

SECTION 5

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

Year ended December 31, 2004

AUDITORS' REPORT

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

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

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

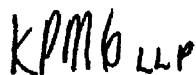
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



COLLINS BARROW, SUDBURY-NIPISSING, LLP
Chartered Accountants



FREELANDT CALDWELL REILLY LLP
Chartered Accountants



KPMG LLP
Chartered Accountants

Sudbury, Canada

March 10, 2005

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

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

Approved on behalf of the Board

Director _____

Director _____

See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

1. Nature of operations

Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. was incorporated under the Business Corporations Act of Ontario on October 1, 2000. The incorporation was required in accordance with the Electricity Act, 1998 (Ontario) (the "EA"). The Corporation is an investment holding company with its wholly owned subsidiaries involved in the distribution of electricity, provisioning of broadband telecommunications services and competitive rental and customer support services.

2. Significant accounting policies

(a) General

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

(b) Basis of consolidation

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

(c) Basis of accounting

(i) Use of estimates

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

(ii) Cash

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

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

2. Significant accounting policies (continued)

(iii) Accounts receivable

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

(iv) Inventory

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

(v) Unbilled revenues

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

(vi) Capital assets

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

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

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

2. Significant accounting policies (continued)

(vii) Payment in lieu of taxes

Effective October 1, 2001 and pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act ("ITA") and the Ontario Corporations Tax Act ("OCTA") and remit such amounts thereunder to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as payments in lieu of taxes ("PILs") under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro now owing by the OEFC.

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

(viii) Financial instruments

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

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

(ix) Contributions in aid of construction

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

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

2. Significant accounting policies (continued)

(x) Future employee benefits

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

(xi) Deferred transition costs

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

(xii) Revenue recognition

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

(xiii) Asset retirement obligations

During 2004, the company adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3110, Asset Retirement Obligations. This accounting standard requires the Company to determine the fair value of the future expenditures required to settle legal obligations to remove capital assets. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated capital asset.

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

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

3. Cash

The Company has arranged for a line of credit up to \$7,500,000 for operating purposes at the Corporate Bank prime rate of interest. The line of credit is secured by an unlimited guarantee by the Company, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. and Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., and a subordination agreement regarding the Promissory Note owing to the City of Greater Sudbury. At December 31, 2004 no amount is owing on this line of credit.

4. Accounts receivable

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

5. Capital assets

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

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

5. Capital assets, continued

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

6. Payment in lieu of future taxes

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

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

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

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

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

7. Regulatory assets

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

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

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

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

- b) The cost of energy purchased and amounts billed to customers from January 1, 2002 to April 30, 2002. The electricity market was opened to competition on May 1, 2002. The variances arise as a result of the differing rates on time of use energy purchases by the company as compared to the average rates charged to its customers.
- c) The amount paid to the Independent Market Operator "IMO" for energy less corresponding amounts billed by the company to its customers, as well as other deregulation costs incurred by the company and related carrying costs which will be recovered in the future.

8. Other assets

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

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

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

9. Promissory note payable

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

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

10. Deferred revenue

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

During the year 2003, the Corporation acquired land from the City of Greater Sudbury. In settlement of its obligation, the Corporation is supplying dark fibre capacity services to the City of Greater Sudbury for a six-year period ending October 15, 2009.

The company has agreed to supply dark fibre capacity services to five public sector organizations commencing October 2003. Each of the five organizations have agreed to make a lump sum payment of \$120,000 as well as payments of \$500 per month for a 20-year period or a further lump sum payment, in exchange for the provision of these services by the company. The amounts received in advance will be recognized over the 20 year period that the service is delivered to the customer on a straight line basis.

11. Long-term obligations

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

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

12. Employee future benefit obligation

The Company pays certain health, dental and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which the employees rendered their service. The employee future benefit obligation at December 31, 2004 and the expense for the year then ended was determined based on an actuarial valuation dated March 7, 2005 using the projected benefit method, prorated on service and a discount rate of 5.75%.

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

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

The main actuarial assumptions underlying the valuations are as follows:

a) General and medical inflation:

The health care costs trend is estimated to decrease from 10% to 4% over six years. Other medical and dental expenses are assumed to remain consistent at a 4.5% increase per year.

b) Interest (discount) rate:

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

c) Salary levels:

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

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

13. Preferred shares

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

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

14. Share capital

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

15. Commitments and contingencies

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

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

- (b) Litigation:

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

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

15. Commitments and contingencies, continued

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

The Electricity Distributors Association has undertaken the defense of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

Accordingly, no provision has been made in these financial statements with respect to any possible losses that may arise as a result of this matter.

- (c) In 2004, the Collective Agreement with CUPE Local 4705 was renewed. As part of the Memorandum of Settlement, Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. has agreed to contribute a one time payment of \$175,000 to an Employee Health Care Supplemental Fund. The funds were set aside in a short term investment pending finalization of the setup of a Trust Fund to administer the investment and subsequent contributions. Beyond this initial contribution, the Company also agrees to contribute a single payment representing 100% of the savings calculated for the period September 1, 2005 to August 31, 2006, within thirty days of the final savings calculation. Any further contributions to the Fund are to come from the employees themselves.
- (d) The company has entered into an agreement to buy the shares of West Nipissing Energy Services Ltd. The date for the execution of an agreement for the purchase has been set at March 24, 2005. The purchase is subject to the approval of the Ontario Energy Board.

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

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

16. Related party transactions

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

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

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

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

17. Change in non-cash operating working capital

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

18. Pension agreements

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

Contributions of \$272,523 (2003 - \$118,741) were paid during the year.

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

19. Loss carryforwards

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

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

Financial Statements

Year ended December 31, 2004

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

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

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

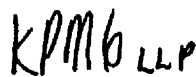
In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



COLLINS BARROW, SUDBURY-NIPISSING, LLP
Chartered Accountants



FREELANDT CALDWELL REILLY LLP
Chartered Accountants



KPMG LLP
Chartered Accountants

Sudbury, Canada
March 10, 2005

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.**Balance Sheet****December 31, 2004 with comparative figures for 2003**

	2004	2003
Assets		
Current		
Cash (note 4)	\$ 8,717,421	\$ 8,007,199
Accounts receivable (note 5)	922,082	3,080,876
Inventory	871,223	895,664
Advances to related parties (note 6)	335,182	381,430
Unbilled revenue - distribution	2,959,000	1,348,083
Unbilled revenue - energy sales	12,763,937	4,589,674
Current portion of regulatory assets	-	402,249
	26,568,845	18,705,175
Capital assets (note 7)	60,485,079	62,313,022
Payment in lieu of future taxes (note 8)	2,493,014	1,116,529
Regulatory assets (note 9)	450,196	2,735,719
Other assets	232,146	232,146
	\$90,229,280	\$ 85,102,591

Approved on behalf of the Board:

Director _____

Director _____

See accompanying notes to financial statements

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.**Balance Sheet****December 31, 2004 with comparative figures for 2003**

	2004	2003
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	\$ 1,474,657	\$ 706,449
Payable for energy purchases	8,576,110	5,893,643
Promissory note payable (note 10)	48,645,458	48,645,458
Interest payable on promissory note	-	1,301,105
Payment in lieu of taxes	900,999	-
Current portion of retail settlement variances (note 9)	117,100	-
Current portion of long-term obligations	369,465	345,297
	60,083,789	56,891,952
Long-term obligations (note 11)	10,348,765	8,703,372
Preferred shares (note 12)	2,824,100	1,829,400
	73,256,654	67,424,724
Shareholder's equity		
Share capital (note 13)	20,848,052	20,848,052
Deficit	(3,875,426)	(3,170,185)
	16,972,626	17,677,867
Commitments and contingencies (note 14)		
	\$90,229,280	\$85,102,591

See accompanying notes to financial statements

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

	2004	2003
Revenue		
Energy sales	\$ 59,419,958	\$ 55,850,206
Distribution	15,703,837	15,873,605
	75,123,795	71,723,811
Cost of energy	59,419,958	55,850,206
Gross profit	15,703,837	15,873,605
Expenses		
Amortization	4,055,343	4,010,116
Interest on promissory note payable	3,531,660	3,531,660
General administration	2,613,821	2,418,041
Distribution - operations	2,544,211	2,497,110
Billing and collecting	1,984,586	2,079,778
Distribution - maintenance	1,262,386	1,347,451
Interest	493,610	425,161
	16,485,617	16,309,317
Loss before undernoted items and payment in lieu of taxes	(781,780)	(435,712)
Other income		
Other operating revenue	922,958	902,969
Gain on sale of capital assets	49,849	1,776
Loss on employee future benefits	(1,206,138)	-
	(233,331)	904,745
Earnings (loss) before payment in lieu of taxes	(1,015,111)	469,033
Payment in lieu of taxes (note 8)		
Current	1,066,615	154,641
Future	(1,376,485)	(4,574)
	(309,870)	150,067
Net earnings (loss)	(705,241)	318,966
Deficit, beginning of year	(3,170,185)	(3,489,151)
Deficit, end of year	\$ (3,875,426)	\$ (3,170,185)

See accompanying notes to financial statements

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.**Cash Flows Statement****Year ended December 31, 2004 with comparative figures for 2003**

	2004	2003
Cash flows from operating activities		
Net earnings (loss)	\$ (705,241)	\$ 318,966
Adjustments for:		
Amortization	4,055,343	4,010,116
Payment in lieu of future taxes	(1,376,485)	(4,574)
Gain on sale of capital assets	(49,849)	(1,776)
Other amortization	195,601	190,436
	<hr/> 2,119,369	<hr/> 4,513,168
Change in non-cash working capital items		
Accounts receivable	2,158,794	429,280
Inventory	24,441	(78,399)
Advances to related parties	46,248	238,217
Unbilled revenue - distribution	(1,610,917)	748,876
Unbilled revenue - energy sales	(8,174,263)	3,662,732
Payment in lieu of taxes	900,999	13,140
Accounts payable and accrued liabilities	768,208	118,851
Payable for energy purchases	2,682,467	(399,847)
Interest payable on promissory note	(1,301,105)	-
	<hr/> (2,385,759)	<hr/> 9,246,018
Cash flows from investing activities		
Purchase of capital assets	(3,533,584)	(4,789,685)
Proceeds on disposal of capital assets	49,849	1,776
Regulatory assets	2,804,872	(180,536)
Contributions in aid of construction	1,110,583	778,609
	<hr/> 431,720	<hr/> (4,189,836)
Cash flows from financing activities		
Repayment of long-term obligations	-	(34,638)
Proceeds from long-term obligations	1,669,561	543,236
Proceeds from issuance of preferred shares	994,700	994,700
	<hr/> 2,664,261	<hr/> 1,503,298
Increase in cash	<hr/> 710,222	<hr/> 6,559,480
Cash, beginning of year	8,007,199	1,447,719
Cash, end of year	<hr/> \$ 8,717,421	<hr/> \$ 8,007,199
Other information		
Interest expense paid	\$ (3,794,709)	\$ (4,832,764)
Interest received	-	184,835
Payment in lieu of taxes (recovered)	(385,635)	(346,799)

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

Notes to the Financial Statements

December 31, 2004

1. Nature of operations

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC. was incorporated under the Business Corporations Act of Ontario on October 1, 2000. The incorporation was required in accordance with the Electricity Act, 1998 (Ontario) (the "EA"). The Corporation's principal business activity involves the distribution of electricity in the City of Greater Sudbury.

2. Significant accounting policies

(a) General

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

(b) Use of estimates

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

(c) Cash

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

(d) Accounts receivable

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

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Notes to the Financial Statements
December 31, 2004

2. **Significant accounting policies, continued**

(e) **Inventory**

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

(f) **Unbilled revenues**

Revenue is recorded in the accounts to various dates on the basis of bi-monthly meter readings. At the end of an accounting cycle, there is energy used by consumers for which meter readings are not available and no bills have been issued. 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.

(g) **Capital assets**

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

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

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

Notes to the Financial Statements

December 31, 2004

2. Significant accounting policies, continued

(h) Payment in lieu of taxes

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

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

(i) Contributions in aid of construction

In certain cases, non-refundable contributions are received in aid of construction or acquisition of capital assets. Prior to January 1, 2000 these amounts were added to the Corporation's equity. Contributions received subsequent to January 1, 2000 are being classified as contra-assets and are being amortized at the same rate as the assets to which they relate.

(j) Future employee benefits

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

(k) Deferred transition costs

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

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Notes to the Financial Statements
December 31, 2004

2. Significant accounting policies, continued

(l) Financial instruments

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

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

(m) Asset retirement obligations

During 2004, the company adopted the Canadian Institute of Chartered Accountants Handbook Section 3110, Asset Retirement Obligations. This accounting standard requires the company to determine the fair value of future expenditures required to settle legal obligations to remove capital assets. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated capital asset.

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

3. Revenue recognition

Revenue is recognized in the period of energy consumption.

4. Cash

The Company and its related entities, Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. and Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., have a banking arrangement with the Toronto Dominion Bank. Under the banking arrangement, at the end of each banking day, the balance in each entity's account is exactly offset by a contra balance in a related offset account. The offset account shall then be offset by withdrawing a similar amount from or depositing a similar amount to the concentration account. As a result, the amount owed to or from the related entity is included in advances to (from) related parties (note 6).

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Notes to the Financial Statements
December 31, 2004

4. Cash, continued

The Company and its related entities have arranged for a line of credit up to \$7,500,000 for operating purposes at the corporate bank prime rate of interest. The line of credit is secured by an unlimited guarantee by the Company, Greater Sudbury Hydro Plus Inc./Hydro Plus Du Grand Sudbury Inc. and Greater Sudbury Telecommunications Inc./Telecommunications Du Grand Sudbury Inc., and a subordination agreement regarding the promissory note owing to the Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.

5. Accounts receivable

	2004	2003
Electrical energy receivables	\$1,472,933	\$ 3,817,289
Other receivables	949,149	498,587
	2,422,082	4,315,876
Allowance for doubtful accounts	(1,500,000)	(1,235,000)
	\$ 922,082	\$ 3,080,876

6. Related party transactions

(a) The Corporation subcontracts its billing and collecting of revenue, building and maintenance of capital assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury services to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., a company related by virtue of common control. The Corporation entered into a Service Level Agreement with Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. for a monthly base cost of \$3,500.

(b) The company is related to the City of Greater Sudbury by virtue of the fact that the City is a 100% owner of the company's sole shareholder.

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

Included in accounts payable and accrued liabilities is \$1,146,000 relating to amounts collected by the company on behalf of the City for water billing. Correspondingly, included in accounts receivable is \$189,000 relating to amounts collected by the City relating to electricity and water bill payments.

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

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Notes to the Financial Statements
December 31, 2004

6. **Related party transactions, continued**

(c) Advances to related parties:

	2004	2003
Greater Sudbury Telecommunications Inc./ Telecommunications du Grand Sudbury Inc.	\$ 333,631	\$ 379,879
Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.	1,551	1,551
	<u>\$ 335,182</u>	<u>\$ 381,430</u>

The advances to related parties are unsecured, interest bearing at the corporate bank prime rate and have no fixed terms of repayment. During the year the Company earned interest revenue from affiliated companies of \$30,341 (2003 - \$32,422) on these balances.

7. **Capital assets**

	Cost	Accumulated Amortization	2004 Net	2003 Net
Land	\$ 751,571	\$ -	\$ 751,571	\$ 751,571
Buildings	8,437,572	2,964,901	5,472,671	5,625,661
Distribution systems	114,273,214	62,692,337	51,580,877	53,096,697
Automotive	2,872,774	2,496,931	375,843	357,736
Office and other equipment	2,404,294	2,096,405	307,889	320,176
Fibre optics	2,107,832	656,649	1,451,183	1,521,618
System supervisory equipment	1,245,223	773,410	471,813	553,522
Computer equipment	133,806	68,769	65,037	86,041
Construction in progress	8,195	-	8,195	-
	<u>\$ 132,234,481</u>	<u>\$ 71,749,402</u>	<u>\$ 60,485,079</u>	<u>\$ 62,313,022</u>

Contributions in aid of construction received during the year were \$1,110,580 (2003 - \$778,609). Total contributions in aid of construction received at December 31, 2004 were \$4,053,719 (2003 - \$2,943,139) with related accumulated amortization of \$460,588 (2003 - \$298,439) resulting in a net contra-asset of \$3,593,131 (2003 - \$2,644,700) which has been offset against the assets to which they relate.

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Notes to the Financial Statements
December 31, 2004

8. **Payment in lieu of future taxes**

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

	2004	2003
Payment in lieu of future taxes		
Non-capital loss carry-forwards	\$ -	\$622,277
Difference between tax basis of capital assets and carrying amount	1,712,199	1,335,079
Difference between carrying value of regulatory assets and tax basis	26,755	(1,040,351)
Difference between tax basis of employee future benefits and carrying amount	754,060	199,524
	<u>\$ 2,493,014</u>	<u>\$1,116,529</u>

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

	2004	2003
Earnings (loss) before payment in lieu of taxes	<u>\$ (1,015,111)</u>	<u>\$ 469,033</u>
Anticipated income tax expense (recovery)	(366,658)	171,760
Effect of reduction in tax rates	18,204	70,360
Large corporations tax not deductible for tax purposes	33,288	155,016
Other	5,296	(247,069)
Provision for payment in lieu of taxes	<u>\$ (309,870)</u>	<u>\$ 150,067</u>

9. **Regulatory assets**

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

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Notes to the Financial Statements
December 31, 2004

9. Regulatory assets, continued

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

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

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

- b) The cost of energy purchased and amounts billed to customers from January 1, 2002 to April 30, 2002. The electricity market was opened to competition on May 1, 2002. These variances arise as a result of the differing rates on time of use energy purchases by the company as compared to the average rates charged to its customers.
- c) The amount paid to the Independent Market Operator "IMO" for energy less corresponding amounts billed by the company to its customers, as well as other deregulation costs incurred by the company and related carrying costs which will be recovered in the future.

10. Promissory note payable

The promissory note payable to Greater Sudbury Utilities Inc./Services Public du Grand Sudbury Inc. is unsecured and bears interest at a rate of 7.26% per annum.

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

11. Long-term obligations

	<u>2004</u>	<u>2003</u>
Future benefit liability - payable to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.	\$8,878,414	\$ 7,335,612
Customer deposits	1,117,876	1,157,871
Deferred developer contributions	377,414	262,674
Deferred carrying charges	344,526	292,512
	<u>10,718,230</u>	<u>9,048,669</u>
Less current portion	(369,465)	(345,297)
	<u>\$10,348,765</u>	<u>\$8,703,372</u>

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Notes to the Financial Statements
December 31, 2004

11. Long-term obligations, continued

The Corporation assigned the future benefit liability to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. who will recover the costs through the Service Level Agreement described in note 6 a).

12. Preferred shares

	2004	2003
Authorized		
Unlimited 7.25% non-cumulative class A preferred shares, non-voting, redeemable and retractable at \$100 per share		
Issued		
28,241(2003 – 18,294) class A preferred shares	\$2,824,100	\$ 1,829,400

During the year the Company issued 9,947 class A preferred shares from treasury for cash consideration of \$994,700.

13. Share capital

	2004	2003
Authorized		
Unlimited common shares		
Issued		
1,001 common shares	\$ 20,848,052	\$ 20,848,052

14. Commitments and contingencies

- (a) The Company has issued a \$9,048,386 Letter of Guarantee to the Independent Market Operator ("IMO"). This guarantee was a requirement of the IMO for market opening on May 1, 2002. At December 31, 2004, no amounts have been drawn on this financing arrangement.
- (b) The Company has issued a \$729,000 Letter of Guarantee to Hydro One Networks Inc. This guarantee was a requirement of Hydro One Networks as a result of deregistration of embedded distribution connection points from the IMO. Hydro One Networks is now billing the Company directly for these connection points.

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Notes to the Financial Statements
December 31, 2004

14. Commitments and contingencies, continued

(c) Litigation:

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

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

The Electricity Distributors Association has undertaken the defense of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

Accordingly, no provision has been made in these financial statements with respect to any possible losses that may arise as a result of this matter.

- (d) Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. has entered into an agreement to buy the shares of West Nipissing Energy Services Ltd. The date for the execution of an agreement for the purchase has been set at March 24, 2005. The purchase is subject to the approval of the Ontario Energy Board.

Upon completion of the purchase, Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. agrees to make an initial advance of \$2,000,000 as partial settlement of the purchase obligation to the Municipality of West Nipissing. The company has committed \$2,000,000 to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. to finance this purchase.

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

Financial Statements

Year ended December 31, 2004

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

We have audited the balance sheet of **GREATER SUDBURY HYDRO PLUS INC./HYDRO PLUS DU GRAND SUDBURY INC.** as at **December 31, 2004** and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

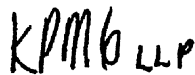
In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



COLLINS BARROW, SUDBURY-NIPISSING, LLP
Chartered Accountants



FREELANDT CALDWELL REILLY LLP
Chartered Accountants



KPMG LLP
Chartered Accountants

Sudbury, Canada
March 10, 2005

**GREATER SUDBURY HYDRO PLUS INC./
HYDRO PLUS DU GRAND SUDBURY INC.**
Balance Sheet
December 31, 2004 with comparative figures for 2003

	2004	2003
Assets		
Current		
Cash and investments (note 4)	\$ 175,000	\$ -
Accounts receivable (note 5)	2,410,081	1,266,805
Inventory	196,309	159,797
Prepaid expenses	292,172	212,702
Advances to related parties (note 6)	366,497	665,022
	3,440,059	2,304,326
Capital assets (note 7)	1,836,908	1,850,711
Payment in lieu of future taxes (note 8)	1,364	6,886
Future benefits note receivable (note 9)	8,878,414	7,335,612
	\$ 14,156,745	\$ 11,497,535
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	\$ 2,722,711	\$ 1,922,071
Payment in lieu of taxes	92,217	98,130
Promissory note payable (note 10)	1,241,075	1,241,075
Interest payable on promissory note	-	33,195
	4,056,003	3,294,471
Long-term obligations (note 11)	8,925,052	7,381,085
	12,981,055	10,675,556
Shareholder's equity		
Share capital (note 12)	531,889	531,889
Retained earnings	643,801	290,090
	1,175,690	821,979
Commitment (note 14)		
	\$ 14,156,745	\$ 11,497,535

On behalf of the Board:

See accompanying notes to financial statements

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

Statement of Operations

Year ended December 31, 2004 with comparative figures for 2003

	2004	2003
Revenue		
Contract work - affiliated companies	\$13,751,207	\$ 15,533,618
Contract work	1,288,376	947,581
Competitive service rentals	1,010,782	845,625
Miscellaneous	20,859	15,520
	16,071,224	17,342,344
Expenses		
Contract work - affiliated companies	13,447,748	15,307,704
Contract work	1,232,181	869,839
Amortization	477,109	435,976
Competitive service rentals	181,832	167,116
General and administration	122,219	113,858
Interest on promissory note payable	90,102	90,102
	15,551,191	16,984,595
Earnings before undernoted item and payment in lieu of taxes	520,033	357,749
Other income		
Gain on sale of capital assets	-	1,924
Earnings before payment in lieu of taxes	520,033	359,673
Payment in lieu of taxes (note 8)		
Current	160,800	111,724
Future	5,522	16,052
	166,322	127,776
Net earnings	\$ 353,711	\$ 231,897

See accompanying notes to financial statements

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

Statement of Retained Earnings

Year ended December 31, 2004 with comparative figures for 2003

		2004	2003
Retained earnings, beginning of year	\$	290,090	\$ 58,193
Net earnings		353,711	231,897
Retained earnings, end of year	\$	643,801	\$ 290,090

See accompanying notes to financial statements

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

Cash Flows Statement

Year ended December 31, 2004 with comparative figures for 2003

	2004	2003
Cash flows from operating activities		
Net earnings	\$ 353,711	\$ 231,897
Adjustments for:		
Amortization	477,109	435,976
Gain on sale of capital assets	-	(1,924)
Payment in lieu of future taxes	5,522	16,052
Future benefit costs	1,542,802	280,407
	2,379,144	962,408
Change in non-cash working capital items		
Accounts receivable	(1,143,276)	(125,658)
Inventory	(36,512)	(26,803)
Prepaid expenses	(79,470)	1,306
Advances to related parties	298,525	(149,055)
Accounts payable and accrued liabilities	800,640	(196,044)
Payment in lieu of taxes	(5,913)	238,296
Interest payable on promissory note	(33,195)	-
	2,179,943	704,450
Cash flows from investing activities		
Purchase of capital assets	(694,042)	(427,295)
Future benefits receivable	(1,542,802)	(280,407)
Proceeds on disposal of capital assets	-	1,924
Contributions in aid of construction	230,736	-
	(2,006,108)	(705,778)
Cash flows from financing activity		
Principal repayments on long-term obligations	1,165	1,328
Increase in cash	175,000	-
Cash, beginning of year	-	-
Cash, end of year	\$ 175,000	\$ -
Other information		
Interest paid	\$ (123,297)	\$ (90,102)
Interest received	1,233	5,078
Payment in lieu of taxes (paid) received	\$ (166,774)	\$ (99,444)

See accompanying notes to financial statements

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

Notes to the Financial Statements
December 31, 2004

1. Nature of operations

GREATER SUDBURY HYDRO PLUS INC./HYDRO PLUS DU GRAND SUDBURY INC. (the Corporation) was incorporated under the Business Corporations Act of Ontario on October 1, 2000. The incorporation was required in accordance with the Electricity Act, 1998 (Ontario) (the "EA"). The Corporation is a retail service company.

2. Significant accounting policies

(a) General

These financial statements are the representation of the Corporation's management and are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies set forth in the Accounting Procedure Manual issued by the Ontario Energy Board ("OEB") under the authority of the Ontario Energy Board Act, 1998.

(b) Accounts receivable

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

(c) Inventory

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

(d) Capital assets

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

Water heaters	10 - 15 years
Office and other equipment	5 - 10 years
Computer hardware/software	5 years

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

**Notes to the Financial Statements
December 31, 2004**

2. Significant accounting policies, continued

(e) Payment in lieu of taxes

Effective October 1, 2001 and pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA") and remit 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 owing by the OEFC.

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

(f) Contributions in aid of construction

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

(g) Financial instruments

Short-term financial assets and liabilities, including cash, accounts receivable, advances to related parties, accounts payable and accrued liabilities, payment in lieu of taxes and interest payable on promissory note are valued at their carrying amounts as presented in the balance sheet. The carrying values are reasonable estimates of fair value due to the short period to maturity of the financial instruments.

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

3. Revenue recognition

Revenue is recognized upon delivery of services to customers.

**GREATER SUDBURY HYDRO PLUS INC./
HYDRO PLUS DU GRAND SUDBURY INC.****Notes to the Financial Statements
December 31, 2004**

4. Cash

The Company and its related entities, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. and Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., have a banking arrangement with the Toronto Dominion Bank. Under the banking arrangement, at the end of each banking day, the balance in each entity's account is exactly offset by a contra balance in a related offset account. The offset account shall then be offset by withdrawing a similar amount from or depositing a similar amount to the concentration account. As a result, the amount owed to or from the related entity is included in Advances to (from) related parties (note 6).

The Company and its related entities have arranged for a line of credit up to \$7,500,000 for operating purposes at the corporate bank prime rate of interest. The line of credit is secured by an unlimited guarantee by the Company, Greater Sudbury Hydro Inc./Hydro Du Grand Sudbury Inc. and Greater Sudbury Telecommunications Inc./Telecommunications Du Grand Sudbury Inc., and a subordination agreement regarding the promissory note owing to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.

5. Accounts receivable

	<u>2004</u>	<u>2003</u>
Trade receivables	\$ 2,544,081	\$ 1,380,805
Allowance for doubtful accounts	(134,000)	(114,000)
	<u>\$ 2,410,081</u>	<u>\$ 1,266,805</u>

6. Related party transactions

Advances to related parties:

	<u>2004</u>	<u>2003</u>
Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc.	\$ 360,952	\$ 659,477
Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.	<u>5,545</u>	<u>5,545</u>
	<u>\$ 366,497</u>	<u>\$ 665,022</u>

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

Notes to the Financial Statements
December 31, 2004

6. Related party transactions, continued

The Corporation performs billing and collecting of revenues, building and maintenance of capital assets, payment of purchases and all related government remittances, engineering, information services, and accounting financial reporting and treasury services for related parties. The company has entered into Service Level Agreements with Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. at a monthly base cost of \$3,500 and with Greater Sudbury Telecommunications Inc./Télécommunications du Grand Sudbury Inc. at a monthly base cost of \$500.

Advances to related companies at December 31, 2004 result from transactions in the normal course of operations, and are unsecured, interest bearing at the corporate bank prime rate and have no specified terms of repayment. During the year the Company earned interest from related parties of nil (2003 - nil) on these balances.

The company is related to the City of Greater Sudbury by virtue of the fact that the City is a 100% owner of the company's sole shareholder. During the year, the company sold the City water billing administration services and streetlight maintenance services totaling \$473,000 (2003 - nil) and \$377,000 (2003 - \$386,000) respectively. Included in accounts receivable is \$630,000 (2003 - \$180,000) on account of these sales. Also included in accounts receivable from the City is \$312,000 on account of one-time set up and conversion costs for water billing implementation.

7. Capital assets

	Cost	Accumulated Amortization	2004 Net	2003 Net
Computer hardware/software	\$ 3,156,645	\$ 2,822,448	\$ 334,197	\$ 284,436
Water heaters	8,084,782	6,838,262	1,246,520	1,281,619
Office and other equipment	1,679,634	1,423,443	256,191	284,656
	<u>\$ 12,921,061</u>	<u>\$ 11,084,153</u>	<u>\$ 1,836,908</u>	<u>\$ 1,850,711</u>

Contributions in aid of construction received during the year totaled \$230,736 with accumulated amortization of \$46,147 resulting in a net contra-asset of \$184,589 which has been offset against the assets to which they relate.

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

**Notes to the Financial Statements
December 31, 2004**

8. Payment in lieu of future taxes

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

	<u>2004</u>	<u>2003</u>
Payment in lieu of future taxes		
Difference between tax basis and carrying amount of capital assets	\$ 1,364	\$ 6,886
	<u>\$ 1,364</u>	<u>\$ 6,886</u>

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

	<u>2004</u>	<u>2003</u>
Earnings before payment in lieu of taxes	\$ 520,033	\$ 359,673
Anticipated tax provision	\$ 187,836	\$ 131,712
Effect of change in tax rate	95	1,396
Other	(21,609)	(5,332)
Provision for payment in lieu of taxes	<u>\$ 166,322</u>	<u>\$ 127,776</u>

9. Future benefits note receivable

The future benefits note receivable from Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. is consistent with the terms and conditions of the offsetting liability (see note 11).

10. Promissory note payable

The promissory note payable to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. is unsecured and bears interest at a rate of 7.26% per annum.

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

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

**Notes to the Financial Statements
December 31, 2004**

11. Long-term obligations

	<u>2004</u>	<u>2003</u>
Future benefit liability (Note 9)	\$ 8,878,414	\$ 7,335,612
Vested sick leave	<u>46,638</u>	<u>45,473</u>
	<u>\$ 8,925,052</u>	<u>\$ 7,381,085</u>

The corporation has assumed the future benefit liability from Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. (see note 11). Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. has agreed, pursuant to a service level agreement, to fund this liability on a reimbursement basis.

Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. pays certain health, dental and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which the employees rendered the services. The future benefit liability at December 31, 2004 and the expense for the year then ended were determined based on an actuarial valuation dated March 7, 2005 using the projected benefit method, prorated on service and a discount rate of 5.75%.

Information about the Corporation's defined benefit plan is as follows:

	<u>2004</u>	<u>2003</u>
Future benefit liability, beginning of year	\$ 7,335,612	\$ 7,055,205
Expense for the period	664,100	580,731
Benefits paid for the period	(327,436)	(300,324)
Actuarial loss	<u>1,206,138</u>	<u>-</u>
Future benefit liability, end of year	<u>\$ 8,878,414</u>	<u>\$ 7,335,612</u>

The main actuarial assumptions underlying the valuations are as follows:

a) General and medical inflation:

The health care cost trend is estimated to decrease from 10% to 4% over six years. Other medical and dental expenses are assumed to remain consistent at a 4.5% increase per year.

b) Interest (discount) rate:

The obligations at the balance sheet date being the present value of future liabilities and the expense for the period were determined using a discount rate of 5.75%.

c) Salary levels:

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

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

**Notes to the Financial Statements
December 31, 2004**

12. Share capital

	<u>2004</u>	<u>2003</u>
Authorized		
Unlimited common shares		
Unlimited 7.25% non-cumulative Class A Preferred Shares, non-voting, redeemable and retractable at \$100 per share		
Issued		
1,001 common shares	<u>\$ 531,889</u>	<u>\$ 531,889</u>

13. Pension agreements

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

Contributions of \$272,523 (2003 - \$118,741) were paid during the year.

14. Commitment

In 2004, the Collective Agreement with CUPE Local 4705 was renewed. As part of the Memorandum of Settlement, Greater Sudbury Hydro Plus Inc. agreed to contribute a one time payment of \$175,000 to an Employee Health Care Supplemental Fund. The funds were set aside in a short term investment pending finalization of the setup of a Trust Fund to administer the investment and subsequent contributions. Beyond this initial contribution, the Company also agrees to contribute a single payment representing 100% of the savings calculated for the period September 1, 2005 to August 31, 2006, within thirty days of the final savings calculation. Any further contributions to the Fund are to come from the employees themselves.

**GREATER SUDBURY TELECOMMUNICATIONS INC. /
TÉLÉCOMMUNICATIONS DU GRAND SUDBURY INC.**

Financial Statements

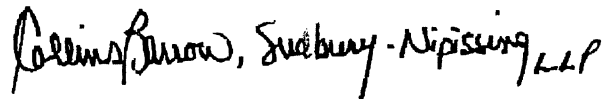
Year ended December 31, 2004

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

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

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those
standards require that we plan and perform an audit to obtain reasonable assurance whether the financial
statements are free of material misstatement. An audit includes examining, on a test basis, evidence
supporting the amounts and disclosures in the financial statements. An audit also includes assessing the
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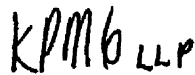
In our opinion, these financial statements present fairly, in all material respects, the financial position of
the company as at December 31, 2004 and the results of its operations and its cash flows for the year then
ended in accordance with Canadian generally accepted accounting principles.



COLLINS BARROW, SUDBURY-NIPISSING, LLP
Chartered Accountants



FREELANDT CALDWELL REILLY LLP
Chartered Accountants



KPMG LLP
Chartered Accountants

Sudbury, Canada
March 10, 2005

**GREATER SUDBURY TELECOMMUNICATIONS INC. /
TÉLÉCOMMUNICATIONS DU GRAND SUDBURY INC.**

Balance Sheet

December 31, 2004 with comparative figures for 2003

	2004	2003
Assets		
Current		
Accounts receivable (note 5)	\$ 579,851	\$ 274,753
Prepaid expenses	-	6,794
Inventory	170,507	269,779
Payment in lieu of taxes	15	-
Current portion of other assets	26,250	26,250
	<u>776,623</u>	<u>577,576</u>
Capital assets (note 6)	3,143,003	3,372,140
Payment in lieu of future taxes (note 7)	48,245	48,245
Other assets (note 8)	210,000	236,250
	<u>\$4,177,871</u>	<u>\$ 4,234,211</u>
Liabilities and shareholder's deficit		
Current		
Accounts payable and accrued liabilities	\$ 37,797	\$ 79,615
Advances from related parties (note 9)	694,584	1,039,356
Promissory note payable (note 10)	2,454,286	2,454,286
Interest payable on promissory note	-	65,644
Current portion of deferred revenue	43,750	43,750
	<u>3,230,417</u>	<u>3,682,651</u>
Deferred revenue (note 11)	252,625	196,875
Preferred shares (note 12)	1,260,000	860,000
	<u>4,743,042</u>	<u>4,739,526</u>
Shareholder's deficit		
Share capital (note 13)	1,051,838	1,051,838
Deficit	(1,617,009)	(1,557,153)
	<u>(565,171)</u>	<u>(505,315)</u>
	<u>\$ 4,177,871</u>	<u>\$ 4,234,211</u>

Approved on behalf of the board

Director _____

Director _____

See accompanying notes to financial statements

**GREATER SUDBURY TELECOMMUNICATIONS INC. /
TÉLÉCOMMUNICATIONS DU GRAND SUDBURY INC.**

Statement of Operations

Year ended December 31, 2004 with comparative figures for 2003

	2004	2003
Revenue		
Bandwidth leases	\$ 2,345,673	\$2,247,496
Cost of sales		
World Wide Network Connection	772,611	787,233
Gross profit	1,573,062	1,460,263
Expenses		
Wages and benefits	572,687	826,270
Amortization	452,591	523,332
Administration	199,681	186,854
Leases, materials and maintenance	163,675	166,263
Interest on promissory note payable	178,181	178,181
Repairs and maintenance	25,132	47,078
Vehicle costs	15,323	24,941
Economic development	-	8,163
	1,607,270	1,961,082
Loss before undernoted items and payment in lieu of taxes	(34,208)	(500,819)
Other income or costs:		
Other operating income	105,980	152,381
(Loss) gain on sale of capital assets	(1,184)	15,984
Loss on writedown of inventory to net realizable value	(130,444)	-
	(25,648)	168,365
Loss before payment in lieu of taxes	(59,856)	(332,454)
Payment in lieu of taxes (note 7)	-	-
Net loss	\$ (59,856)	\$ (332,454)

See accompanying notes to financial statements

**GREATER SUDBURY TELECOMMUNICATIONS INC. /
TÉLÉCOMMUNICATIONS DU GRAND SUDBURY INC.**

Statement of Deficit

Year ended December 31, 2004 with comparative figures for 2003

	2004	2003
Deficit, beginning of year	\$ (1,557,153)	\$ (1,224,699)
Net loss	(59,856)	(332,454)
Deficit, end of year	\$ (1,617,009)	\$ (1,557,153)

See accompanying notes to financial statements

**GREATER SUDBURY TELECOMMUNICATIONS INC. /
TÉLÉCOMMUNICATIONS DU GRAND SUDBURY INC.**

Cash Flows Statement

Year ended December 31, 2004 with comparative figures for 2003

	2004	2003
Cash flows from operating activities		
Net loss	\$ (59,856)	\$ (332,454)
Adjustment for:		
Amortization	452,591	523,332
Loss(gain) on sale of capital assets	1,184	(15,984)
	393,919	174,894
Change in non-cash working capital items		
Accounts receivable	(305,098)	154,181
Prepaid expenses	6,794	(6,794)
Inventory	99,272	(69,601)
Payment in lieu of taxes	(15)	(16)
Accounts payable and accrued liabilities	(41,818)	51,772
Advances from related parties	(344,772)	(89,079)
Interest payable on promissory note	(65,644)	-
	(257,362)	215,357
Cash flows from investing activities		
Purchase of capital assets	(291,459)	(853,479)
Proceeds on disposal of capital assets	5,500	34,780
Contributions in aid of construction	61,321	225,217
Other assets	26,250	(262,500)
	(198,388)	(855,982)
Cash flows from financing activities		
Deferred revenue	55,750	240,625
Proceeds from issuance of preferred shares	400,000	400,000
	455,750	640,625
Increase in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -
Other information		
Interest paid	\$ (243,825)	\$ (178,181)
Interest received	15	9
Payment in lieu of taxes paid	(11,412)	(10,818)

See accompanying notes to financial statements.

GREATER SUDBURY TELECOMMUNICATIONS INC. / TÉLÉCOMMUNICATIONS DU GRAND SUDBURY INC.

Notes to the Financial Statements

December 31, 2004

1. Nature of operations

GREATER SUDBURY TELECOMMUNICATIONS INC. / TÉLÉCOMMUNICATIONS DU GRAND SUDBURY INC. was incorporated under the Business Corporations Act of Ontario on October 1, 2000. The incorporation was required in accordance with the Electricity Act, 1998 (Ontario) (the "EA"). The Corporation is a telecommunications service provider.

2. Significant accounting policies

(a) General

These financial statements are the representation of the Corporation's management and are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies set forth in the Accounting Procedure Manual issued by the Ontario Energy Board ("OEB") under the authority of the Ontario Energy Board Act, 1998.

(b) Accounts receivable

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

(c) Inventory

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

(d) Capital assets

Capital assets are recorded at cost less government grants and contributions in aid of construction received and include an allocation of engineering and other overhead. Amortization is provided annually using the straight-line method at the following rates.

Buildings	25 - 40 years
Leasehold improvements	10 years
Office and other equipment	5-10 years
Fibre optics - cable	25 years
Fibre optics - electronics	5 years
Fibre optics - tools	10 years

**GREATER SUDBURY TELECOMMUNICATIONS INC. /
TÉLÉCOMMUNICATIONS DU GRAND SUDBURY INC.**

**Notes to the Financial Statements
December 31, 2004**

2. Significant accounting policies, continued

(e) Asset retirement obligations

During 2004, the company adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3110, Asset Retirement Obligations. This accounting standard requires the Company to determine the fair value of the future expenditures required to settle legal obligations to remove capital assets. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated capital asset.

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

(f) Payment in lieu of taxes

Effective October 1, 2001 and pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA") and remit 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 owing by the OEFC.

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

(g) Contributions in aid of construction

In certain cases, non-refundable contributions are received in aid of construction or acquisition of capital assets. Prior to January 1, 2000 these amounts were added to the Corporation's equity. Contributions received subsequent to January 1, 2000 are being classified as contra-assets and are being amortized at the same rate as the assets to which they relate.

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(h) Financial instruments

Short-term financial assets and liabilities, including accounts receivable, payment in lieu of taxes, accounts payable and accrued liabilities, advances from related parties and interest payable on promissory note, are valued at their carrying amounts as presented in the balance sheet. The carrying values are reasonable estimates of fair value due to the short period to maturity of the financial instruments.

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

3. Revenue recognition

Revenue is recognized upon delivery of service.

4. Cash

The Company and its related entities, Greater Sudbury Hydro Inc./Hydro Du Grand Sudbury Inc. and Greater Sudbury Hydro Plus Inc./Hydro Plus Du Grand Sudbury Inc., have a banking arrangement with the Toronto Dominion Bank. Under the banking arrangement, at the end of each banking day, the balance in each entity's account is exactly offset by a contra balance in a related offset account. The offset account shall then be offset by withdrawing a similar amount from or depositing a similar amount to the concentration account. As a result, the amount owed to or from the related entity is included in advances to (from) related parties (note 9).

The Company and its related entities have arranged for a line of credit up to \$7,500,000 for operating purposes at the corporate bank prime rate of interest. The line of credit is secured by an unlimited guarantee by the Company, Greater Sudbury Hydro Inc./Hydro Du Grand Sudbury Inc. and Greater Sudbury Hydro Plus Inc./Hydro Plus Du Grand Sudbury Inc., and a subordination agreement regarding the promissory note payable to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.

5. Accounts receivable

	2004	2003
Trade accounts receivable	\$ 670,851	\$ 335,753
Allowance for doubtful accounts	(91,000)	(61,000)
	<u>\$ 579,851</u>	<u>\$ 274,753</u>

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6. Capital assets

	Cost	Accumulated Amortization	2004 Net	2003 Net
Land	\$ 5,249	\$ -	\$ 5,249	\$ 5,249
Buildings	29,098	1,948	27,150	27,934
Leasehold improvements	30,018	3,982	26,036	17,921
Office and other equipment	477,754	460,914	16,840	38,264
Fibre optics - cable	3,314,306	772,973	2,541,333	2,505,918
Fibre optics - electronics	2,486,294	1,977,536	508,758	660,526
Fibre optics - tools	67,132	49,495	17,637	24,284
Construction in progress	-	-	-	92,044
	<u>\$ 6,409,851</u>	<u>\$ 3,266,848</u>	<u>\$ 3,143,003</u>	<u>\$ 3,372,140</u>

Contributions in aid of construction received during the year were \$61,321 (2003 - \$225,217). Total cumulative contributions in aid of construction received at December 31, 2004 were \$1,122,712 (2003 - \$1,061,391) with related accumulated amortization of \$173,562 (2003 - \$127,034) resulting in a net contra-asset of \$949,150 (2003 - \$934,357) which has been offset against the assets to which they relate.

7. Payment in lieu of future taxes

a) The components of payment in lieu of future taxes balance are as follows:

	2004	2003
Payment in lieu of future taxes		
Non-capital loss carry-forwards	\$452,453	\$ 390,495
Difference between tax basis and carrying amount of capital assets	114,974	159,939
	<u>567,427</u>	<u>550,434</u>
Valuation allowance	(519,182)	(502,189)
	<u>\$48,245</u>	<u>\$ 48,245</u>

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Notes to the Financial Statements
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7. Payment in lieu of future taxes, continued

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

	<u>2004</u>	<u>2003</u>
Loss before payment in lieu of taxes	\$ (59,856)	\$ (332,454)
Anticipated income tax recovery	\$ (21,621)	\$ (121,745)
Effect of increase in valuation allowance	16,993	291,358
Effect of change in tax rate	7,555	23,413
Other	<u>(2,927)</u>	<u>(193,026)</u>
Provision for payment in lieu of taxes	<u>\$ -</u>	<u>\$ -</u>

8. Other Assets

In 2003, the Corporation disposed of land to 360networks Corporation in exchange for the provision of future capacity services on an OC48 network owned by 360networks Corporation. The provision of these services covers a ten-year period that commenced in 2003. The services are valued at \$262,500.

	<u>2004</u>	<u>2003</u>
Other assets	\$236,250	\$262,500
Less current portion	<u>(26,250)</u>	<u>(26,250)</u>
	<u>\$210,000</u>	<u>\$236,250</u>

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**Notes to the Financial Statements
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9. Related party transactions

(a) The Corporation subcontracts the billing and collecting of revenue, construction and maintenance of capital assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury services to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., a company related by virtue of common control. The Corporation entered into a Service Level Agreement with Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. at a monthly base cost of \$500.

(b) Advances from related parties

	<u>2004</u>	<u>2003</u>
Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc.	\$ 333,632	\$ 379,879
Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.	<u>360,952</u>	<u>659,477</u>
	<u>\$ 694,584</u>	<u>\$1,039,356</u>

The advances from related parties are unsecured, interest bearing at the corporate bank prime rate and have no fixed terms of repayment. During the year the Company was charged interest totaling \$30,341 (2003 - \$32,422) on these balances by the related parties.

10. Promissory note payable

The promissory note payable to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. is unsecured and bears interest at a rate of 7.26% per annum.

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

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**Notes to the Financial Statements
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11. Deferred revenue

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

During the year 2003, the Corporation acquired land from the City of Greater Sudbury. In settlement of its obligation, the Corporation is supplying dark fibre capacity services to the City of Greater Sudbury for a six-year period ending October 15, 2009.

The company has agreed to supply dark fibre capacity services to five public sector organizations commencing October 2003. Each of the five organizations have agreed to make a lump sum payment of \$120,000 as well as payments of \$500 per month for a 20-year period or a further lump sum payment, in exchange for the provision of these services by the company. The amounts received in advance will be recognized over the 20 year period that the service is delivered to the customer on a straight line basis.

12. Preferred shares

	2004	2003
Authorized		
Unlimited 7.25% non-cumulative class A preferred shares, non-voting, redeemable and retractable at \$100 per share		
Issued		
12,600 (2003 - 8,600) class A preferred shares	\$ 1,260,000	\$ 860,000

During the year the Company issued 4,000 class A preferred shares from treasury for cash consideration of \$400,000

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13. Share capital

	<u>2004</u>	<u>2003</u>
Authorized Unlimited common shares		
Issued 1,001 common shares	<u>\$ 1,051,838</u>	<u>\$ 1,051,838</u>

14. Going concern considerations

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. demand repayment of the promissory note, the company may be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

15. Loss carryforwards

For payment in lieu of tax purposes, the company has loss carry forwards which can be applied to reduce future years taxable income. These losses expire as follows.

2008	\$ 90,033
2009	579,253
2010	405,049
2014	<u>178,303</u>
	<u>\$1,252,638</u>