



SPECIAL CITY COUNCIL AGENDA

Special City Council Meeting
Tuesday, June 4, 2019
Tom Davies Square - Committee Room C-12

MAYOR BRIAN BIGGER, CHAIR

3:00 p.m. COMMITTEE ROOM C-12

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Your information is collected for the purpose of informed decision-making and transparency of City Council decision-making under various municipal statutes and by-laws and in accordance with the *Municipal Act, 2001, Planning Act, Municipal Freedom of Information and Protection of Privacy Act* and the City of Greater Sudbury's *Procedure By-law*.

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MOMENT OF SILENT REFLECTION

ROLL CALL

DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF

Resolution to temporarily suspend the rules of procedure of the City of Greater Sudbury Procedure By-law 2019-50 for the portion of the Special City Council meeting of June 4, 2019 that relates to those matters on the Greater Sudbury Utilities Inc. portion of the agenda. (Requires Two-Thirds Majority)
(RESOLUTION PREPARED)

GREATER SUDBURY UTILITIES INC. ANNUAL GENERAL MEETING

Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. Annual General Meeting

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1. Meeting called to Order

2. Notice and Confirmation of Quorum

3. Declarations of Conflicts of Interest

4. Minutes

Approval of Minutes of:

(a) Tuesday, June 26, 2018 Annual General Public Shareholder's Meeting of Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. with motion to receive.

5. Reports

(a) Report to the Shareholder for the year 2018.

6. Financial Statements

Annual report and financial statements:

(a) Motion to receive and adopt the consolidated financial statements of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc., for the fiscal year ended December 31, 2018, containing the balance sheet and accompanying statements, together with the auditor's report thereon.

(The Financial Statements were approved and adopted by the Board of Directors of Greater Sudbury Utilities Inc. on April 29, 2019 and submitted to the Shareholder - copy attached.)

(b) Governance Documents, presented by Peter McMullen. GSUI Treasurer and David Brown, Governance Solutions Inc., Motion to approve the proposed Shareholder Declaration.

7. Other Business

(a) To transact such further or other business as may properly come before the meeting or

any adjournment or adjournments thereof.

8. Conclusion – motion to conclude meeting

ADJOURNMENT



RÉUNIONS EXTRAORDINAIRES DU CONSEIL MUNICIPAL

ORDRE DU JOUR

Réunion des Réunions extraordinaires du Conseil municipal

4 juin 2019

Place Tom Davies - Salle de comité C-12

MAYOR BRIAN BIGGER, PRÉSIDENT(E)

15 h SALLE DE RÉUNION C-12

Les réunions du Conseil de la Ville du Grand Sudbury et de ses comités sont accessibles et sont diffusés publiquement en ligne et à la télévision en temps réel et elles sont enregistrées pour que le public puisse les regarder sur le site Web de la Ville à l'adresse <https://agendasonline.greatersudbury.ca>.

Sachez que si vous faites une présentation, si vous prenez la parole ou si vous vous présentez sur les lieux d'une réunion pendant qu'elle a lieu, vous, vos commentaires ou votre présentation pourriez être enregistrés et diffusés.

En présentant des renseignements, y compris des renseignements imprimés ou électroniques, au Conseil municipal ou à un de ses comités, vous indiquez que vous avez obtenu le consentement des personnes dont les renseignements personnels sont inclus aux renseignements à communiquer au public

Vos renseignements sont recueillis aux fins de prise de décisions éclairées et de transparence du Conseil municipal en vertu de diverses lois municipales et divers règlements municipaux, et conformément à la *Loi de 2001 sur les municipalités*, à la *Loi sur l'aménagement du territoire*, à la *Loi sur l'accès à l'information municipale et la protection de la vie privée* et au *Règlement de procédure* de la Ville du Grand Sudbury.

Pour obtenir plus de renseignements au sujet de l'accessibilité, de la consignation de vos renseignements personnels ou de la diffusion en continu en direct, veuillez communiquer avec le Bureau de la greffière municipale en composant le 3-1-1 ou en envoyant un courriel à l'adresse clerks@grandsudbury.ca.

MOMENT DE SILENCE

APPEL NOMINAL

DÉCLARATION D'INTÉRÊTS PÉCUNIAIRES ET LEUR NATURE GÉNÉRALES

Résolution de suspension temporaire des règles de procédure du règlement de procédure de la Ville du Grand Sudbury 2019-50 pour la partie de la réunion extraordinaire du Conseil municipal du 4 juin 2019 qui porte sur les questions sur la partie de l'ordre du jour consacrée aux Services publics du Grand Sudbury inc. (Nécessite la majorité des deux tiers des voix).

(RÉSOLUTION PRÉPARÉE)

ASSEMBLÉE GÉNÉRALE ANNUELLE DE LA SOCIÉTÉ DES SERVICES PUBLICS DU GRAND SUDBURY INC.

Assemblée Générale Annuelle de la Société Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.

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1. Ouverture de la séance

2. Avis et confirmation du quorum

3. Déclarations de conflits d'intérêts

4. Procs Verbal

a) Assemblée générale annuelle publique des actionnaires (mardi 26 juin 2018) de Greater Sudbury Utilities/Services publics du Grand Sudbury.

5. Rapports

a) Rapport à l'Actionnaire pour l'année 2018.

6. États financiers

Rapport annuel et états financiers

a) Motion de recevoir et d'adopter les états financiers consolidés de la société Greater Sudbury Utilities Inc./Services publics du Grand Sudbury Inc., pour l'exercice financier terminé le 31 décembre 2018, contenant le bilan et les états joints, ainsi que le rapport de l'auditeur à ce sujet.

(Les états financiers ont été approuvés et adoptés par le Conseil d'administration de GSU, le 29 avril 2019, puis soumis aux actionnaires – copie ci-jointe.)

b) Documents de gouvernance, présentés par Peter McMullen, trésorier des SPGSI, et David Brown, Governance Solutions Inc., Motion d'approuver la déclaration de l'actionnaire proposée.

7. Questions diverses

Délibération sur toutes autres questions correctement présentées à l'assemblée ou toute

suspension de séance ou tout ajournement de la séance.

8. Conclusion – motion de clôture de l'assemblée

LEVÉE DE LA SÉANCE

For Information Only

Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. Annual General Meeting

Presented To:	Special City Council
Presented:	Tuesday, Jun 04, 2019
Report Date	Tuesday, May 21, 2019
Type:	Greater Sudbury Utilities Inc. Annual General Meeting

Resolution

For Information Only

Signed By

No signatures or approvals were
recorded for this report.

PUBLIC AGENDA

for Annual General Meeting of the Shareholder of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.

**Tuesday, June 4, 2019
3:00 p.m. – Room C-12
Tom Davies Square
200 Brady Street
Sudbury, Ontario
P3A 5P3**

-
- 1. Meeting called to Order**
 - 2. Notice and Confirmation of Quorum**
 - 3. Declarations of Conflicts of Interest**
 - 4. Minutes**

Approval of Minutes of:

- (a) Tuesday, June 26, 2018 Annual General Public Shareholder's Meeting of Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. with Motion to receive.

- 5. Reports**

- (a) Report to the Shareholder for the year 2018 (*Frank*).

- 6. Financial Statements**

Annual report and financial statements:

- (a) Motion to receive and adopt the consolidated financial statements of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc., for the fiscal year ended December 31, 2018, containing the balance sheet and accompanying statements, together with the auditor's report thereon (*Catherine*).

(The Financial Statements were approved and adopted by the Board of Directors of Greater Sudbury Utilities Inc. on April 29, 2019 and submitted to the Shareholder – copy attached.)

- (b) Governance Documents, presented by Peter McMullen. GSUI Treasurer and David Brown, Governance Solutions Inc., Motion to approve the proposed Shareholder Declaration.

- 7. Other Business**

- (a) To transact such further or other business as may properly come before the meeting or any adjournment or adjournments thereof.

- 8. Conclusion – Motion to conclude meeting.**



**MINUTES OF
SPECIAL CITY COUNCIL MEETING AND
ANNUAL GENERAL PUBLIC SHAREHOLDER'S MEETING OF
GREATER SUDBURY UTILITIES INC./SERVICES PUBLICS du GRAND SUDBURY**

Held at the offices of: City of Greater Sudbury
Tom Davies Square, Room C-11
Date of Meeting: Tuesday, June 26, 2018
Time: 3:00 p.m.

The Special City Council Meeting was opened at approximately 3:00 p.m. The meeting was called to order by the City Clerk.

MOMENT OF SILENT REFLECTION

ROLL CALL BY THE CITY CLERK

DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF

Resolution to temporarily suspend the rules of procedure of the City of Greater Sudbury Procedure By-law 2011-235 for the portion of the Special Council Meeting of June 26, 2018 that relates to those matters on the Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. Annual General Meeting portion of the agenda.

RESOLUTION PREPARED, READ AND CARRIED

The Chair of the City Council Meeting invited the Chair of GSU to preside over the GSU Annual General Shareholder's Meeting.

Chair: Councillor Mark Signoretti, Chair of the Board of Greater Sudbury Utilities Inc. in the Chair

Present: Mayor Brian Bigger, Councillors: Gerry Montpellier, Evelyn Dutrisac (arrived 3:07), Robert Kirwan, René Lapierre, Al Sizer, Deb McIntosh, Fern Cormier, Lynne Reynolds

Regrets: Councillors: Michael Vagnini, Mike Jakubo, Joscelyne Landry-Altmann

Also present, with the consent of the meeting:

City Officials: Adam Kosnick, Manager of Regulated Services/Deputy City Clerk

Greater Sudbury Utilities Inc.: Frank Kallonen, President & CEO; Catherine Huneault, Vice President – Corporate Services and CFO; Josey Frescura, Vice President – Competitive Services; Kerry Taylor, Vice President – Engineering & Operations; Dawn Bates, HR Manager; Wendy Watson, Director of Communications, André Thibert, Director GSUI; Peter McMullen, Director GSUI; Josh Lilley, Director GSHI; Claudia Gobeil, Admin. Assistant to GSUI VP-Operations and Engineering; Melanie Richard, Admin. Assistant to GSUI VP-Corporate Services and CFO; Claudia Ghiandoni, Marketing Summer Student, and Cheryl Wilson, Executive Assistant to the President & CEO (acted as Recording Secretary)

Chair

AM#2018-P-01-01

The GSU Public meeting was called to order at approximately 3:00 p.m.

Constitution of Meeting

AM#2018-P-01-02

Notice of this meeting had been duly given to the Shareholder of the Corporation in accordance with the by-laws and a quorum being present, the meeting was declared properly constituted for the transaction of business.

Councillors present were provided with an information package containing the Agenda, Minutes of Special City Council Meeting and Annual General Meeting of Greater Sudbury Utilities Inc./Services publics du Grand Sudbury May 30, 2017, Motion to receive Minutes of May 30,, 2017, Report to Shareholders, 2017, "Investing in What's Next", financial statements to December 31, 2017 and Motion to approve consolidated financial statements to December 31, 2017 and Motion to conclude the Public Annual General Meeting of the Shareholder held on Tuesday, June 26, 2018.

The Chair thanked the Mayor and fellow Councillors for attending the Shareholder AGM as part of a Special Council Meeting allowing GSU to report on various current and future projects. The Chair also thanked his fellow Board members, Directors McMullen, Lilley and Thibert for attending and supporting the GSU Board. The Chair introduced GSU staff in attendance.

Declarations of Conflicts of Interest

AM#2018-P-01-03

No declarations made.

Minutes

AM#2018-P-01-04

After consideration, upon motion duly made, seconded (McIntosh/Cormier) and carried, **IT WAS:**

"RESOLVED THAT the Minutes of the Annual General Public Shareholder's Meeting of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc., held on Tuesday, May 30, 2017, be taken as read, verified and approved."

Annual Report and Financial Statements

AM#2018-P-01-05

The Chair introduced Frank Kallonen, President & CEO of Greater Sudbury Utilities. The President & CEO discussed the accomplishments in 2017 and what to expect in 2018 and beyond. The President & CEO reviewed "Investing in What's Next" Report to the Shareholder, 2017. The President & CEO offered a slightly different approach this year opening the review with the focus on the value of our affiliates and what they bring to both GSU and CGS, statistics for 2017, what we're doing to prepare for the future, interesting project updates and GSU as an employer of choice.

The Affiliate Advantage included information on the GSU non-regulated affiliates @home energy, Agilis Networks and Convergen. Where a dollar went in 2017 in addition to Greater Sudbury Hydro's capital renewal projects were discussed. The report also summarized distribution rate comparisons, positive customer service statistics and GSU safety incidents and observations. Greater Sudbury Hydro energy savers conservation programs through Save on Energy paid incentives in addition to saved kilowatt hours. Future projects include an update on Innovation, The Workshop and the Power Up, A Public Art Project, green transformer boxes reinvented by We Live Up Here, Urban Arts.

The President & CEO introduced Catherine Huneault, VP-Corporate Services and CFO to discuss the GSU Consolidated Financial Statements for the fiscal year ended December 31, 2017. The VP-Corporate Services and CFO summarized the Consolidated Balance Sheet Assets, Liabilities and Shareholder's Equity and Statement of Earnings and Comprehensive Income Revenues and Expenses.

In conclusion, the President & CEO requested any comments or questions.

Councillor McIntosh thanked GSU staff for the presentation and reestablished that the promissory note of \$52 million generates a 7.25 per cent interest rate as stated in the presentation, however also advised that similar municipalities in addition to the interest on a promissory note also collects dividends. A dividend calculated on the value of GSU's assets, would assist CGS's infrastructure deficit. The President & CEO responded that the interest rate that is paid and the interest rate GSU is allowed to collect in the regulated rate is in effect a \$1.4 million dividend. This represents 40 to 50% of the regulated rate of return that GSU is allowed by the Ontario Energy Board (OEB). Councillor McIntosh requested a follow up discussion by year end. The Chair recommended that GSU Staff return to Council by the 4th quarter, 2018 to review the City of Greater Sudbury's investment in the utility compared to other municipalities and further discuss a possible policy regarding a dividend payable to the City of Greater Sudbury.

The Chair thanked the President & CEO and VP Corporate Services & CFO for the presentation to update Council on the positive and new events occurring at GSU and its subsidiaries.

AM#2018-P-01-06

The Chair requested the Shareholder to receive and consider the financial statements for the year ended December 31, 2017, containing the balance sheet and accompanying statements, together with the Auditor's Report thereon. The financial statements were considered and adopted by the Board of Directors of Greater Sudbury Utilities Inc. on April 23, 2018.

After consideration, upon motion duly made, seconded (Reynolds/Kirwan) and carried, **IT WAS:**

“RESOLVED THAT the consolidated financial statements of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc., for the fiscal year ended December 31, 2017, (containing the balance sheet and accompanying statements, together with the auditor's report thereon) be approved.”

Conclusion of Meeting

AM#2018-P-01-07

Upon motion duly made, seconded (McIntosh/Dutrisac) and carried, **IT WAS:**

“RESOLVED THAT this Public Annual General Meeting of the Shareholder of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. held on Tuesday, June 26, 2018 be concluded.”

There being no further business on motion, the meeting then terminated at approximately 3:50 p.m.

Councillor Mark Signoretti, Chair
Chair of the Meeting

Frank Kallonen, President & Secretary

THE CHAIR OF GSU RETURNED THE MEETING TO HIS WORSHIP, MAYOR BRIAN BIGGER, AND THE CITY OF GREATER SUDBURY.

MAYOR BRIAN BIGGER REQUESTED A RESOLUTION TO ADJOURN AT 3:50 P.M.

RESOLUTION WAS CARRIED.



Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.
(hereinafter referred to as the "Corporation")

Motion

MOVED BY _____

No.: _____

SECONDED BY _____

Date: June 4, 2019

RESOLVED THAT the Minutes of the Annual General Public Shareholder's Meeting of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc., held on Tuesday, June 26, 2018, be taken as read, verified and approved.

Carried,

Mark Signoretti, Chair

Consolidated Financial Statements of

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

Year ended December 31, 2018



KPMG LLP
Claridge Executive Centre
144 Pine Street
Sudbury Ontario P3C 1X3
Canada
Telephone (705) 675-8500
Fax (705) 675-7586

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of income and comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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



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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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



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

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

Sudbury, Canada

April 29, 2019

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

Consolidated Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ -	\$ 2,952,672
Accounts receivable (note 3)	11,681,254	10,846,158
Unbilled revenue:		
Distribution	2,153,638	2,179,198
Energy sales	8,634,427	8,777,514
Payments in lieu of taxes recoverable (note 6)	-	645,240
Inventory	172,442	202,504
Prepaid expenses	538,664	835,788
	23,180,425	26,439,074
Restricted cash	324,664	321,055
Property, plant and equipment (note 4)	115,608,079	110,338,208
Intangible assets (note 5)	2,119,987	2,067,718
Deferred payment in lieu of taxes (note 6)	6,822,404	7,211,300
Investment in associate (note 20)	586,020	5,469
Total assets	148,641,579	146,382,824
Regulatory deferral account debit balances (note 7)	4,941,350	4,168,782
Total assets and regulatory balances	\$ 153,582,929	\$ 150,551,606

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Financial Position (continued)

December 31, 2018, with comparative information for 2017

	2018	2017
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank indebtedness	\$ 1,697,005	\$ -
Accounts payable and accrued liabilities	4,827,949	5,228,316
Payment in lieu of taxes (note 6)	242,945	-
Payable for energy purchases	3,720,032	8,493,676
Current portion of deferred revenue (note 18)	439,414	85,087
Current portion of long-term obligations (note 8)	1,335,502	1,412,278
Current portion of finance lease obligations (note 19)	25,262	35,081
	12,288,109	15,254,438
Deferred revenue (note 18)	5,671,866	4,792,145
Promissory note payable (note 16)	52,340,819	52,340,819
Long-term obligations (note 8)	23,125,608	24,586,108
Finance lease obligations (note 19)	-	25,262
Total liabilities	93,426,402	96,998,772
Shareholder's equity:		
Share capital (note 10)	22,431,779	22,431,779
Accumulated other comprehensive income	3,304,124	2,111,535
Retained earnings	21,307,166	17,600,425
	47,043,069	42,143,739
Total liabilities and shareholder's equity	140,469,471	139,142,511
Regulatory deferral account credit balances (note 7)	13,113,458	11,409,095
Commitments and contingencies (note 12)		
Guarantees (note 13)		
	\$ 153,582,929	\$ 150,551,606

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

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

Consolidated Statement of Income and Comprehensive Income

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Revenue (note 11):		
Energy sales	\$ 99,204,797	\$ 104,288,228
Distribution	23,023,347	22,439,241
	122,228,144	126,727,469
Other	18,239,529	16,818,506
	140,467,673	143,545,975
Expenses:		
Cost of energy	97,703,066	103,711,819
Operating and administration	25,795,700	24,930,244
Depreciation of property, plant and equipment	6,651,046	6,580,275
Depreciation of intangible assets	169,809	128,950
Interest on promissory note payable (note 16)	3,794,709	3,794,709
Interest on long-term obligations	851,045	888,361
Loss on disposal of property, plant and equipment	614,283	454,852
	135,579,658	140,489,210
Other income:		
Share of comprehensive income of associate (note 20)	580,552	-
Income before payment in lieu of taxes and regulatory items	5,468,567	3,056,765
Payment in lieu of taxes (recovery) (note 6)	835,827	(236,407)
Net income	4,632,740	3,293,172
Net movement on regulatory balances, net of tax (note 7)	(925,999)	(553,440)
Income for the year after net movements in regulatory balances - net of tax	3,706,741	2,739,732
Other comprehensive income - item that will not be reclassified to income or loss - remeasurement of future benefit obligation, net of tax (note 9)	1,192,589	(1,090,881)
Total comprehensive income	\$ 4,899,330	\$ 1,648,851

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Changes in Equity

Year ended December 31, 2018, with comparative information for 2017

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, January 1, 2017	\$ 22,431,779	3,202,416	14,860,693	40,494,888
Income for the year	-	-	2,739,732	2,739,732
Remeasurement of employee future benefit obligation	-	(1,090,881)	-	(1,090,881)
Balance, December 31, 2017	22,431,779	2,111,535	17,600,425	42,143,739
Income for the year	-	-	3,706,741	3,706,741
Remeasurement of employee future benefit obligation	-	1,192,589	-	1,192,589
Balance, December 31, 2018	\$ 22,431,779	3,304,124	21,307,166	47,043,069

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Comprehensive income	\$ 4,899,330	\$ 1,648,851
Adjustments for:		
Depreciation of property, plant and equipment	6,651,046	6,580,275
Depreciation of intangible assets	169,809	128,950
Payment in lieu of taxes	835,827	(236,407)
Non-cash employee future benefit obligation expense (gain)	(585,321)	2,601,047
Gain on swap contract (note 8)	(76,098)	(191,758)
Equity income of associate	(580,552)	-
Amortization on deferred revenue	(194,286)	(119,602)
Loss on disposal of property, plant and equipment	614,283	454,852
	11,734,038	10,866,208
Change in non-cash operating working capital (note 21)	(2,732,951)	4,770,923
	9,001,087	15,637,131
Payment in lieu of taxes (paid) recovered	40,390	(477,678)
Employee future benefits paid	(558,366)	(552,766)
	8,483,111	14,606,687
Investing activities:		
Purchase of property, plant and equipment	(12,643,752)	(11,557,261)
Purchase of intangibles	(222,078)	(212,823)
Proceeds on disposal of property, plant and equipment	108,552	21,742
Contributions to restricted cash	(3,609)	(2,138)
	(12,760,887)	(11,750,480)
Financing activities:		
Repayment of long-term obligations	(359,044)	(341,460)
Developer contributions received	22,224	45,686
Finance lease repayments	(35,081)	(67,624)
	(371,901)	(363,398)
Increase (decrease) in cash during the year	(4,649,677)	2,492,809
Cash and cash equivalents, beginning of year	2,952,672	459,863
Cash and cash equivalents (bank indebtedness), end of year	\$ (1,697,005)	\$ 2,952,672

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

Greater Sudbury Utilities Inc. / Services Publics du Grand Sudbury Inc. (the Corporation) was incorporated under the Business Corporations Act (Ontario) on October 1, 2000. The incorporation was required in accordance with the Electricity Act, 1998 Ontario (the EA). The Corporation is located in the Greater City of Greater Sudbury. The address of the Corporation's registered office is 500 Regent Street, P.O Box 250/500 rue Regent; CP 250, Sudbury ON P3E 3Y2.

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

The consolidated financial statements comprise the Corporation and its subsidiaries as at and for the year ended December 31, 2018.

1. Basis of presentation:

(a) Statement of compliance:

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

The consolidated financial statements were approved by the Board of Directors on April 29, 2019.

(b) Basis of accounting:

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

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

1. Basis of presentation (continued):

(c) Use of estimates and judgments:

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

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

Note 4 – Property, plant and equipment

Note 9 - Employee future benefits

Note 12 - Commitments and contingencies

(d) Rate regulation:

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

The Corporation was required to bill customers for the debt retirement charge set by the province. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation (OEFC) once each year. Debt retirement charge ended for all electricity users on March 31, 2018. No debt retirement charge is applied to electricity consumed on or after April 1, 2018.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

1. Basis of presentation (continued):

(e) Rate setting:

i) Distribution revenue:

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

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

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

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

ii) Electricity rates:

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant accounting policies:

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

(a) Regulation:

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

(b) Regulatory balances:

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

The Corporation has determined that certain asset and liability balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electricity Distributors. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS standards in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory asset and liability balances on the Corporation's consolidated balance sheet, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB.

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

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant accounting policies (continued):

(b) Regulatory balances (continued):

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

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

Regulatory deferral accounts attract interest at OEB prescribed rates. In 2018, the interest rate was 1.86%. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, the balances are recorded in the Corporation's consolidated statement of income and comprehensive income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the consolidated statement of financial position as regulatory deferral account debit/credit balances and on the consolidated statement of income and comprehensive income as net movements in regulatory balances, net of tax. The netting of regulatory debit and credit balances is not permitted.

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant accounting policies (continued):

(c) Basis of consolidation:

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

- Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc.;
- Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.;
- Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc.;
- 1627596 Ontario Inc.; and
- ConverGen Inc.

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

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

(d) Financial instruments:

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

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

(e) Cash and cash equivalents:

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

(f) Revenue recognition:

i) Energy sales:

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant accounting policies (continued):

(f) Revenue recognition (continued):

i) Energy sales (continued):

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

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

ii) Capital contributions:

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

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

iii) Other revenue:

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant accounting policies (continued):

(f) Revenue recognition (continued):

iv) Conservation programs:

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

(g) Inventory:

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

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

(h) Property, plant and equipment:

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant accounting policies (continued):

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

The estimated useful lives are as follows:

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

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

(i) Intangible assets:

i) Computer software:

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

ii) Land rights:

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant accounting policies (continued):

(i) Intangible assets (continued):

iv) Goodwill:

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

v) Depreciation

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

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

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

(j) Impairment:

i) Financial assets measured at amortized cost:

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant accounting policies (continued):

(j) Impairment (continued):

ii) Non-financial assets:

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

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

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

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

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

(k) Provisions:

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant account policies (continued):

(l) Employee future benefits:

i) Pension plan:

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

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

ii) Post-employment benefits, other than pension:

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

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

(m) Deferred revenue and assets transferred from customers:

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant account policies (continued):

(n) Leased assets:

Leases, where the terms cause the Corporation to assume substantially all the risks and rewards of ownership, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation's consolidated balance sheet. Payments made under operating leases are recognized in income or loss on a straight-line basis over the term of the lease.

(o) Finance income and finance costs:

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

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

(p) Payment in lieu of taxes:

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

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

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant account policies (continued):

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

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

(q) Investment in associates:

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

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

(r) Recent accounting pronouncements:

The Corporation is evaluating the adoption of the following new and revised standards along with any subsequent amendments.

Leases

On January 13, 2016 the IASB issued IFRS 16 *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019 and will replace the existing standard IAS 17. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by the lessor. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Corporation has assessed that there will be no significant impact of IFRS 16 on its results of operations, financial position, and disclosures.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

2. Summary of significant account policies (continued):

(s) Change in accounting policy:

IFRS 15 Revenue from Contracts with Customers

The Corporation has initially applied IFRS 15 Revenue from Contracts with Customers from January 1, 2018 on a retrospective basis. The following practical expedients have been used in the initial application of this new standard:

For completed contracts, the Corporation did not restate contracts that:

- (i) Began and ended within the same annual reporting period; or
- (ii) Were completed at the beginning of January 1, 2017.

IFRS 15 contains a five step model that applies to contracts with customers that specifies that revenue is recognized when or as an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled.

IFRS 9 Financial Instruments

The Corporation has initially applied IFRS 9 Financial Instruments from January 1, 2018 on a retrospective basis. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements.

Despite the retrospective adoption, the accounting policy change did not result in a significant impact to the financial statements. As a result, the Corporation was not required to make any adjustments to the comparative figures upon initial adoption.

3. Accounts receivable:

	2018	2017
Electricity	\$ 8,100,551	8,646,583
Other	4,647,960	3,763,473
	12,748,511	12,410,056
Allowance for doubtful accounts:		
Balance, beginning of year	(1,563,898)	(1,577,489)
Increase in provision	76,849	(588,364)
Accounts receivable write-offs	419,792	601,955
Balance, end of year	(1,067,257)	(1,563,898)
	\$ 11,681,254	10,846,158

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

4. Property, plant and equipment:

Cost or deemed cost:

	Land and Buildings	Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance, January 1, 2017	\$ 13,180,291	76,336,736	28,500,930	2,264,215	120,282,172
Additions	98,808	8,355,079	2,810,874	390,043	11,654,804
Disposals/retirements	-	(2,389,250)	(95,573)	(61,442)	(2,546,265)
Balance, December 31, 2017	13,279,099	82,302,565	31,216,231	2,592,816	129,390,711
Additions	217,132	10,354,927	1,915,934	188,451	12,676,444
Transfers	-	-	-	98,742	98,742
Disposals/retirements	-	(3,786,033)	(289,120)	(66,214)	(4,141,367)
Balance, December 31, 2018	\$ 13,496,231	88,871,459	32,843,045	2,813,795	138,024,530

Accumulated depreciation:

	Land and Buildings	Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance, January 1, 2017	\$ 1,097,218	4,641,930	8,705,205	-	14,444,353
Depreciation charge	438,134	3,070,109	3,072,032	-	6,580,275
Disposals/retirements	-	(1,880,239)	(91,886)	-	(1,972,125)
Balance, December 31, 2017	1,535,352	5,831,800	11,685,351	-	19,052,503
Depreciation charges	444,103	3,320,658	2,886,285	-	6,651,046
Disposals	-	(3,134,417)	(152,681)	-	(3,287,098)
Balance, December 31, 2018	\$ 1,979,455	6,018,041	14,418,955	-	22,416,451

Carrying amounts:

	Land and Buildings	Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
At December 31, 2017	\$ 11,743,747	76,470,765	19,530,880	2,592,816	110,338,208
At December 31, 2018	11,516,776	82,853,418	18,424,090	2,813,795	115,608,079

The Corporation leases equipment under a number of finance lease agreements. The leased equipment secures the lease obligations (see note 19). As at December 31, 2018, the net carrying amount of leased plant and equipment was \$25,262 (2017 - \$60,434).

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Notes to Consolidated Financial Statements

Year ended December 31, 2018

5. Intangible assets:

(a) Cost or deemed cost:

		Computer Software	Goodwill and other	Total
Balance, at January 1, 2017	\$	1,379,412	1,739,760	3,119,172
Additions		205,979	6,845	212,824
Balance, at December 31, 2017		1,585,391	1,746,605	3,331,996
Additions		222,078	—	222,078
Balance, at December 31, 2018	\$	1,807,469	1,746,605	3,554,074

(b) Accumulated depreciation:

		Computer Software	Goodwill and other	Total
Balance, at January 1, 2017	\$	1,060,744	74,584	1,135,328
Depreciation charges		128,950	—	128,950
Balance, at December 31, 2017		1,189,694	74,584	1,264,278
Depreciation charges		169,809	—	169,809
Balance, at December 31, 2018	\$	1,359,503	74,584	1,434,087

		Computer Software	Goodwill and other	Total
At December 31, 2017	\$	395,697	1,672,021	2,067,718
At December 31, 2018		447,966	1,672,021	2,119,987

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6. Payment in lieu of taxes (PILS):

	2018	2017
Current tax	\$ 847,795	144,000
Payment in lieu of future taxes	(11,968)	(380,407)
	<u>\$ 835,827</u>	<u>(236,407)</u>
Rate reconciliation before net movements in regulatory balances:		
Profit before PILS and regulatory items	\$ 5,468,567	3,056,765
Statutory Canadian federal and provincial income tax rate	26.50%	26.50%
PILS using the Corporation's statutory rate	1,449,170	810,043
2014 loss carry back treated as instalment	(41,675)	—
Prior period adjustments	(607,229)	(935,841)
Other	35,561	(110,609)
Payment in lieu of taxes (recovery)	<u>835,827</u>	<u>(236,407)</u>
Effective tax rate (recovery)	<u>15.3%</u>	<u>(7.7)%</u>

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

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

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

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Year ended December 31, 2018

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

Deferred tax assets:

	Plant and Equipment	Employee Benefits	Non-capital loss carried forward/ CMT Credit	Regulatory Adjustment	Other	2017 Total
Balance, January 1	\$ 305,711	2,925,330	631,628	1,643,470	443,893	5,950,032
Change in deferred tax balance	(916,898)	2,048,117	(146,265)	398,958	(122,644)	1,261,268
Balance, December 31	\$ (611,187)	4,973,447	485,363	2,042,428	321,249	7,211,300

7. Regulatory balances:

	January 1, 2018	Balances arising in the period	Recovery/ (reversal)	December 31, 2018
Smart grid/renewable connection (a)	\$ 880,056	28,874		908,930
IFRS deferral (b)	2,274,212	628,002	—	2,902,214
Smart meters/stranded meters (c)	(8,954)	—		(8,954)
Other regulatory assets deferral	339,463	43,484	(231,100)	151,847
LRAM deferral (g)	684,005	303,308	—	987,313
Regulatory assets	\$ 4,168,782	1,003,668	(231,100)	4,941,350
Demand side management costs (d)	\$ 513,952	—	—	513,952
Retail settlement variance deferral accounts (e)	3,052,749	2,168,398	(617,813)	4,603,334
Deferred payment in lieu of taxes (f)	7,842,394	115,149	—	7,957,543
Incremental pole rental revenue	—	38,629	—	38,629
Regulatory liabilities	\$ 11,409,095	2,322,176	(617,813)	13,113,458

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7. Regulatory balances (continued):

	January 1, 2017	Balances arising in the period	Recovery/ (reversal)	December 31, 2017
Smart grid/renewable connection (a)	\$ 716,182	223,802	(59,928)	880,056
IFRS deferral (b)	1,810,248	463,964	—	2,274,212
Smart meters/stranded meters (c)	90,170	—	(99,124)	(8,954)
Other regulatory assets deferral (h)	50,504	288,959	—	339,463
LRAM deferral (g)	433,370	250,635	—	684,005
Regulatory assets	\$ 3,100,474	1,227,360	(159,052)	4,168,782
Demand side management costs (d)	\$ 513,952	—	—	513,952
Retail settlement variance deferral accounts (e)	2,542,857	1,501,977	(992,085)	3,052,749
Deferred payment in lieu of taxes (f)	6,452,629	1,389,765	—	7,842,394
Regulatory liabilities	\$ 9,509,438	2,891,742	(992,085)	11,409,095

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

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

The regulatory balances of the Corporation consist of the following:

a) Smart grid/renewable connection:

The Ontario Government has established objectives for the implementation of a smart grid and renewable connection in Ontario. The Corporation intends to apply for disposition of the balance at a later date, for which timing is currently unknown.

In connection with smart grid and renewable connection activities, the Corporation has reversals amounting to \$15,210 (2017 - \$50,671 in deferred operating expenses) and capital expenditures of \$13,664 (2017 - \$86,287).

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7. Regulatory balances (continued):

b) IFRS conversion:

For the year ended December 31, 2018, the Corporation incurred \$624,722 (2017 - \$461,851) of costs relating to the IFRS-CGAAP transitional property, plant and equipment losses that did not form part of the rate base. These costs have been recorded to regulatory assets as the Corporation expects to obtain recovery of these costs in the future. The Corporation expects to file these costs for disposition at its next cost of service application for which timing of the recovery is currently unknown.

c) Smart meters/stranded meters:

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

The net book value of the stranded meters related to the deployment of the smart meters were reclassified to the regulatory asset account for recovery to the end of April 2017.

d) Demand side management costs:

The Minister of Energy has granted approval to all distributors to apply to the OEB for an increase in their distribution rates, conditional on a commitment by the Corporation to spend an equivalent amount on conservation and demand management initiatives. In 2008, the OEB approved additional conservation and demand management initiatives to be collected and spent over a three year period. The Corporation expects to dispose of these funds for repayment to the rate payers in the next cost of service application for which timing of repayment is currently unknown.

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Notes to Consolidated Financial Statements

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7. Regulatory balances (continued):

e) Retail settlement variances:

Retail settlement variances represent the difference between the amount paid by the Corporation to the Independent Electricity System Operator (IESO) for the cost of energy and the amount billed by the Corporation to its customers as energy sales, and related carrying costs, which are recorded on the consolidated statement of financial position as retail settlement variances until their final disposition is decided by the OEB. The Corporation recognizes retail settlement variances as an asset or liability based on the expectation these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The retail settlement variance liability represents the deficiency of amounts billed by the IESO for the cost of energy compared to the amounts charged to customers as energy sales.

Settlement of the deferral accounts is done on an annual basis through application to the OEB. The net balance of the retail settlement variances must meet a certain threshold in order to dispose of the balances. As the net balance did exceed the threshold for the most recent IRM rate filing, there will be a disposal for the rate period effective May 1, 2019 to April 30, 2020.

f) Deferred payment in lieu of taxes:

This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. As at December 31, 2018, the Corporation has recorded a deferred tax asset of \$7,957,543 (2017 - \$7,842,394) with respect to its rate-regulated activities. In the absence of rate regulation this regulatory balance and the related earnings impact would not be recorded.

For certain of the regulatory assets and liabilities identified above, the expected recovery or settlement period, or likelihood of recovery or settlement is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. The Corporation continually assesses the likelihood of recovery of each of its regulatory assets and refund of each of its regulatory liabilities and continues to believe that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the Corporation determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

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Notes to Consolidated Financial Statements

Year ended December 31, 2018

7. Regulatory balances (continued):

g) LRAM deferral:

The Lost Revenue Adjustment Mechanism (LRAM) variance account was established to capture the variance between the Conservation and Demand Management (CDM) adjustment to a distributor's OEB-approved load forecast and the actual CDM results at the customer rate class level. When disposing of this regulatory asset, the Corporation must provide evidence to the OEB to support the claim.

In relation to the LRAM variance, the Corporation has deferred \$303,308 (2017 - \$250,635).

h) Net movement:

Net movement on regulatory accounts consist of:

	2018	2017
Net movement on regulatory accounts related to income or loss	\$ (819,445)	471,059
Net movement on regulatory accounts from deferred taxes related to income	(516,013)	(508,906)
Net movement on regulatory accounts from deferred taxes related to other comprehensive income	409,459	(515,593)
Total net movement on regulatory accounts	\$ (925,999)	(553,440)

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Notes to Consolidated Financial Statements

Year ended December 31, 2018

8. Long-term obligations:

	2018	2017
Employee future benefit obligation (note 9)	\$ 17,686,339	18,830,026
Loan payable (a)	1,613,000	1,752,000
Swap contract interest (a) and (b)	288,222	364,320
Multiple draw term loan (b)	1,119,553	1,249,652
Customer deposits (d)	2,139,559	2,120,230
Developer contributions (e)	973,983	951,759
Bank loan (c)	640,454	730,399
	24,461,110	25,998,386
Less: current portion	(1,335,502)	(1,412,278)
	\$ 23,125,608	24,586,108

- a) ConverGen Inc. was advanced monies under a reducing term, floating rate facility at a face amount of \$2,800,000 to finance the construction of a landfill gas generation plant. Concurrent with the entry into the loan facility, to mitigate the Corporation's exposure to interest rate risk, the Corporation entered into an International Swaps and Derivatives Association, 2000 Master Agreement. The interest rate swap is used for non-speculative purposes to convert floating rate debt into fixed rate debt bearing interest at 5.97% per annum. The debt facility has a termination date of July 12, 2027 with an optional exit strategy at five, ten and 15 years.

The debt facilities are secured by a general security agreement (GSA) representing a first charge on all of the assets and undertakings of ConverGen Inc. The agreement contains covenants requiring a total debt to total capitalization ratio of less than 50% and an interest coverage ratio of not less than 1.2:1 be maintained by the Corporation and its affiliates: ConverGen Inc., Greater Sudbury Hydro Plus Inc., Greater Sudbury Telecommunications Inc., 1627596 Ontario Inc. and Greater Sudbury Hydro Inc. At year-end these covenants were met.

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

8. Long-term obligations (continued):

- b) On January 14, 2011, Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. was advanced monies under a reducing term, floating rate facility at a face amount of \$2,000,000 to finance the purchase of the smart meters. Concurrent with the entry into the loan facility, to mitigate the Corporation's exposure to interest rate risk, the Corporation entered into an International Swaps and Derivatives Association, 2002 Master Agreement. The interest rate swap is used for non-speculative purposes to convert floating rate debt into fixed rate debt bearing interest at 3.7%. The debt facility has a termination date of January 19, 2026. The facility loaned has a fixed/floating interest swap, 15 years, payable monthly, secured by a general security agreement representing a first charge on all the borrower's assets and undertakings, and an unlimited guarantee of advances executed by the borrower.
- c) The Corporation entered into a financing agreement on January 12, 2015, in the amount of \$971,604. The finance term is 120 months at a fixed interest rate of 4.33% and is secured by the underlying specified assets under financing. Annual payments of \$119,805 are required as a result of this financing facility.
- d) Customer deposits represent cash deposits from electricity distribution customers and retailers. Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.
- e) Upon expansion of the Corporation's electricity distribution customer base, a developer is required to incur the cost to establish any necessary electricity infrastructure. This infrastructure is contributed to the Corporation and the Corporation then assumes the risks and responsibilities associated with the infrastructure. The Corporation is required to perform an analysis of the ongoing economic benefit it receives from the expansion, and a formulaic approach determines if a developer is entitled to recovery of the capital it contributed to the Corporation. These developer contributions represent the Corporation's estimated liability of amounts owed to developers pertaining to these expansions.

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9. Employee future benefits:

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2018 of \$17,686,339 was based on an actuarial valuation completed in 2018 using a discount rate of 3.60%.

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

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

	2018	2017
Employee future benefit obligation, beginning of year	\$ 18,830,026	16,781,745
Current service cost	404,550	350,706
Interest costs	612,177	643,862
Benefits paid during the year	(558,366)	(552,766)
Actuarial losses (gains) recognized in other comprehensive income	(1,602,048)	1,606,479
Employee future benefit obligation, end of year	\$ 17,686,339	18,830,026

Components of net benefit expense recognized are as follows:

	2018	2017
Current service cost	\$ 404,550	350,706
Interest costs	612,177	643,862
Net benefit expense recognized	\$ 1,016,727	994,568

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9. Employee future benefits (continued):

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

	2018	2017
Cumulative amount at January 1	\$ 2,111,535	3,202,416
Recognized during the year	1,192,589	(1,090,881)
Cumulative amount at December 31	\$ 3,304,124	2,111,535

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

	2018	2017
Accrued benefit obligation:		
Discount rate	3.60%	3.30%
Benefit cost for the year:		
Withdrawal rate	4.50%	4.50%
Assumed health care cost trend rates:		
Initial health care cost trend rate	5.78%	5.99%
Cost trend rate declines to year that rate reaches the rate it is assumed to remain at	4.50%	4.50%

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

- General inflation – future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2.00% in 2018, and thereafter (2017 – 2.00%).
- Discount (interest) rate – the discount rate used to determine the present value of future liabilities and the expense for the year ended December 31, 2018, was 3.60% (2017 – 3.30%).
- Salary levels – future general salary and wage levels were assumed to increase at 2% (2017 – 2.00%) per annum.
- Medical costs – medical costs were assumed to be 4.50% for 2018 and 4.5% thereafter.
- Dental costs – dental costs were assumed to be 4.50% for 2018 and 4.5% thereafter.

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10. Share capital:

	2018	2017
Authorized:		
Unlimited common shares		
Issued:		
1,002 common shares	\$ 22,431,779	22,431,779

11. Revenues (in thousands):

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

	2018	2017
Revenue from contracts with customers:		
Energy sales:		
Residential service	\$ 38,563	41,276
General service	59,547	61,907
Other	1,095	1,105
	99,205	104,288
Distribution revenue:		
Residential service	13,751	13,329
General service	8,485	8,334
Other	787	776
	23,023	22,439
Revenue from other sources:		
Conservation recoveries	2,718	2,034
Conservation performance incentive	470	-
Pole rental	560	517
Contracts and rentals	10,960	10,465
Electricity generation	1,399	1,407
Other charges	2,133	2,396
	18,240	16,819
	\$ 140,468	143,546

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12. Commitments and contingencies:

General:

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

General liability insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDS's in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2018, no assessments have been made.

13. Guarantees:

The Corporation has issued a \$9,048,386 letter of guarantee to the IESO. This was a requirement of the IESO for market opening on May 1, 2002. At December 31, 2018, no amounts have been drawn on this letter of guarantee.

14. Pension agreement:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, defined contribution plan benefit with equal contributions by the employer and its employees. In 2018, the Corporation made employer contributions of \$1,188,870 to OMERS (2017 - \$1,176,451).

The Corporation estimates a contribution of \$1,312,359 will be made to OMERS during the next fiscal year.

15. Employee compensation:

	2018	2017
Salaries, wages and benefits	\$ 14,406,745	14,249,795
Contributions to OMERS	1,188,870	1,176,451
	<u>\$ 15,595,615</u>	<u>15,426,246</u>

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16. Related party transactions:

Parent and ultimate controlling party:

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

Transactions with ultimate parent (the City):

During the year, the Corporation paid the City interest on a promissory note totaling \$3,794,709 (2017 - \$3,794,709). The promissory note is repayable in full on six months' written notice of the holder of the note. As at April 29, 2019, the City has informed the Corporation it will not demand repayment of the promissory note within one year.

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

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

Transactions with the ultimate parent relating to the above transactions in 2018 amounted to \$10,826,999 (2017 - \$11,708,003).

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

During the year, the Corporation sold the City water billing administration services and streetlight maintenance services totalling \$1,520,584 (2017 - \$1,551,347) and \$497,976 (2017 - \$528,003), respectively. Included in accounts receivable is \$1,598,008 (2017 - \$1,351,961) on account of these sales.

Included in accounts payable and accrued liabilities is \$932,877 (2017 - \$751,065) relating to amounts collected by the Corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is \$28,974 (2017 - \$32,884) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the Corporation paid \$300,940 (2017 - \$281,935) to the City on account of municipal taxes.

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

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16. Related party transactions (continued):

Key management personnel:

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

	2018	2017
Directors' fees	\$ 53,489	52,204
Salaries and benefits	1,039,418	993,871
	<u>\$ 1,092,907</u>	<u>1,046,075</u>

17. Financial instruments and risk management:

(a) Fair value disclosure:

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

(b) Financial risks:

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

i) Credit risk:

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

The carrying amount of accounts receivable is reduced through the use of an allowance for estimated credit losses and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously provisioned are credited to net income. The balance of the allowance for impairment at December 31, 2018 is \$1,067,257 (2017 - \$1,563,898). An impairment loss of \$496,641 (2017 - \$601,955) was recognized during the year.

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Notes to Consolidated Financial Statements

Year ended December 31, 2018

17. Financial instruments and risk management (continued):

(b) Financial risks (continued):

i) Credit risk (continued):

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2018, approximately \$1,491,128 (2017 - \$1,268,950) is considered 46 days past due. The Corporation has over 47,000 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2018, the Corporation holds security deposits in the amount of \$2,139,559 (2017 - \$2,120,230).

ii) Market risk:

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

iii) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to an \$8,000,000 credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due. As at December 31, 2018, \$1,374,078 (2017 - \$nil) was drawn under the Greater Sudbury Utilities Inc. \$8,000,000 credit facility (2017 - \$8,000,000).

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

iv) Capital disclosures:

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

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2018, shareholder's equity amounts to \$47,043,069 (2017 - \$42,143,739) and long-term debt amounts to \$82,246,068 (2017 - \$81,744,334).

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18. Deferred revenue:

	2018	2017
Contributions in aid of capital (a)	\$ 5,336,192	4,196,427
HOTelecom (b)	89,625	134,437
Dark fibre capacity services (c)	168,215	203,011
Telus (d)	73,591	78,559
1627596 Ontario Inc. deferred revenue (e)	354,327	351,021
Other	89,330	(86,223)
	6,111,280	4,877,232
Less: current portion	(439,414)	(85,087)
	\$ 5,671,866	4,792,145

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

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

19. Obligation under a finance lease:

	2018	2017
Finance lease, secured, fixed rate 4.229%, five-year term	\$ 25,262	60,343
Less: current portion	(25,262)	(35,081)
	\$ —	25,262

Repayment schedule:

2019	\$ 25,262
------	-----------

20. Investment in associate:

At December 31, 2018, the Corporation owns 1 Class A voting share and 46,879 Class B shares of a corporation responsible for conservation programs, representing approximately 32.6% of the outstanding shares. A shareholder of the associate disposed of their shares, resulting in Greater Sudbury Utilities gaining significant influence over the corporation and, therefore, it is accounted for using the equity method. In prior periods, this investment was accounted for utilizing the cost method.

The Corporation's investment in associate is as follows:

	Number of Shares	Amount
Balance, December 31, 2017	46,879	\$ 5,469
Gain on change of equity interest	—	143,087
Share of comprehensive income of associate, for the year ending December 31, 2018	—	437,465
	46,879	580,552
Balance, December 31, 2018	46,879	\$ 586,020

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

Notes to Consolidated Financial Statements

Year ended December 31, 2018

20. Investment in associate (continued):

Summarized financial information of the associate for the year ended December 31, 2018:

	Statement of Financial Position
Current assets	\$ 4,064,127
Non-current assets	44,197
Long-term liabilities	1,306,045
Net assets	1,807,818
	Statement of Income and Comprehensive Income
Net income for the period	\$ 1,342,328
Percentage ownership in associate	32.6%
Share of income	437,465

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

	2018	2017
Accounts receivable	\$ (835,096)	4,031,256
Inventory	30,062	45,025
Deferred revenue related to contributed capital	1,285,358	748,544
Deferred revenue related to other changes	142,976	(48,693)
Unbilled revenue – distribution revenue	25,561	64,344
Unbilled revenue – energy sales	143,087	4,250,861
Customer deposits	19,328	212,460
Payable for energy purchases	(4,773,644)	(3,273,974)
Change in regulatory assets/liabilities	1,217,509	(1,439,275)
Change in deferred tax liability	115,149	1,389,765
Prepaid expenses	297,124	(117,325)
Accounts payable and accrued liabilities	(400,365)	(1,092,065)
	\$ (2,732,951)	4,770,923

22. Comparative information:

Certain of the 2017 comparative information have been restated to conform with the 2018 presentation.



Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.
(hereinafter referred to as the "Corporation")

Motion

MOVED BY _____

No.: _____

SECONDED BY _____

Date: June 4, 2019

RESOLVED THAT the consolidated financial statements of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc., for the fiscal year ended December 31, 2018, (containing the balance sheet and accompanying statements, together with the auditor's report thereon) be received and adopted.

Carried,

Mark Signoretti, Chair

SCHEDULE "A"

**To By-law [INSERT NEW BYLAW NUMBER] of the City of Greater
Sudbury**

BY-LAW [insert new bylaw number]

**A BY-LAW OF THE CITY OF GREATER SUDBURY TO
ADOPT THE SHAREHOLDER DECLARATION FOR
GREATER SUDBURY UTILITIES INC.**

WHEREAS the Council of the City of Greater Sudbury deems it advisable to adopt the
Shareholder Declaration for the Greater Sudbury Utilities Inc.

**NOW THEREFORE THE COUNCIL OF THE CITY OF GREATER SUDBURY HEREBY
ENACTS AS A SPECIAL RESOLUTION OF THE SHAREHOLDER AS FOLLOWS:**

1. The Shareholder Declaration for the Greater Sudbury Utilities Inc., attached hereto as
Schedule "A'1 and forming part of this By-law, is hereby adopted, and may be signed by
the Mayor and clerk on behalf of the Shareholder City.
2. By-law 2008-137 is hereby repealed.
3. This By-law shall come into force and take effect as of [insert date]

READ A FIRST AND SECOND TIME IN OPEN COUNCIL this day of

Mayor (Brian Bigger)

Clerk (Eric Labelle)

**READ A THIRD TIME AND FINALLY ENACTED AND PASSED IN OPEN COUNCIL this
day of**

Mayor (Brian Bigger)

Clerk (Eric Labelle)

[INSERT BY-LAW Number]

SCHEDULE "A"

To By-law [INSERT NEW BYLAW NUMBER] of the City of Greater Sudbury

THE CITY OF GREATER SUDBURY SHAREHOLDER DECLARATION FOR GREATER SUDBURY UTILITIES INC.

1. Definitions and Purpose

- 1.1. Definitions - In this Shareholder Declaration, defined terms have the meanings set out in Appendix "A" attached hereto.
- 1.2. Purpose - This Shareholder Declaration outlines the expectations of the Shareholder relating to the principles of governance and other fundamental principles and policies of the Corporation and in some cases, the Subsidiaries. Except as provided in Sections 6 and 9, this Shareholder Declaration is not intended to constitute a unanimous shareholder declaration under the OBCA or to formally restrict the exercise of the powers of the Board or the board of directors of any Subsidiary.

2. Permitted Business Activities

- 2.1. Subject to the restrictions in Section 9, the Corporation and the Subsidiaries may engage in the business activities which are permitted by any law applicable to the Corporation and the Subsidiaries from time to time, including the *Electricity Act*, and as the Board or board of directors of the Subsidiaries may authorize, including, without limitation, the business activities referred to in Subsection 2.2. In so doing, the Corporation and its Subsidiaries shall conform to all requirements of the Ontario Energy Board, the Independent Electricity System Operator and all other applicable regulatory or governmental authorities.
- 2.2. The Corporation or one or more Subsidiaries may engage in any of the following business activities and such other business activities as may be permitted by law and authorized by the Board or board of directors of any Subsidiary, as applicable, from time to time:
- 2.2.1. Transmitting or distributing electricity;
 - 2.2.2. Owning and/or operating an electricity generation or energy storage facility;
 - 2.2.3. Retailing electricity;
 - 2.2.4. Distributing or retailing gas or any other energy products which is carried through pipes or wires to the user;
 - 2.2.5. Business activities that enhance or develop the ability of the corporation to carry any of the activities described in paragraphs 2.2.1, 2.2.2, 2.2.3, and 2.2.4 above;
 - 2.2.6. Business activities the principal purpose of which is to use more effectively the assets of the Corporation or any Subsidiary, as applicable, including providing

SCHEDULE "A"

To By-law [INSERT NEW BYLAW NUMBER] of the City of Greater Sudbury

- meter installing, and reading services, and providing billing services and business activities in the utilities and telecommunications area;
- 2.2.7. Renting, selling or maintaining equipment and appliances, including without limitation, hot water heaters;
- 2.2.8. Managing or operating, on behalf of the Shareholder, the provision of a public utility or sewage services; and
- 2.2.9. Providing services related to improving energy efficiency.

3. Standards of Governance

- 3.1. As required by the OBCA, the Board and the board of directors of any Non-regulated Subsidiary shall supervise the management of the business and affairs of the Corporation and any Non-regulated Subsidiary, respectively, and in so doing, shall act honestly and in good faith with a view to the best interests of the Corporation or the Non-regulated Subsidiary, respectively, and shall exercise the same degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
- 3.2. In addition, the Shareholder expects the Board and the boards of directors of the Non-regulated Subsidiaries to observe substantially the same standards of corporate governance as may be established from time to time by any applicable regulatory or governmental authority in Canada for publicly traded corporations, in particular CSA National Policy 58-201 and National Instrument 52-110, with such modifications as may be necessary to reflect the fact that the Corporation and each Non-regulated Subsidiary is not a publicly traded corporation. The Board and board of directors of the Non-regulated Subsidiaries are also expected to consider and adopt, as appropriate, recognized sources of governance best practices.
- 3.3. The Board will establish a Shareholder Declaration in respect of Greater Sudbury Hydro Inc. which shall set out the expectations of the Corporation, as the shareholder of Greater Sudbury Hydro Inc., relating to the governance principles and policies of Greater Sudbury Hydro Inc.

4. Board of Directors

- 4.1. Number of Directors - The Corporation shall be governed by the Board which shall consist of a maximum of twelve Directors to be appointed by the Shareholder. The Shareholder shall, by special resolution, or by Shareholder Declaration, designate the number of members of the Board to hold office from time to time. Accordingly, the number of Directors for the Board shall be as follows:
 - 4.1.1. The Board of the Corporation shall be comprised of seven individuals which shall include three City Directors and four Independent Directors, all appointed by Council.

SCHEDULE "A"

To By-law [INSERT NEW BYLAW NUMBER] of the City of Greater Sudbury

The City Directors may include the Mayor or members of Council. The Independent Directors may not be members of Council, City employees or Corporation employees. The directors of GSUI shall also serve as directors on the Boards of the Non-regulated Subsidiary corporations: Greater Sudbury Hydro Plus Inc., Greater Sudbury Telecommunications Inc., Convergen Inc., and 1627596 Ontario Inc.

- 4.1.2. The Shareholder may remove a Director for cause and appoint a new Director in their place.
- 4.1.3. If a Director misses three regularly scheduled meetings of the Board in a twelve month period without prior approval, they shall be deemed to have resigned and their position deemed vacant.
- 4.1.4. All Directors shall remain on the Board(s) until their successors are appointed. This provision shall include the Mayor and municipal councillors, even if their terms on City Council have terminated.
- 4.2. Qualification of Directors - In addition to sound judgment and personal integrity, the qualifications of candidates for the Board will be identified by the Corporation from time to time using a Board Skills Matrix with a gap analysis, including experience and skills such as:
 - 4.2.1. Awareness of public policy issues related to the Corporation or a Subsidiary, as applicable;
 - 4.2.2. Business expertise (including retail experience);
 - 4.2.3. Experience on boards of commercial corporations;
 - 4.2.4. Financial, legal, engineering, IT, accounting and/or marketing experience;
 - 4.2.5. Regulated industry knowledge including, but not limited to, knowledge of municipal electric utilities; and
 - 4.2.6. Knowledge and experience with risk management strategy.
- 4.3. Residency - Preference may be given to qualified candidates for the Board who are residents of the City of Greater Sudbury or of the Municipality of West Nipissing, however, non-residents shall not be excluded from serving as Board members.
- 4.4. Chair and Vice-Chair Position - The Board may elect its own Chair and Vice-Chair.
- 4.5. Board Committees - The Board may establish committees of the Board at its discretion. The Shareholder anticipates that the Board may establish the following committees:
 - 4.5.1. Audit and Finance Committee to oversee financial reporting and associated policies and practices;
 - 4.5.2. Human Resources, Governance and Nominating Committee to oversee senior management compensation, evaluation and succession, corporate governance policies and practices, and to identify, evaluate and recommend potential Independent Director Board candidates to the Shareholder.
- 4.6. Independent Director Nominations - The Shareholder shall consider candidates for the Board nominated by the Human Resources, Governance and Nominating Committee. It is expected that the committee will develop a process which takes into account the

SCHEDULE "A"

To By-law [INSERT NEW BYLAW NUMBER] of the City of Greater Sudbury

qualifications identified in the Board Skills Matrix (4.2) to identify, evaluate and recommend the most qualified candidates to the Shareholder.

4.7. Appointment of Directors - In selecting the directors to be appointed to the Board, the Shareholder shall take into account the qualifications identified in the Board Skills Matrix (4.2) and the candidates nominated by the Human Resources, Governance and Nominating Committee.

4.8. Meetings of the Board - If requested by the Shareholder, the Board shall invite certain employees of the City, identified by the Shareholder, to attend meetings of the Board and meetings of the boards of the Non-regulated Subsidiaries. Such City employees shall not be entitled to vote on any matter. A majority of the number of directors required by this Shareholder Declaration constitutes a quorum at any meeting of the Board or meeting of the boards of the Non-regulated Subsidiaries.

5. Financial Policies, Risk Management and Strategic Plan

5.1. Policies - The Shareholder expects that the Board will develop and maintain policies consistent with best practices in corporate governance, including:

- 5.1.1.1. Capital Structure - a prudent financial and capitalization structure for the Corporation and its Subsidiaries consistent with industry norms and sound financial principles, established on the basis that the Corporation and its Subsidiaries are intended to be self-financing entities;
- 5.1.1.2. Dividends - a policy relating to enhancing Shareholder value by generating a reasonable return consistent with a prudent financial and capitalization structure and maintaining just and reasonable rates, while providing for dividends to be paid to the Shareholder from the Corporation.
- 5.1.1.3. Risk Management - oversee the management of all risks related to the business conducted by the Corporation and its Subsidiaries, through the adoption of appropriate risk management strategies and internal controls consistent with industry norms;
- 5.1.1.4. Strategic Plan - a long range strategic plan for the Corporation and its Subsidiaries which is consistent with the maintenance of a viable, competitive business and preserves the value of the business for the Shareholder;
- 5.1.1.5. Directors' Compensation - to set remuneration levels of board members of the Corporation and its non-regulated Subsidiaries, using independently researched comparator benchmarks; and
- 5.1.1.6. Environmental Policy - a long range environmental policy which provides that the Corporation and its Subsidiaries operate in a safe and environmentally responsible manner.

6. Decisions of the Shareholder and Shareholder Representatives

SCHEDULE "A"

To By-law [INSERT NEW BYLAW NUMBER] of the City of Greater Sudbury

6.1. The Shareholder hereby designates the Mayor and the City Clerk as the legal representatives of the Shareholder (the "Shareholder Representative") for purposes of communicating to the Board pursuant to Subsection 6.2 any consent or approval required by this Shareholder Declaration or by the OBCA otherwise.

6.2. Approvals or decisions of the Shareholder required pursuant to this Shareholder Declaration or the OBCA shall require a resolution or by-law of Council and shall be communicated in writing to the Board and signed by the Shareholder Representative.

7. Meetings and Annual Resolution

7.1. The Shareholder shall receive notification of all meetings of the Board of Directors of the Corporation and any Subsidiary and a copy of the agenda for the meeting.

7.2. Within six months after the end of each fiscal year of the Corporation:

7.2.1. Annual Report to Meeting of Council - the Board shall report to a meeting of Council and the President and CEO of the Corporation shall attend such meeting and provide such information concerning the Corporation and its Subsidiaries as is appropriate.

7.2.2. Annual Resolutions:

7.2.2.1. The Shareholder shall consider candidates for the Board as proposed by the Nominating Committee and the appointment of the auditors of the Corporation and receive the audited financial statements of the Corporation for the last completed fiscal year; and

7.2.2.2. The Shareholder shall appoint the necessary members of the Board and appoint the auditors for the Corporation and complete such other business as would normally be completed at an annual meeting of shareholder under the OBCA.

8. Reporting on Major Developments

8.1. The Board shall from time to time report to Council on major business developments or materially significant or adverse results as the Board, in its discretion, considers appropriate and such report may be received and considered by the Shareholder at an open or in camera meeting of Council.

SCHEDULE "A"

To By-law [INSERT NEW BYLAW NUMBER] of the City of Greater Sudbury

9. Matters Requiring Shareholder Approval

9.1. Without Shareholder approval given in accordance with Section 6, the Corporation or any Subsidiary, respectively, shall not:

Statutory Approval Right

- 9.1.1. Change the name of the Corporation or a Subsidiary; add, change or remove any restriction on the business of the Corporation or a Subsidiary; create new classes of shares; or in any other matter amend its articles of incorporation or make, amend or repeal any by-law;
- 9.1.2. Amalgamate with any other corporation(s), other than amalgamations that may, under the OBCA, be approved by a resolution of directors;
- 9.1.3. Take or institute proceedings for any winding up, arrangement, or dissolution of the Corporation or a Subsidiary;
- 9.1.4. Apply to continue as a corporation under the laws of another jurisdiction;

Additional Approval Rights

- 9.1.5. Issue, or enter into any agreement to issue, any shares of any class, or any securities convertible into any shares of any class, of the Corporation or a Subsidiary;
- 9.1.6. Redeem or purchase any outstanding shares of the Corporation or a Subsidiary;
- 9.1.7. Take on or assume any financial obligation which would materially increase the debt/equity ratio of the Corporation and its Subsidiaries on a consolidated basis above the ratio of 60/40;
- 9.1.8. Sell assets of the Corporation or a Subsidiary or purchase assets with an aggregate value in excess of 15% of the Consolidated Book Value of all assets of the Corporation and its Subsidiaries;
- 9.1.9. Materially alter the nature of or geographic extent of the business of the Corporation or any of its Subsidiaries in a manner which would have a financial impact equal to or greater than 15% of the consolidated Book Value of all assets of the Corporation and its Subsidiaries;
- 9.1.10. Enter into a joint venture, partnership, strategic alliance or other venture, including ventures in respect of the generation or co-generation of electricity which would require an investment, or which would have a financial impact, equal to or greater than 15% of the consolidated Book Value of all assets of the Corporation and its Subsidiaries.

SCHEDULE "A"

**To By-law [INSERT NEW BYLAW NUMBER] of the City of Greater
Sudbury**

10. Revisions to this Declaration

- 10.1. The Shareholder acknowledges that this Shareholder Declaration may be revised from time to time as circumstances may require and that the Shareholder will consult with the Board prior to completing any revision and will promptly provide the Board with copies of such revision.

11. This declaration replaces all earlier versions of the Declaration for the Corporation.

DATED at Sudbury, Ontario the [insert date] day of [Insert Date]

CITY OF GREATER SUDBURY

By: Brian Bigger, Mayor

By: Eric Labelle, Clerk

SCHEDULE "A"

To By-law [INSERT NEW BYLAW NUMBER] of the City of Greater Sudbury

APPENDIX "A"

DEFINITIONS AND INTERPRETATIONS

In this Shareholder Declaration the following defined terms have the meaning set out below:

"Act" means the Electricity Act, 1998 (Ontario);

"Board" means the board of directors of the Corporation;

"Chair" means the chair of the Board;

"City" means the City of Greater Sudbury;

"City Clerk" means the Clerk of the City of Greater Sudbury;

"Consolidated Book Value" of all assets of the Corporation and its Subsidiaries shall be the values reported in the audited consolidated financial statements of the corporation and its subsidiaries at the end of its most recently completed fiscal year;

"Corporation" means Greater Sudbury Utilities Inc. incorporated pursuant to Section 142 of the Act;

"Council" means the city Council of the City of Greater Sudbury;

"Debt" includes all debt obligations owed to third party creditors, but excludes all debt obligations owed to the Shareholder;

"Independent Directors" shall have the meaning set out in Section 4 of this Shareholder Declaration;

"Mayor" means the Mayor of the City of Greater Sudbury;

"OBCA" means the Business Corporations Act (Ontario);

"President and CEO" means the president and chief executive officer of the Corporation;

"Shareholder" means the City of Greater Sudbury;

"Shareholder Declaration" means this shareholder declaration;

"Shareholder Representative" shall have the meaning set out in Subsection 6.1;

"Subsidiaries" means the subsidiary corporations (as defined in the OBCA) of the Corporation;

"Non-regulated Subsidiaries" means any subsidiary of the Corporation, except Greater Sudbury Hydro Inc.; and

"Vice-Chair" means the vice-chair of the Board.



Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.
(hereinafter referred to as the "Corporation")

Motion

MOVED BY _____

No.: _____

SECONDED BY _____

Date: June 4, 2019

RESOLVED THAT the proposed Shareholder Declaration be approved.

Carried,

Mark Signoretti, Chair



Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.
(hereinafter referred to as the "Corporation")

Motion

MOVED BY _____

No.: _____

SECONDED BY _____

Date: June 4, 2019

RESOLVED THAT this Public Annual General Meeting of the Shareholder of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. held on Tuesday, June 4, 2019 be concluded.

Carried,

Mark Signoretti, Chair