payments in lieu of future income tax assets are reassessed each year to determine whether a valuation allowance is required. Any effect of the remeasurement or reassessment is recognized in the period of the change.

(expressed in Canadian dollars)

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

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

Asset retirement obligations

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

It is not possible to make a reasonable estimate of the asset retirement obligation due to the indeterminate timing of asset retirements. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

Revenue recognition

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

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

Unbilled revenues

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

(expressed in Canadian dollars)

3 Cash and cash equivalents

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. has arranged for an operating line of credit up to $5,000,000 for operating purposes at the corporate bank prime rate of interest. In addition, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. has letters of credit available in the amount of $10,000,000 at the corporate bank prime rate of interest and a term loan in the amount of $2,000,000 at a fixed rate of 3.47%. These credit facilities are secured by an unlimited guarantee by the corporation, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc., Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc., 1627596 Ontario Inc., ConverGen Inc., and a postponement and assignment of claim relating to the promissory note payable to the City of Greater Sudbury (the City). At December 31, 2014, the balance outstanding on the operating line and the term loan credit facilities was $3,728,080 (2013 - $4,815,298).

4 Accounts receivable

	2014 $	2013 $
Accounts receivable	13,976,929	13,896,051
Allowance for doubtful accounts		
Opening balance	(2,141,931)	(1,812,182)
Increase in provision	(313,791)	(319,614)
Accounts receivable written off	1,352,487	(10,135)
Closing balance	(1,103,235)	(2,141,931)
	12,873,694	11,754,120

(expressed in Canadian dollars)

5 Capital assets

			2014	2013
	Cost $	Accumulated amortization $	Net $	Net $
Land	1,588,273	-	1,588,273	1,564,806
Buildings	14,009,503	5,353,029	8,656,474	7,526,340
Distribution systems	166,011,899	100,229,928	65,781,971	63,093,176
Leasehold improvements	70,531	9,881	60,650	60,364
System supervisory equipment	1,740,849	1,329,757	411,092	331,911
Automotive	5,672,797	3,899,713	1,773,084	1,696,639
Office and other equipment	5,710,030	4,431,263	1,278,767	1,024,467
Computer equipment	9,521,507	8,343,256	1,178,251	1,589,523
Water heaters	9,895,578	4,963,548	4,932,030	5,141,985
Generation	3,582,908	1,267,464	2,315,444	2,034,378
Fibre optics	20,916,322	12,221,884	8,694,438	8,893,893
Wireless towers	58,284	20,205	38,079	40,993
Intangibles	22,698	-	22,698	9,044
Construction-in-progress	485,003	-	485,003	819,567
Capital inventory	1,518,210	-	1,518,210	1,914,986
	240,804,392	142,069,928	98,734,464	95,742,072

Contributions in aid of construction received during the year totalled $1,073,077 (2013 - $1,375,969). Total contributions in aid of construction received as at December 31, 2014 were $20,048,899 (2013 - $18,975,812) with related accumulated amortization of $5,836,359 (2013 - $5,365,463), resulting in a net contra asset of $14,212,530 (2013 -$13,610,348), which has been offset against the capital assets to which they relate.

6 Intangible assets and goodwill

			2014	2013
	Tenant relationships $	Goodwill $	Total $	Total $
Cost	119,334	1,620,000	1,739,334	1,739,334
Less: Accumulated amortization	74,584	-	74,584	44,750
	44,750	1,620,000	1,664,750	1,694,584

(expressed in Canadian dollars)

7 Payment in lieu of future taxes

The components of the payment in lieu of future tax assets are as follows:

	2014 $	2013 $
Non-capital loss carry-forwards	485,756	446,116
Difference between tax base of capital assets and carrying value	1,799,311	2,345,495
Difference between carrying value of net regulatory liabilities and tax base	326,295	731,608
Difference between tax base of employee future benefit obligation and carrying value	4,365,271	3,423,011
Difference between the carrying value of the swap interest liability and tax base	162,259	124,402
Regulatory adjustment	2,521,177	2,414,272
	9,660,069	9,484,904

The components of the payment in lieu of future tax liabilities are as follows:

	2014 $	2013 $
Non-capital loss carry-forwards	(74,017)	(103,440)
Difference between tax base of capital assets and carrying value	878,632	866,601
Difference between tax base of employee future benefit obligation and carrying value	(20,995)	(17,049)
CMT	(24,374)	(18,239)
	759,246	727,873

The provision for payment in lieu of taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2013 - 26.5%) to the earnings for the year as follows:

	2014 $	2013 $
Earnings before payment in lieu of taxes	1,300,571	7,083,728
Anticipated payment in lieu of tax provision	344,651	1,877,186
Payment in lieu of future tax regulatory liability	52,019	(1,159,978)
Other	(131,235)	(21,267)
Provision for payment in lieu of taxes	265,435	695,941

(expressed in Canadian dollars)

8 Impact of rate regulation

Rate setting process

The corporation's annual rates are currently set using a modified incentive regulation model. The cost of electricity is passed on to customers as a flow-through. The corporation's after-tax rate of return on common equity embedded in rates was 8.98% for the year ended December 31, 2014 (2013 - 8.98%) based on a 40% (2013 - 40%) deemed common equity component of capital for regulatory purposes.

Regulatory assets and liabilities

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

Regulatory risk and uncertainties affecting recovery or settlement

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

Revenue

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

Operating cost capitalization

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

Capital assets

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

(expressed in Canadian dollars)

Regulatory assets

	2014 $	2013 $
Smart grid (iii)	288,922	190,921
IFRS deferral (v)	140,812	138,835
Smart meters/stranded meters (iv)	711,503	1,021,424
	1,141,237	1,351,180

Regulatory liabilities

	2014 $	2013 $
Retail settlement variances (i)	706,184	597,043
Demand side management costs (ii)	577,722	2,429,457
Payment in lieu of future taxes (vi)	9,532,666	9,373,742
	10,816,572	12,400,242

The regulatory assets and liabilities arise as a result of the rate setting process by the OEB. The OEB authorizes the recovery of regulatory assets or repayment of regulatory liabilities through the distribution rate application.

i) Retail settlement variances represent the difference between the amount paid by the corporation to the Independent Electricity System Operator (IESO) for the cost of energy and the amount billed by the corporation to its customers as energy sales, and related carrying costs, which are recorded on the consolidated balance sheet as retail settlement variances until their final disposition is decided by the OEB. The corporation recognizes retail settlement variances as an asset or liability based on the expectation these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The retail settlement variance liability represents the deficiency of amounts billed by the IESO for the cost of energy compared to the amounts charged to customers as energy sales. In the absence of rate regulation, Canadian GAAP would require the total cost of energy to be charged to operations when incurred and the total amount of energy sales to be credited to operations when earned.

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

iii) The Ontario Government has established objectives for the implementation of a smart grid in Ontario. For the year ended December 31, 2014, the corporation has incurred $94,560 (2013 - $59,862) of costs relating to the smart grid. In the absence of rate regulation, Canadian GAAP would require the corporation

(expressed in Canadian dollars)

to recognize the costs incurred to be recognized as an expense or capital asset, as applicable, when incurred.

In connection with smart grid activities, the corporation has incurred operating expenses amounting to $92,547 (2013 - $7,072) and capital expenditures of $2,013 (2013 - $52,790).

iv) The smart meters and stranded meters regulatory asset account relates to Ontario's decision to install smart meters throughout Ontario. The corporation substantially completed its smart meter project as at December 31, 2011. In connection with this initiative, the OEB ordered the corporation to record all expenditures and related revenues from 2008 - 2012 to a regulatory asset account and allowed the corporation to keep the net book value of the stranded meters in capital assets. Effective May 1, 2013, the OEB approved the corporation's request for incremental revenue and disposition of the smart meter deferral account balances.

The net book value of the stranded meters relating to the deployment of the smart meters has been reclassified to the regulatory asset account for recovery over the next four years.

In the absence of rate regulation, for the year ended December 31, 2014, revenues relating to smart meters and stranded meters would be $309,922 lower (2013 - revenues would be $2,956,362 lower, operating expenses would be $1,350,482 lower and amortization expense would be $1,236,864 lower).

v) For the year ended December 31, 2014, the corporation has incurred $1,977 (2013 - $2,561) of costs relating to the IFRS conversion project. These costs have been recorded to regulatory assets as the corporation expects to obtain recovery of these costs in the future. In the absence of rate regulation, for the year ended December 31, 2014, operating expenses would have been $1,977 lower (2013 - $2,561 lower).

vi) This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of future tax assets. At December 31, 2014, the corporation has recorded a future tax asset and corresponding regulatory liability of $9,532,666 (2013 - $9,373,742) with respect to its rate regulated activities that will be included in the rate setting process. In the absence of rate regulation this regulatory balance and the related earnings impact would not be recorded.

For certain of the regulatory assets and liabilities identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate setting 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 company determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

(expressed in Canadian dollars)

9 Promissory note payable

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

The note is repayable in full on six months' written notice of the holder of the note. As at March 9, 2015, the holder has informed the corporation it will not demand repayment of the note within one year.

During the year, interest totalling $3,794,709 (2013 - $3,794,709) was charged by the City on the promissory note payable.

10 Deferred revenue

	2014 $	2013 $
HOTelecom (a)	268,874	313,686
Dark fibre capacity services (b)	308,931	344,236
Telus Corporation (c)	93,463	98,432
1627596 Ontario Inc.	294,818	275,367
	966,086	1,031,721
Less: Current portion	84,607	85,087
	881,479	946,634

a) During 2006, the Greater Sudbury Telecommunications Inc. entered into a Fibre Optic Cable IRU Agreement with Hydro One Telecom (HOTelecom) for a 14-year period ending December 31, 2020. This revenue is being recognized on a straight-line basis over the term of the agreement.

b) 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 on a straight-line basis as the service is delivered to the customers.

c) During 2009, Greater Sudbury Telecommunications Inc. entered into a Fibre Optic Cable IRU Agreement with Telus Corporation for a 25-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.

d) 1627596 Ontario Inc., operating as @home Energy, bills its customers on a quarterly basis. The deferred revenue represents the amount billed before year-end that pertains to the future.

(expressed in Canadian dollars)

11 Long-term obligations

	2014 $	2013 $
Employee future benefit obligation (note 13)	22,807,146	19,772,118
Multiple draw term loan (b)	1,605,080	1,712,924
Swap contract (a)(b)	612,298	469,441
Loan payable (a)	2,123,000	2,233,000
Customer deposits	1,668,957	1,447,352
Developer contributions	913,742	886,968
Vested sick leave	5,540	5,591
	29,735,763	26,527,394
Less: Current portion	1,377,207	1,276,089
	28,358,556	25,251,305

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 5, 10 and 15 years.

The debt facilities are secured by a general security agreement (GSA) representing a first charge on all of the assets and undertakings of 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) 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.

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.

(expressed in Canadian dollars)

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

	$
2015	229,028
2016	242,090
2017	255,310
2018	269,099
2019	2,732,553
	3,728,080

12 Capital lease obligations

			2014	2013
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**	**Net** **$**
Assets under capital lease				
Electronics	754,602	347,031	407,571	226,309
Software	41,042	28,729	12,313	20,521
	795,644	375,760	419,884	246,830

	2014 **$**	**2013** **$**
Capital lease obligations		
Capital lease, secured, fixed rate 2.732%, five-year term	207,841	306,432
Capital lease, secured, fixed rate 6.560%, three-year term	85,450	-
Capital lease, secured, fixed rate 4.229%, five-year term	130,288	-
Capital lease, secured, fixed rate 1.852%, five-year term	27,678	-
Capital lease, secured, fixed rate 6.951%, three-year term	36,509	-
	487,766	306,432
Less: Current portion	176,267	98,590
	311,499	207,842

(expressed in Canadian dollars)

	$
Repayment schedule	
2015	192,828
2016	192,828
2017	69,084
2018	36,806
2019	25,672
	517,218

Maintenance expenditure contracted in relation to the capital lease obligations to the end of the reporting period but not yet incurred is $20,744 (2013 - $8,441).

13 Employee future benefit obligation

The corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. The corporation recognizes these post-retirement costs in the period in which the employees rendered their services. The employee future benefit obligation at December 31, 2014 and the expense for the year then ended was determined based on an actuarial valuation updated February 11, 2015 using the projected benefit method, pro-rated on service and a discount rate of 4.0%.

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

	2014 $	2013 $
Employee future benefit obligation - Beginning of year	19,772,118	20,548,887
Service cost	297,071	458,429
Interest	951,555	897,428
Actuarial loss (gain)	2,276,644	(1,595,594)
Benefits paid	(490,242)	(537,032)
Employee future benefit obligation - End of year	22,807,146	19,772,118
Unamortized net actuarial loss	-	-

The actuarial loss (gain) is related to the discount rate decreasing by 0.8% to 4.0% (2013 - 4.8%) as of the updated actuarial valuation prepared as at December 31 subsequent to the year-end.

The main actuarial assumptions underlying the valuations are as follows:

General and medical inflation

The healthcare-costs trend is estimated to increase from 5.0% to 6.0% over the next six years. Other medical and dental expenses are assumed to remain consistent at a 4.6% increase per year.

(expressed in Canadian dollars)

Discount rate

The obligation at December 31, 2014, which is the present value of future liabilities and the expense for the year then ended, was determined using a discount rate of 4.0%.

14 Share capital

Authorized
Unlimited common shares

Issued

	2014 $	2013 $
1,001 common shares	22,431,779	22,431,779

15 Commitments and contingencies

a) Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. 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, 2014, no amounts have been drawn on this letter of guarantee.

b) At the consolidated balance sheet date, the trust fund has not yet been established and correspondingly these payments have not been made by the Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. The amounts have been segregated from the corporation's cash reserves and have been disclosed as restricted cash in the consolidated balance sheet.

16 Related party transactions

The corporation is wholly owned by the City.

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 totalling $1,294,807 (2013 - $1,159,500) and $321,349 (2013 - $423,431), respectively. Included in accounts receivable is $1,076,245 (2013 - $601,215) on account of these sales.

Included in accounts payable and accrued liabilities is $889,725 (2013 - $1,583,497) relating to amounts collected by the corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is $56,960 (2013 - $186,364) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the corporation paid $192,776 (2013 - $187,926) to the City on account of municipal taxes.

(expressed in Canadian dollars)

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

17 Change in non-cash operating working capital

	2014 $	2013 $
Accounts receivable	(1,119,574)	178,791
Unbilled revenues		
Distribution	117,893	105,354
Energy	596,534	(2,068,728)
Inventory	14,740	199,951
Prepaid expenses	(123,644)	(85,934)
Accounts payable and accrued liabilities	(1,174,726)	(1,021,328)
Payable for energy purchases	1,296,283	(1,299,816)
Payment in lieu of taxes	(390,438)	244,644
	(782,932)	(3,747,066)
Regulatory assets and liabilities	(1,373,727)	(2,866,740)
Deposits collected (refunded)	221,605	123,426
	(1,935,054)	(6,490,380)

18 Financial instruments

Credit risk

The corporation is exposed to credit risk with respect to its cash and cash equivalents, derivative instruments, accounts receivable and unbilled revenue receivable.

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

The corporation has accounts receivable and unbilled revenue receivable from a large number of private individual and business customers in many industries located within the service territory. The corporation monitors and limits its exposure to customers defaulting on their obligations. The corporation provides an allowance for uncollectible accounts to absorb estimated credit losses. As at December 31, 2014, there were no significant concentrations of credit risk with respect to these financial assets.

The corporation's credit risk associated with the accounts receivable is primarily related to electricity bill payments from customers. The corporation has approximately 47,000 customers, the majority of whom are residential. The corporation collects security deposits from customers in accordance with direction provided by the OEB. As at December 31, 2014, the corporation held security deposits in the amount of $1,668,957 (2013 - $1,447,352).

(expressed in Canadian dollars)

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

Interest rate risk

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

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

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

Fair value of financial instruments

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

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

Cash and cash equivalents	held-for-trading
Accounts receivable	loans and receivables
Unbilled revenue	loans and receivables
Accounts payable and accrued liabilities	other financial liabilities
Promissory note payable	other financial liabilities
Payable for energy	other financial liabilities
Swap contracts	held-for-trading
Obligation under capital lease	other financial liabilities
Long-term obligations	other financial liabilities

Cash and cash equivalents and swap contracts are classified as held-for-trading and are initially recorded at fair value. These instruments are subsequently recorded at fair value with changes in fair value being recorded through earnings.

(expressed in Canadian dollars)

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

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

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

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

Fair value measurements

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

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

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

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

Liquidity risk

Liquidity risk is the risk the corporation may encounter difficulties in meeting obligations associated with financial liabilities and commitments. The corporation has a credit agreement in place related to the long-term debt. This credit agreement contains a number of standard financial and other covenants. A failure by the

(expressed in Canadian dollars)

corporation to comply with the obligations in this credit agreement could result in a default, which if not rectified or waived could permit acceleration of the relevant indebtedness.

There can be no assurance the corporation could:

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

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

19 Pension agreements

The corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer pension plan, on behalf of approximately 100 members of its staff including part-time contributing members. The plan is a defined benefit pension plan, which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rates of pay.

Contributions of $1,027,928 (2013 - $940,552) were paid during the year.

20 Loss carry-forwards

For payment in lieu of tax purposes, Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc. has $279,309 of losses which can be applied to reduce future years taxable income. Losses totalling $143,702 expire in 2027. Losses totalling $24,796 expire in 2030 and losses totalling $110,811 expire in 2033.

For payment in lieu of tax purposes, ConverGen Inc. has $1,833,045 of losses which can be applied to reduce future years taxable income. Losses totalling $165,279 expire in 2027. Losses totalling $990,375 expire in 2028. Losses totalling $404,558 expire in 2029. Losses totalling $123,234 expire in 2030. Losss totalling $149,599 expire in 2034.

21 Capital disclosures

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

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

(expressed in Canadian dollars)

	2014 $	2013 $
Promissory note payable	52,340,819	52,340,819
Common shares	22,431,779	22,431,779
Retained earnings	6,759,252	5,724,114
	29,191,031	28,155,893
Total capital	81,531,850	80,496,712

In addition to the subordination agreement referred to above, the corporation is subject to a shareholder's agreement that has restrictive covenants typically associated with such an agreement. As at December 31, 2014, the corporation is in compliance with all of the covenants and restrictions.

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