

SECTION 5

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

Year ended December 31, 2003

AUDITORS' REPORT

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

We have audited the balance sheet of **GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS DU GRAND SUDBURY INC.** (the "Company"), as at **December 31, 2003** 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 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003, 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-MAHEU NOISEUX LLP
Chartered Accountants



FREELANDT CALDWELL REILLY LLP
Chartered Accountants



KPMG LLP
Chartered Accountants

Sudbury, Canada
February 27, 2004

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

Consolidated Balance Sheet

December 31, 2003, with comparative figures for 2002

	2003	2002
Assets		
Current:		
Cash (note 3)	\$ 8,114,897	\$1,553,096
Accounts receivable (note 4)	4,622,434	5,080,237
Payment in lieu of taxes	-	153,403
Current portion of regulatory assets	402,249	-
Current portion of other assets	26,250	-
Unbilled revenue - distribution	1,348,083	2,096,959
Unbilled revenue - energy sales	4,589,674	8,252,406
Inventory	1,325,240	1,150,437
Prepaid	219,496	214,009
	<hr/> 20,648,323	<hr/> 18,500,547
Capital assets (note 5)	67,535,873	67,647,895
Payment in lieu of future taxes (note 6)	1,171,660	1,183,138
Regulatory assets (note 7)	2,735,719	2,957,432
Other assets (note 8)	468,396	232,146
	<hr/> \$ 92,559,971	<hr/> \$ 90,521,158

Approved on behalf of the Board

Director _____

Director _____

See accompanying notes to financial statements

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Consolidated Balance Sheet
December 31, 2003, with comparative figures for 2002

	2003	2002
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	\$ 2,708,132	\$ 2,733,553
Payable for energy purchases	5,893,643	6,293,490
Payment in lieu of taxes	98,130	-
Promissory note payable (note 9)	52,340,819	52,340,819
Interest payable on promissory note	1,394,710	1,394,710
Current portion of long-term debt	389,047	332,507
	62,824,481	63,095,079
Long-term obligations (note 10)	8,945,720	8,251,709
Preferred shares (note 12)	2,789,418	1,394,709
Shareholder's equity:		
Share capital (note 13)	22,431,779	22,431,779
Deficit	(4,431,427)	(4,652,118)
	18,000,350	17,779,661
Commitments and contingency (note 14)		
	\$ 92,559,971	\$ 90,521,158

On behalf of the Board:

See accompanying notes to financial statements.

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Consolidated Statement of Operations and Deficit
Year ended December 31, 2003, with comparative figures for 2002

	2003	2002
Revenue		
Energy sales	\$ 55,850,206	\$ 65,692,547
Distribution	15,873,605	14,903,021
	71,723,811	80,595,568
Cost of energy	55,850,206	65,692,547
Gross profit	15,873,605	14,903,021
Other operating revenue and expenses:		
Gain on sale of capital assets	19,684	8,550
Other operating revenue	4,900,935	4,282,824
	4,920,619	4,291,374
	20,794,224	19,194,395
Expenses:		
Operating and administration	11,140,346	11,293,169
Amortization	4,969,424	4,837,362
Interest on promissory note payable	3,799,943	3,799,943
Interest	387,308	385,634
	20,297,021	20,316,108
Earnings (loss) before payment in lieu of taxes	497,203	(1,121,713)
Payment in lieu of taxes (note 15)		
Current	265,034	145,545
Future	11,478	(434,708)
	276,512	(289,163)
Net earnings (loss)	220,691	(832,550)
Deficit, beginning of year	(4,652,118)	(3,819,568)
Deficit, end of year	\$ (4,431,427)	\$ (4,652,118)

See accompanying notes to financial statements.

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Consolidated Cash flows Statement
Year ended December 31, 2003 with comparative figures for 2002

	2003	2002
Cash flows from operating activities		
Net earnings (loss)	\$ 220,691	\$ (832,550)
Adjustments for:		
Amortization	4,969,424	4,837,362
Payment in lieu of future income taxes	11,478	(434,708)
Other amortization	190,436	206,651
Gain on the sale of assets	(19,684)	(8,550)
Interest and accrual for employee future benefit obligation	280,408	264,445
	5,652,753	4,032,650
Change in non-cash operating working capital (note 16)	4,515,386	(4,820,916)
	10,168,139	(788,266)
Cash flows from investing activities:		
Purchase of capital assets	(6,070,459)	(5,499,645)
Proceeds on disposal of capital assets	38,480	8,869
Contributions in aid of construction	1,003,825	709,069
Regulatory assets	(180,536)	(2,833,701)
Other assets	(262,500)	-
	(5,471,190)	(7,615,408)
Cash flows from financing activities:		
Repayment of long term obligations	(33,310)	(31,053)
Issuance of preferred shares	1,394,709	1,394,709
Proceeds of long term debt	503,453	650,136
	1,864,852	2,013,792
Increase (decrease) in cash	6,561,801	(6,389,882)
Cash and cash equivalents, beginning of year	1,553,096	7,942,978
Cash and cash equivalents, end of period	\$ 8,114,897	\$ 1,553,096
Cash and cash equivalents consist of:		
Cash	\$ 8,114,897	\$ 1,553,096
Investments	-	-
Cash and cash equivalents	\$ 8,114,897	\$ 1,553,096

See accompanying notes to financial statements.

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

**Notes to the Consolidated Financial Statements
December 31, 2003**

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) Measurement uncertainty

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 revenue and allowances for uncollectable 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, 2003

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 on an average cost method.

(v) Unbilled revenues

Revenue is recorded in the accounts to various dates on the basis of monthly or quarterly 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 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, 2003

2. Significant accounting policies (continued):

(viii) 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 there under 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 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 in the period of the change.

(ix) Financial instruments

Short-term financial assets and liabilities, including cash, accounts receivable, payment in lieu of taxes, unbilled revenue, accounts payable and accrued liabilities payable for energy purchases 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 regulatory assets, other assets, long-term debt, 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

(x) Contributions in aid of construction

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

(xi) Future employee benefits

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

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2003

2. Significant accounting policies (continued):

(xii) 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.

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.

4. Accounts receivable

	2003	2002
Electrical energy receivable	\$ 4,315,876	\$ 4,029,287
Other receivables	1,716,558	2,316,450
	6,032,434	6,345,737
Allowance for doubtful accounts	(1,410,000)	(1,265,500)
	\$ 4,622,434	\$ 5,080,237

5. Capital assets

	2003		2002	
	Cost	Accumulated Amortization	Net	Net
Land	\$ 756,820	\$ -	\$ 756,820	\$ 750,874
Buildings	8,471,579	2,800,063	5,671,516	5,488,661
Distribution systems	112,082,406	58,985,709	53,096,697	53,311,086
System Supervisory equipment	1,244,032	690,510	553,522	636,344
Automotive	3,102,460	2,744,724	357,736	219,654
Office and other equipment	4,457,055	3,813,959	643,096	754,025
Water Heaters	7,861,381	6,579,762	1,281,619	1,277,674
Fibre optics	7,681,970	2,969,624	4,712,346	4,663,514
Construction in progress	92,044	-	92,044	226,725
Computer equipment	3,095,472	2,724,995	370,477	319,338
	\$ 148,845,219	\$ 81,309,346	\$ 67,535,873	\$ 67,647,895

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2003

5. Capital assets, continued

Contributions in aid of construction received during the year were \$1,003,824 (2002 \$709,069). Total contributions in aid of construction received at December 31, 2003 were \$4,004,527 (2002 \$3,000,704) with related accumulated amortization of \$425,473 (2002 \$262,480) resulting in a net contra-asset of \$3,579,054 (2002 \$2,738,224) which has been offset against the assets to which they relate.

6. Payment in lieu of taxes

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

	2003	2002
Payment in lieu of future taxes		
Non-capital loss carry-forwards	\$ 1,012,772	\$ 1,339,070
Difference between tax basis of depreciable capital assets and carrying amount	1,501,904	727,236
Difference between carrying value of regulatory assets and tax basis	(1,040,351)	(672,337)
Difference between tax basis of employee future benefits and carrying value	199,524	-
	<u>1,673,849</u>	<u>1,393,969</u>
Valuation allowance	(502,189)	(210,831)
	<u>\$ 1,171,660</u>	<u>\$ 1,183,138</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 36.62% (2002 - 38.62%) to the earnings (loss) for the years as follows:

	2003	2002
Earnings (loss) for the year before payment in lieu of taxes	\$ 496,252	\$ (1,121,828)
Anticipated income tax expense (recovery)	\$ 181,727	\$ (433,250)
Increase in valuation allowance	291,358	210,831
Large corporations tax not deductible for income tax purposes	155,016	156,341
Reduction in payment in lieu of future taxes resulting from reduction in tax rate	95,169	22,016
Other	(446,758)	(245,101)
Provision for payment in lieu of taxes	<u>\$ 276,512</u>	<u>\$ (289,163)</u>

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2003

7. Regulatory assets

	2003	2002
Deferred transition costs (a)	\$ 869,426	\$ 812,812
Pre-market opening energy variances (b)	1,174,244	1,186,179
Retail settlement variances (c)	1,094,298	958,441
	<u>3,137,968</u>	<u>2,957,432</u>
Less: current portion	<u>(402,249)</u>	<u>-</u>
	<u>\$ 2,735,719</u>	<u>\$ 2,957,432</u>

The regulatory assets arise as a result of the rate setting process by the OEB. In 2003, the Minister of Energy authorized the recovery of regulatory assets as at December 31, 2002 over a four-year period commencing in 2004, realizing one quarter of the assets each year.

- 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

	2003	2002
Other assets	\$ 494,646	\$ 232,146
Less current portion	<u>(26,250)</u>	
	<u>\$ 468,396</u>	<u>\$ 232,146</u>

Prior to year end the Corporation acquired land and disposed of it in exchange for provision of future capacity services of an OC48 network from 360networks. Provision of these services covers a ten-year period effectively commencing in 2004. 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, 2003

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, 2003, the holder has not issued a demand to repay the note.

10. Long-term obligations

	2003	2002
Employee future benefit obligation (note 10)	\$ 7,335,612	\$ 7,055,205
Customer deposits	1,157,871	1,111,832
Deferred developer contributions	262,674	219,866
Deferred carrying charges	292,512	153,168
Long term payable to City of Greater Sudbury	240,625	-
Vested sick leave	45,473	44,145
	<u>9,334,767</u>	<u>8,584,216</u>
Portion included in current liabilities	<u>(389,047)</u>	<u>(332,507)</u>
	<u>\$ 8,945,720</u>	<u>\$ 8,251,709</u>

11. 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, 2003 and the expense for the year then ended was determined based on an actuarial valuation using a discount rate of 6.0%.

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

	2003	2002
Employee future benefit obligation, beginning of year	\$ 7,055,205	\$ 6,790,760
Expenses for the period	580,731	564,864
Benefits paid for the period	(300,324)	(300,419)
Employee future benefit obligation, end of year	<u>\$ 7,335,612</u>	<u>\$ 7,055,205</u>

The main actuarial assumptions underlying the valuations are as follows:

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2003

11. Employee future benefit obligation, continued

a) General and medical inflation:

The health care costs trend is estimated to decrease from 7.5% to 4.5% over five 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, 2003, being the present value of future liabilities and the expense for the period then ended, were determined using a discount 6.0%.

c) Salary levels:

Future general salary and wage levels were assumed to increase at 2% per year.

12. Preferred shares

Authorized

Unlimited 7.25% non-cumulative class A preferred shares, non-voting, redeemable and retractable at \$100 per share

During the year the Company issued 13,947 class A, 7.25% non-cumulative, non-voting, redeemable, retractable preferred shares from treasury for cash consideration of \$1,394,709.

13. Share capital:

	<u>2003</u>	<u>2002</u>
Authorized		
Unlimited common shares		
Issued		
Issued 1,001 voting common shares	<u>\$ 22,431,779</u>	<u>\$ 22,431,779</u>

14. Commitments and contingencies

Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. 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, 2003, 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.

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2003

14. Commitments and contingencies, continued

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.

Purchase: of Assets:

On February 1, 2003 the OEB issued its decision and order for Falconbridge Limited to grant leave to sell to the Company certain electricity distribution assets located within the boundaries within the geographic township of Falconbridge in the City of Greater Sudbury. The transitional distribution license of the Company is amended to include the geographic boundaries of the former township of Falconbridge in its service area. The date of purchase and purchase price have not been finalized as of the date of these financial statements.

15. Loss carryforwards

For payment in lieu of tax purposes, the following companies have losses which can be applied to reduce future years taxable income. The 2001 losses totaling \$90,033 expire in 2008. The 2002 losses totaling \$2,278,535 expire in 2009. The 2003 losses totaling \$397,058 expire in 2010.

	2003	2002
Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc.	\$ 1,699,282	\$ 3,063,128
Greater Sudbury Telecommunications Inc./ Télécommunications du Grand Sudbury Inc.	1,066,344	669,286
	\$ 2,765,626	\$ 3,732,414

**GREATER SUDBURY UTILITIES INC./
SERVICES PUBLICS DU GRAND SUDBURY INC.**
Notes to the Consolidated Financial Statements
December 31, 2003

16. Change in non-cash operating working capital:

	2003	2002
Change in non-cash operating working capital:		
Accounts receivable	\$ 457,803	\$ 896,282
Unbilled revenues - distribution	748,876	2,452,141
Unbilled revenues - energy	3,662,732	(8,252,406)
Inventory	(174,803)	37,509
Prepaid expenses	(5,487)	(34,835)
Accounts payable and accrued liabilities	(25,421)	959,761
Payable for energy purchases	(399,847)	(725,965)
Payment in lieu of taxes	251,533	(153,403)
	\$ 4,515,386	\$(4,820,916)

17. Industry restructuring

The "EA" provides for a competitive marketplace in the sale of electricity. The marketplace was deregulated effective May 1, 2002.

18. Pension agreements

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 100 members of its staff including part time contributing members. The plan is a defined benefit 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.

Phased in contributions of \$118,741 were paid during the year (2002 - no premiums were paid, by the corporation or its employees due to the legislated OMERS premium holiday). Full premiums, estimated at \$410,000, will be payable in 2004.

19. Comparative figures:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. These changes do not affect prior year earnings.

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

Financial Statements

Year ended December 31, 2003

AUDITORS' REPORT

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, 2003** 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, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



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Sudbury, Canada
February 27, 2004

**GREATER SUDBURY HYDRO INC./
HYDRO DU GRAND SUDBURY INC.**
Balance Sheet
December 31, 2003 with comparative figures for 2002

	2003	2002
Assets		
Current		
Cash (note 3)	\$ 8,007,199	\$ 1,447,719
Accounts receivable (note 4)	3,080,876	3,510,156
Payment in lieu of taxes	-	13,140
Inventory	895,664	817,265
Advances to related parties (note 5)	381,430	619,647
Unbilled revenue - distribution	1,348,083	2,096,959
Unbilled revenue - energy sales	4,589,674	8,252,406
Current portion of regulatory assets	402,249	-
	18,705,175	16,757,292
Capital assets (note 6)	62,313,022	62,502,498
Payment in lieu of future taxes (note 7)	1,116,529	1,111,955
Regulatory assets (note 8)	2,735,719	2,957,432
Other assets	232,146	232,146
	\$ 85,102,591	\$ 83,561,323

Approved on behalf of the Board:

Director _____

Director _____

**GREATER SUDBURY HYDRO INC./
HYDRO DU GRAND SUDBURY INC.****Balance Sheet****December 31, 2003 with comparative figures for 2002**

	2003	2002
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	\$ 706,449	\$ 587,598
Payable for energy purchases	5,893,643	6,293,490
Promissory note payable (note 9)	48,645,458	48,645,458
Interest payable on promissory note	1,301,105	1,301,105
Current portion of long-term debt	345,297	332,507
	56,891,952	57,160,158
Long-term debt (note 10)	8,703,372	8,207,564
Preferred shares (note 11)	1,829,400	834,700
	67,424,724	66,202,422
Shareholder's equity		
Share capital (note 12)	20,848,052	20,848,052
Deficit	(3,170,185)	(3,489,151)
	17,677,867	17,358,901
Commitments and contingencies (note 13)		
	\$ 85,102,591	\$ 83,561,323

See accompanying notes to financial statements

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

Statement of Operations and Deficit

Year ended December 31, 2003 with comparative figures for 2002

	2003	2002
Revenue		
Energy sales	\$ 55,850,206	\$ 65,692,547
Distribution	15,873,605	14,903,021
	71,723,811	80,595,568
Cost of energy	55,850,206	65,692,547
Gross profit	15,873,605	14,903,021
Expenses		
Amortization	4,010,116	3,874,304
Interest on promissory note payable	3,531,660	3,531,660
General administration	2,418,041	2,689,423
Distribution - operations	2,497,110	2,351,688
Billing and collecting	2,079,778	2,016,473
Distribution - maintenance	1,347,451	1,517,630
Interest	425,161	433,844
	16,309,317	16,415,022
Loss before undernoted items and payment in lieu of taxes	(435,712)	(1,512,001)
Other income		
Other operating revenue	902,969	816,775
Gain on sale of capital assets	1,776	8,550
	904,745	825,325
Earnings (loss) before payment in lieu of taxes	469,033	(686,676)
Payment in lieu of taxes (note 7)		
Current	154,641	156,341
Future	(4,574)	(459,770)
	150,067	(303,429)
Net earnings (loss)	318,966	(383,247)
Deficit, beginning of year	(3,489,151)	(3,105,904)
Deficit, end of year	\$ (3,170,185)	\$ (3,489,151)

See accompanying notes to financial statements

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

Cash Flows Statement

Year ended December 31, 2003 with comparative figures for 2002

	2003	2002
Cash flows from operating activities		
Net earnings (loss)	\$ 318,966	\$ (383,247)
Adjustments for:		
Amortization	4,010,116	3,874,304
Payment in lieu of future taxes	(4,574)	(459,770)
Gain on sale of capital assets	(1,776)	(8,550)
Other amortization	190,436	206,651
	4,513,168	3,229,388
Change in non-cash working capital items		
Accounts receivable	429,280	1,216,027
Payment in lieu of taxes	13,140	(13,140)
Inventory	(78,399)	44,353
Advances to related parties	238,217	(51,214)
Unbilled revenue - distribution	748,876	2,452,141
Unbilled revenue - energy sales	3,662,732	(8,252,406)
Accounts payable and accrued liabilities	118,851	475,373
Payable for energy purchases	(399,847)	(725,965)
	9,246,018	(1,625,443)
Cash flows from investing activities		
Purchase of capital assets	(4,789,685)	(4,382,105)
Proceeds on disposal of capital assets	1,776	8,550
Regulatory assets	(180,536)	(2,833,701)
Contributions in aid of construction	778,609	588,159
	(4,189,836)	(6,619,097)
Cash flows from financing activities		
Repayment of long-term debt	(34,638)	(300,421)
Proceeds from long-term debt	543,236	1,215,002
Proceeds from issuance of preferred shares	994,700	834,700
	1,503,298	1,749,281
Increase (decrease) in cash	6,559,480	(6,495,259)
Cash, beginning of year	1,447,719	7,942,978
Cash, end of year	\$ 8,007,199	\$ 1,447,719

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

**Notes to the Financial Statements
December 31, 2003**

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) Measurement uncertainty

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 revenue 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, 2003

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.

(g) Unbilled revenues

Revenue is recorded in the accounts to various dates on the basis of monthly or quarterly 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.

(h) Capital assets

Capital assets are recorded at cost less government grants 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.

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, 2003

2. Significant accounting policies, continued

(i) 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.

(j) 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.

(k) Future employee benefits

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

(l) 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, 2003**

2. Significant accounting policies, continued

(m) Financial instruments

Short-term financial assets and liabilities, including cash, accounts receivable, payment in lieu of taxes, advances to related parties, unbilled revenue, accounts payable and accrued liabilities, payable for energy purchases 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 regulatory assets long-term debt, 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. 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. Since the concentration account is in the Company's name, the amount owed to or from the related entity is included in advances to (from) related parties (note 5).

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.

4. Accounts receivable

	<u>2003</u>	<u>2002</u>
Electrical energy receivable	\$ 4,315,876	\$ 4,543,156
Allowance for doubtful accounts	<u>(1,235,000)</u>	<u>(1,033,000)</u>
	<u>\$ 3,080,876</u>	<u>\$ 3,510,156</u>

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

Notes to the Financial Statements
December 31, 2003

5. **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 Sudbury District Energy Corporation by virtue of common shareholders.

During the year the company bought electricity from Sudbury District Energy Corporation totalling \$1,410,033 (2002 - \$3,091,500) at prevailing market rates. Included in accounts payable is \$88,145 (2002 - \$536,900) on account of these purchases.

During the year the company sold electricity to Sudbury District Energy Corporation totalling \$106,212 (2002 - \$889,200) at prevailing market rates. Included in accounts receivable is \$17,900 (2002 - \$87,800) on account of these sales.

- (c) Advances to related parties:

	<u>2003</u>	<u>2002</u>
Greater Sudbury Telecommunications Inc./ Telecommunications du Grand Sudbury Inc.	\$ 379,879	\$ 618,096
Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.	1,551	1,551
	<u>\$ 381,430</u>	<u>\$ 619,647</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 \$32,422 (2002 - \$37,053) on these balances.

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

Notes to the Financial Statements
December 31, 2003

6. **Capital assets**

			2003	2002
	Cost	Accumulated Amortization	Net	Net
Land	\$ 751,571	\$ -	\$ 751,571	\$ 747,221
Buildings	8,422,569	2,796,908	5,625,661	5,460,145
Distribution systems	112,082,406	58,985,709	53,096,697	53,311,086
Automotive	3,102,460	2,744,724	357,736	219,654
Office and other equipment	2,346,241	2,026,065	320,176	324,254
Fibre optics	2,107,832	586,214	1,521,618	1,592,054
System supervisory equipment	1,244,032	690,510	553,522	636,344
Computer equipment	133,806	47,765	86,041	84,015
Construction in progress	-	-	-	127,725
	<u>\$ 130,190,917</u>	<u>\$ 67,877,895</u>	<u>\$ 62,313,022</u>	<u>\$ 62,502,498</u>

Contributions in aid of construction received during the year were \$778,609 (2002 \$588,159). Total contributions in aid of construction received at December 31, 2003 were \$2,943,139 (2002 \$2,164,530) with related accumulated amortization of \$298,439 (2002 \$180,714) resulting in a net contra-asset of \$2,644,700 (2002 \$1,983,816) which has been offset against the assets to which they relate.

7. **Payment in lieu of taxes**

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

	2003	2002
Payment in lieu of future taxes		
Non-capital loss carry-forwards	\$ 622,277	\$ 1,080,592
Difference between tax basis of depreciable capital assets and carrying amount	1,335,079	703,700
Difference between carrying value of regulatory assets and tax basis	(1,040,351)	(672,337)
Difference between tax basis of employee future benefits and carrying amount	199,524	-
	<u>\$ 1,116,529</u>	<u>\$ 1,111,955</u>

**GREATER SUDBURY HYDRO INC./
HYDRO DU GRAND SUDBURY INC.****Notes to the Financial Statements
December 31, 2003**

7. Payment in lieu of taxes, continued

(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 36.62% (2002 - 38.62%) to the earnings (loss) for the years as follows:

	2003	2002
Earnings (loss) for the year before payment in lieu of taxes	\$ 469,033	\$ (686,676)
Anticipated income tax expense (recovery)	\$ 171,760	\$ (265,194)
Reduction due to reduction in tax rates	70,360	19,182
Large corporations tax not deductible for income tax purposes	155,016	156,341
Other	(247,069)	(213,758)
Provision for payment in lieu of taxes	\$ 150,067	\$ (303,429)

8. Regulatory assets

	2003	2002
Deferred transition costs (a)	\$ 869,426	\$ 812,812
Pre-market opening energy variances (b)	1,174,244	1,186,179
Retail settlement variances (c)	1,094,298	958,441
	3,137,968	2,957,432
Less current portion	402,249	-
	\$ 2,735,719	\$ 2,957,432

The regulatory assets arise as a result of the rate setting process by the OEB. In 2003, the Minister of Energy authorized the recovery of regulatory assets as at December 31, 2002 over a four-year period commencing in 2004, realizing one quarter of the assets each year.

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.

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

Notes to the Financial Statements
December 31, 2003

8. Regulatory assets, continued

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.

9. 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, 2003, the holder has not issued a demand to repay the note.

10. Long-term debt

	<u>2003</u>	<u>2002</u>
Future benefit liability - payable to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.	\$ 7,335,612	\$ 7,055,204
Customer deposits	1,157,871	1,111,832
Deferred developer contributions	262,674	219,867
Deferred carrying charges	<u>292,512</u>	<u>153,168</u>
	9,048,669	8,540,071
Less current portion	<u>345,297</u>	<u>332,507</u>
	<u>\$ 8,703,372</u>	<u>\$ 8,207,564</u>

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 5 a).

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

Notes to the Financial Statements

December 31, 2003

11. Preferred shares

	2003	2002
Authorized		
Unlimited 7.25% non-cumulative class A preferred shares, non-voting, redeemable and retractable at \$100 per share		
Issued		
18,294 (2002 - 8,347) class A preferred shares	\$ 1,829,400	\$ 834,700

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

12. Share capital

	2003	2002
Authorized		
Unlimited common shares		
Issued		
Issued 1,001 voting common shares	\$ 20,848,052	\$ 20,848,052

13. Commitments and contingencies

The Company has issued a \$9,048,386 Letter of Guarantee to the IMO. This was a requirement of the IMO for market opening on May 1, 2002. At December 31, 2002 no amounts have been drawn on this financing arrangement.

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.

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.

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

Notes to the Financial Statements

December 31, 2003

13. Commitments and contingencies, continued

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.

Purchase of Assets:

On February 1, 2003 the OEB issued its decision and order for Falconbridge Limited to grant leave to sell to the Company certain electricity distribution assets located within the boundaries of the geographic township of Falconbridge in the City of Greater Sudbury. The transitional distribution license of the Company is amended to include the geographic boundaries of the former township of Falconbridge in its service area. The date of purchase and purchase price have not been finalized as of the date of these financial statements.

14. Loss carryforwards

For payment in lieu of tax purposes, the company has losses carrying forward totaling \$1,699,282 which can be applied to reduce future years taxable income. These losses expire in 2009.

15. Industry restructuring

The "EA" provides for a competitive marketplace for the sale of electricity in the province of Ontario. The marketplace was deregulated effective May 1, 2002.

16. Comparative figures

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

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

Financial Statements

Year ended December 31, 2003

AUDITORS' REPORT

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, 2003** 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, 2003, 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-MAHEU NOISEUX LLP
Chartered Accountants



FREELANDT CALDWELL REILLY LLP
Chartered Accountants



KPMG LLP
Chartered Accountants

Sudbury, Canada
February 27, 2004

**GREATER SUDBURY HYDRO PLUS INC./
HYDRO PLUS DU GRAND SUDBURY INC.**
Balance Sheet
December 31, 2003 with comparative figures for 2002

	2003	2002
Assets		
Current		
Accounts receivable (note 4)	\$ 1,266,805	\$ 1,141,147
Inventory	159,797	132,994
Prepaid expenses	212,702	214,008
Advances to related parties (note 5)	665,022	515,967
Payment in lieu of taxes	-	140,166
	2,304,326	2,144,282
Capital assets (note 6)	1,850,711	1,859,392
Payment in lieu of future taxes (note 7)	6,886	22,938
Future benefits receivable (note 8)	7,335,612	7,055,205
	\$ 11,497,535	\$ 11,081,817
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	\$ 1,922,071	\$ 2,118,115
Payment in lieu of taxes	98,130	-
Promissory note payable (note 9)	1,241,075	1,241,075
Interest payable on promissory note	33,195	33,195
	3,294,471	3,392,385
Long-term debt (note 10)	7,381,085	7,099,350
	10,675,556	10,491,735
Shareholder's equity		
Share capital (note 11)	531,889	531,889
Retained earnings	290,090	58,193
	821,979	590,082
	\$ 11,497,535	\$ 11,081,817

Approved on behalf of the board:

Director _____

Director _____

**GREATER SUDBURY HYDRO PLUS INC./
HYDRO PLUS DU GRAND SUDBURY INC.****Statement of Operations****Year ended December 31, 2003 with comparative figures for 2002**

	2003	2002
Revenue		
Contract work - affiliated companies	\$ 15,533,618	\$ 15,679,302
Contract work	947,581	893,826
Competitive service rentals	845,625	686,462
Miscellaneous	15,520	23,292
	17,342,344	17,282,882
Expenses		
Contract work - affiliated companies	15,307,704	15,441,719
Contract work	869,839	897,707
Amortization	435,976	432,038
Competitive service rentals	167,116	219,158
General and administration	113,858	111,394
Interest on promissory note payable	90,102	90,102
	16,984,595	17,192,118
Earnings before undernoted item and payment in lieu	357,749	90,764
Other income (expense)		
Gain on sale of capital assets	1,924	-
Earnings before payment in lieu	359,673	90,764
Payment in lieu of taxes (note 7)		
Current	111,724	(12,606)
Future	16,052	25,062
	127,776	12,456
Net earnings	\$ 231,897	\$ 78,308

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, 2003 with comparative figures for 2002

	2003	2002
Retained earnings (deficit), beginning of year	\$ 58,193	\$ (20,115)
Net earnings	231,897	78,308
Retained earnings, end of year	\$ 290,090	\$ 58,193

See accompanying notes to financial statements

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

Cash Flows Statement

Year ended December 31, 2003 with comparative figures for 2002

	2003	2002
Cash flows from operating activities		
Net earnings	\$ 231,897	\$ 78,308
Adjustments for:		
Amortization	435,976	432,038
Gain on sale of capital assets	(1,924)	-
Payment in lieu of future taxes	16,052	25,062
Future benefit costs	280,407	264,445
	962,408	799,853
Change in non-cash working capital items		
Accounts receivable	(125,658)	(95,750)
Inventory	(26,803)	4,806
Prepaid expenses	1,306	(34,834)
Advances to related parties	(149,055)	(308,218)
Payment in lieu of taxes	238,296	(140,166)
Accounts payable and accrued liabilities	(196,044)	474,870
	704,450	700,561
Cash flows from investing activities		
Purchase of capital assets	(427,295)	(405,063)
Future benefits receivable	(280,407)	(264,445)
Proceeds on disposal of capital assets	1,924	-
	(705,778)	(669,508)
Cash flows from financing activity		
Principal repayments on long-term debt	1,328	(31,053)
Decrease in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes to financial statements

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

Notes to the Financial Statements
December 31, 2003

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 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, 2003

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) **Financial instruments**

Short-term financial assets and liabilities, including 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 debt, 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. **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. Since the concentration account is in the Company's name, the amount owed to or from the related entity is included in Advances to (from) related parties (note 5).

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

Notes to the Financial Statements
December 31, 2003

3. **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 City of Greater Sudbury.

4. **Accounts receivable**

	2003	2002
Trade receivables	1,380,805	1,253,647
Allowance for doubtful accounts	(114,000)	(112,500)
	<u>\$1,266,805</u>	<u>\$1,141,147</u>

5. **Related party transactions**

Advances to related parties:

	2003	2002
Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc.	\$ 659,477	\$ 510,339
Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.	<u>5,545</u>	<u>5,628</u>
	<u>\$ 665,022</u>	<u>\$ 515,967</u>

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, 2003 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 (2002 - \$5,921) on these balances.

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

Notes to the Financial Statements
December 31, 2003

6. **Capital assets**

	2003		2002	
	Cost	Accumulated Amortization	Net	Net
Computer hardware/software	\$ 2,961,666	\$ 2,677,230	\$ 284,436	\$ 235,323
Water heaters	7,861,381	6,579,762	1,281,619	1,277,674
Office and other equipment	1,634,707	1,350,051	284,656	346,395
	<u>\$ 12,457,754</u>	<u>\$ 10,607,043</u>	<u>\$ 1,850,711</u>	<u>\$ 1,859,392</u>

7. **Payment in lieu of taxes**

a) The components of the payments in lieu of future tax balance are as follows:

	2003	2002
Payment in lieu of future taxes		
Difference between tax basis and carrying amount of assets	\$ 6,886	\$ 22,938
	<u>\$ 6,886</u>	<u>\$ 22,938</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 36.62% (2002 - 38.62%) to the earnings for the years as follows:

	2003	2002
Earnings for the year before payment in lieu of taxes	\$ 359,673	\$ 90,764
Anticipated tax provision	\$ 131,712	\$ 35,053
Reduction due to non taxable operating income	-	
Reduction due to reduction in tax rate	1,396	1,412
Other	(5,332)	(24,009)
Provision for payment in lieu of taxes	<u>\$ 127,776</u>	<u>\$ 12,456</u>

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

**Notes to the Financial Statements
December 31, 2003**

8. Future benefits receivable

The corporation has assumed the future benefit liability from Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. (see note 10). Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. has agreed, pursuant to a service level agreement, to fund this liability.

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, 2003 and the expense for the year then ended was determined based on an actuarial valuation using a discount rate of 6.0%.

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

	2003	2002
Future benefit liability, beginning of year	\$ 7,055,205	\$ 6,790,760
Expense for the period	580,731	564,864
Benefits paid for the period	(300,324)	(300,419)
Future benefit liability, end of year	\$ 7,335,612	\$ 7,055,205

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 7.5% to 4.5% over five 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 6.0%.

c) Salary levels:

Future general salary and wage levels were assumed to increase at 2% per year.

**GREATER SUDBURY HYDRO PLUS INC./
HYDRO PLUS DU GRAND SUDBURY INC.**
Notes to the Financial Statements
December 31, 2003

9. **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, 2003, the holder has not issued a demand to repay the note.

10. **Long-term debt**

	<u>2003</u>	<u>2002</u>
Future benefit liability (Note 8)	\$ 7,335,612	\$ 7,055,205
Vested sick leave	<u>45,473</u>	<u>44,145</u>
	<u>\$ 7,381,085</u>	<u>\$ 7,099,350</u>

11. **Share capital**

	<u>2003</u>	<u>2002</u>
Authorized		
Unlimited common shares		
Unlimited 7.25% non-cumulative Class A Preference Shares, non-voting, redeemable and retractable at \$100 per share		
Issued		
Issued 1,001 voting common shares	\$ 531,889	\$ 531,889

12. **Pension agreements**

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 100 members of its staff including part time contributing members. The plan is a defined benefit 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.

Phased in contributions of \$118,741 were paid during the year (2002 - no premiums were paid, by the corporation or its employees due to the legislated OMERS premium holiday). Full premiums, estimated at \$410,000, will be payable in 2004.

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

**Notes to the Financial Statements
December 31, 2003**

13. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. These changes do not affect prior year earnings.

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

Financial Statements

Year ended December 31, 2003

AUDITORS' REPORT

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, 2003** 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 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, 2003, 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-MAHEU NOISEUX LLP
Chartered Accountants



FREELANDT CALDWELL REILLY LLP
Chartered Accountants



KPMG LLP
Chartered Accountants

Sudbury, Canada
February 27, 2004

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

Balance Sheet

December 31, 2003 with comparative figures for 2002

	2003	2002
Assets		
Current		
Accounts receivable (note 4)	\$ 274,753	\$ 428,934
Prepaid expenses	6,794	-
Inventory	269,779	200,178
Current portion of other assets	26,250	-
	577,576	629,112
Capital assets (note 5)	3,372,140	3,286,006
Payment in lieu of future taxes (note 6)	48,245	48,245
Other assets (note 7)	236,250	-
	\$ 4,234,211	\$ 3,963,363
Liabilities and shareholder's deficit		
Current		
Accounts payable and accrued liabilities	\$ 79,615	\$ 27,843
Payment in lieu of taxes	-	16
Advances from related parties (note 8)	1,039,356	1,128,435
Promissory note payable (note 9)	2,454,286	2,454,286
Interest payable on promissory note	65,644	65,644
Current portion of long-term debt	43,750	-
	3,682,651	3,676,224
Long term debt (note 10)	196,875	-
Preferred shares (note 11)	860,000	460,000
	4,739,526	4,136,224
Shareholder's deficit		
Share capital (note 12)	1,051,838	1,051,838
Deficit	(1,557,153)	(1,224,699)
	(505,315)	(172,861)
	\$ 4,234,211	\$ 3,963,363

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, 2003 with comparative figures for 2002**

	2003	2002
Revenue		
Bandwidth leases	\$ 2,247,496	\$ 1,752,031
Cost of sales		
World Wide Network Connection	787,233	532,666
Gross profit	1,460,263	1,219,365
Expenses		
Wages and benefits	826,270	663,333
Amortization	523,332	531,020
Administration	186,854	196,808
Leases, materials and maintenance	166,263	244,359
Interest on promissory note payable	178,181	178,181
Repairs and maintenance	47,078	-
Vehicle costs	24,941	26,808
Economic development	8,163	58,183
	1,961,082	1,898,692
Loss before undernoted item and payment in lieu of taxes	(500,819)	(679,327)
Other income:		
Other operating income	152,381	153,411
Gain on sale of capital assets	15,984	-
	168,365	153,411
Loss before payment in lieu of taxes	\$ (332,454)	\$ (525,916)
Payment in lieu of taxes (note 6)	-	-
Net loss	\$ (332,454)	\$ (525,916)

See accompanying notes to financial statements

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

Statement of Deficit

Year ended December 31, 2003 with comparative figures for 2002

	2003	2002
Deficit, beginning of year	\$ (1,224,699)	\$ (698,783)
Net loss	(332,454)	(525,916)
Deficit, end of year	\$ (1,557,153)	\$ (1,224,699)

See accompanying notes to financial statements

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

Cash Flows Statement

Year ended December 31, 2003 with comparative figures for 2002

	2003	2002
Cash flows from operating activities		
Net loss	\$ (332,454)	\$ (525,916)
Adjustment for:		
Amortization	523,332	531,020
Gain on sale of capital assets	(15,984)	-
	174,894	5,104
Change in non-cash working capital items		
Accounts receivable	154,181	(223,996)
Prepaid expenses	(6,794)	-
Inventory	(69,601)	(11,650)
Accounts payable and accrued liabilities	51,772	9,523
Advances from related parties	(89,079)	352,252
Payment in lieu of taxes	(16)	16
	215,357	131,249
Cash flows from investing activities		
Purchase of capital assets	(853,479)	(712,477)
Proceeds on disposal of capital assets	34,780	318
Other assets	(262,500)	-
Contributions in aid of construction	225,217	120,910
	(855,982)	(591,249)
Cash flows from financing activities		
Proceeds from issuance of preferred shares	400,000	460,000
Proceeds from long term debt	240,625	-
	640,625	460,000
Increase in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

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

Notes to the Financial Statements

December 31, 2003

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 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, 2003

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, 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.

(g) Financial instruments

Short-term financial assets and liabilities, including accounts receivable, accounts payable and accrued liabilities, payment in lieu of taxes, 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.

The fair value of the Company's long-term debt, 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. Cash

The Company and its related entities, Greater Sudbury Hydro Inc./Hydro Du Grand Sudbury Inc. and Greater Hydro Plus Inc./Hydro Plus Du Grand 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. Since the concentration account is in the Company's name, the amount owed to or from the related entity is included in advances to (from) related parties (note 8).

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

Notes to the Financial Statements

December 31, 2003

3. **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 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 the Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.

4. **Accounts receivable**

	2003	2002
Trade accounts receivable	\$ 335,753	\$ 548,934
Allowance for doubtful accounts	(61,000)	(120,000)
	<u>\$ 274,753</u>	<u>\$ 428,934</u>

5. **Capital assets**

	2003		2002	
	Cost	Accumulated Amortization	Net	Net
Land	\$ 5,249	\$ -	\$ 5,249	\$ 3,653
Buildings	29,098	1,164	27,934	28,516
Leasehold improvements	19,912	1,991	17,921	-
Office and other equipment	476,107	437,843	38,264	83,377
Fibre optics - cable	3,143,276	637,358	2,505,918	2,486,336
Fibre optics - electronics	2,363,796	1,703,270	660,526	554,647
Fibre optics - tools	67,066	42,782	24,284	30,477
Construction in progress	92,044	-	92,044	99,000
	<u>\$ 6,196,548</u>	<u>\$ 2,824,408</u>	<u>\$ 3,372,140</u>	<u>\$ 3,286,006</u>

Contributions in aid of construction received during the year were \$225,217 (2002 \$120,910). Total cumulative contributions in aid of construction received at December 31, 2003 were \$1,061,391 (2002 \$836,174) with related accumulated amortization of \$127,034 (2002 \$81,766) resulting in a net contra-asset of \$934,357 (2002 \$745,408) which has been offset against the assets to which they relate.

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

Notes to the Financial Statements
December 31, 2003

6. Payment in lieu of future taxes

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

	<u>2003</u>	<u>2002</u>
Payment in lieu of future taxes		
Non-capital loss carry-forwards	\$ 390,495	\$ 258,478
Difference between tax basis and carrying amount of capital assets	159,939	598
	<u>550,434</u>	<u>259,076</u>
Valuation allowance	(502,189)	(210,831)
	<u>\$ 48,245</u>	<u>\$ 48,245</u>

b) The provision for payment in lieu of future taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 36.62% (2002 - 38.62%) to the loss for the years as follows:

	<u>2003</u>	<u>2002</u>
Loss for the year before payment in lieu of future taxes	\$ (332,454)	\$ (525,916)
Anticipated income tax recovery	\$ (121,745)	\$ (203,109)
Increase in valuation allowance	291,358	210,831
Reduction due to reduction in income tax rate	23,413	1,419
Other	(193,026)	(9,141)
Provision for payment in lieu of taxes	<u>\$ -</u>	<u>\$ -</u>

7. Other Assets

During the year, 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 commencing in 2004. The services are valued at \$262,500.

	<u>2003</u>	<u>2002</u>
Other assets	\$ 262,500	\$ -
Less current portion	(26,250)	-
	<u>\$ 236,250</u>	<u>\$ -</u>

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

Notes to the Financial Statements
December 31, 2003

8. 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

	2003	2002
Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc.	\$ 379,879	\$ 618,096
Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.	659,477	510,339
	<u>\$ 1,039,356</u>	<u>\$ 1,128,435</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 totalling \$32,422 (2002 - \$42,974) on these balances by related parties.

9. 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, 2003, the holder has not issued a demand to repay the note.

10. Long Term Debt

During the year, the Corporation acquired land from the City of Greater Sudbury. In settlement of the obligation, the Corporation is supplying dark fibre capacity services for a six year period ending October 15, 2009. The balance of the obligation at year end is as follows:

	2003	2002
Long term debt	\$ 240,625	\$ -
Less current portion	(43,750)	-
	<u>\$ 196,875</u>	<u>\$ -</u>

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

Notes to the Financial Statements
December 31, 2003

11. **Preferred shares**

	<u>2003</u>	<u>2002</u>
Authorized		
Unlimited 7.25% non-cumulative class A preferred shares, non-voting, redeemable and retractable at \$100 per share		
Issued		
8,600 (2002 - 4,600) class A preferred shares	\$ 860,000	\$ 460,000

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

12. **Share capital**

	<u>2003</u>	<u>2002</u>
Authorized		
Unlimited common shares		
Issued		
Issued 1,001 voting common shares	\$ 1,051,838	\$ 1,051,838

13. **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.

14. **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	397,058
	<u>\$ 1,066,344</u>

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

**Notes to the Financial Statements
December 31, 2003**

15. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. These changes do not affect prior year earnings.