

Non-Consolidated Financial Statements of

**KINGSTON ELECTRICITY
DISTRIBUTION LIMITED**

Year ended December 31, 2002

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Non-Consolidated Financial Statements

Year ended December 31, 2002

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AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the non-consolidated balance sheet of Kingston Electricity Distribution Limited as at December 31, 2002 and the non-consolidated statements of earnings, retained earnings and cash flows for the year then ended. These non-consolidated financial statements have been prepared for use by the Company's management in complying with regulatory filing purposes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in note 1 to the non-consolidated financial statements.

These non-consolidated financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, were prepared for use by the Company's management in complying with regulatory filing purposes. These non-consolidated financial statements may not be appropriate for any other purpose.

KPMG LLP

Chartered Accountants

Kingston, Canada
June 27, 2003



KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Non-Consolidated Balance Sheet

December 31, 2002, with comparative figures for 2001

	2002	2001
Assets		
Current assets:		
Cash	\$ 497,687	\$ 3
Due from City of Kingston (note 6(b))	1,218,588	4,464,000
Accounts receivable	598,415	124,045
Due from retailers	2,157,547	—
Recoverable payments in lieu of corporate income taxes	67,403	31,000
Unbilled revenue	9,562,667	3,711,184
Inventory	768,615	790,939
Prepaid expenses	106,314	78,400
	14,977,236	9,199,571
Incorporation costs, net	142,558	160,377
Regulatory assets (note 5)	3,318,442	85,470
Capital assets (note 2)	20,034,279	20,568,953
Notes receivable from subsidiary (note 3)	3,000,000	2,750,000
Investment in subsidiary	2	2
Total assets	\$ 41,472,517	\$ 32,764,373
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank loan (note 11)	\$ 5,000,000	\$ —
Accounts payable	8,486,411	5,775,556
Accrued liabilities	195,785	242,086
Total current liabilities	13,682,196	6,017,642
Retailer deposits	66,736	—
Regulatory liabilities (note 5)	64,825	201,378
Note payable to City of Kingston (note 4)	12,380,619	12,380,619
Employee future benefits (note 7)	940,796	918,708
	27,135,172	19,518,347
Shareholder's equity:		
Share capital:		
Authorized:		
Unlimited Class A common shares		
Issued:		
120 Class A common shares	12,380,619	12,380,619
Retained earnings	1,956,726	865,407
Total shareholder's equity	14,337,345	13,246,026
Contingencies (notes 8 and 9)		
Total liabilities and shareholder's equity	\$ 41,472,517	\$ 32,764,373

See accompanying notes to non-consolidated financial statements.

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Non-Consolidated Statement of Earnings

Year ended December 31, 2002, with comparative figures for 2001

	2002	2001
Sales	\$ 53,619,495	\$ 48,022,827
Cost of power (note 5)	53,619,495	48,022,827
	-	-
Local distribution revenue	8,190,517	6,778,879
Other revenue:		
Account set-up charge	34,275	34,955
Pole rentals	107,998	182,780
Interest	380,758	365,268
Miscellaneous	124,681	336,171
	647,712	919,174
	8,838,229	7,698,053
Operating expenses:		
Administration	1,766,875	1,688,135
Billing and collecting	1,493,807	1,191,735
Distribution	1,694,390	1,604,783
Customer services	219,334	454,583
	5,174,406	4,939,236
Earnings before interest, depreciation and income taxes	3,663,823	2,758,817
Interest expense	990,988	897,596
Depreciation and amortization	1,407,252	1,307,143
Earnings before income taxes	1,265,583	554,078
Payments in lieu of corporate income taxes	174,264	125,000
Net earnings for the year	\$ 1,091,319	\$ 429,078

See accompanying notes to non-consolidated financial statements.

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Non-Consolidated Statement of Retained Earnings

Year ended December 31, 2002, with comparative figures for 2001

	2002	2001
Retained earnings, beginning of year	\$ 865,407	\$ 436,329
Net earnings for the year	1,091,319	429,078
Retained earnings, end of year	\$ 1,956,726	\$ 865,407

See accompanying notes to non-consolidated financial statements.

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Non-Consolidated Statement of Cash Flows

Year ended December 31, 2002, with comparative figures for 2001

	2002	2001
Operations:		
Net earnings	\$ 1,091,319	\$ 429,078
Items not involving cash:		
Depreciation	1,389,433	1,289,327
Amortization of incorporation costs	17,819	17,816
Net change in non-cash operating working capital:		
Decrease in due from City of Kingston	3,245,412	4,839,220
Increase in accounts receivable	(474,370)	(13,625)
Increase in due from retailers	(2,157,547)	-
Decrease (increase) in recoverable payments in lieu of corporate income taxes	(36,403)	(31,000)
Decrease (increase) in unbilled revenue	(5,851,483)	54,964
Decrease in inventory	22,324	59,348
Increase in prepaid expenses	(27,914)	(78,400)
Increase in regulatory assets	(3,232,972)	(54,184)
Increase (decrease) in accounts payable and accrued liabilities	2,664,554	(195,850)
Increase in retailer deposits	66,736	-
Increase (decrease) in regulatory liabilities	(136,553)	201,378
Increase in employee future benefits	22,088	22,532
Net change in cash from operations	(3,397,557)	6,540,604
Financing:		
Note receivable from subsidiary	(250,000)	(2,750,000)
Investments:		
Purchase of capital assets	(854,759)	(3,790,604)
Decrease in cash and cash equivalents	(4,502,316)	-
Cash and cash equivalents, beginning of year	3	3
Cash and cash equivalents (bank indebtedness), end of year	\$(4,502,313)	\$ 3
Cash and cash equivalents (bank indebtedness) is made up of the following:		
Cash	\$ 497,687	\$ 3
Bank loan	(5,000,000)	-
	\$(4,502,313)	\$ 3

The Company considers cash and cash equivalents to be highly liquid investments with original maturities of three months or less.

See accompanying notes to non-consolidated financial statements.

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002

The principal business of Kingston Electricity Distribution Limited (formerly 1425446 Ontario Limited) is to distribute electric power to the residents of the City of Kingston and to manage the City's electric power system. The business is primarily regulated by the Ontario Energy Board through the issuance of licenses which require compliance with established market rules and codes. The Company is wholly-owned by the Corporation of the City of Kingston.

1. Significant accounting policies:

(a) Basis of presentation:

These non-consolidated financial statements have been prepared for management for use by management in complying with regulatory filing requirements. As these non-consolidated financial statements have not been prepared for general purposes, some users may require further information.

The basis of accounting used to prepare these non-consolidated financial statements, materially differs from the Canadian generally accepted accounting principles because the Company's investment in its subsidiary company is accounted for using the cost method. The Company has also distributed to its shareholders consolidated financial statements prepared for the same period in accordance with Canadian generally accepted accounting principles. Accounting policies adopted by the Company are also guided by regulatory legislation as defined by the Ontario Energy Board.

(b) Rate setting:

Kingston Electricity Distribution Limited is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

As part of the transition to a competitive electricity market, Kingston Electricity Distribution Limited applied for and was granted by the OEB adjustments in its rates. In order to achieve a proper matching of revenue and expenses for the distribution of electricity, accounting methods may differ from those otherwise expected under Canadian generally accepted accounting principles for non rate-regulated businesses:

- (i) Costs incurred in respect of deregulation of the electricity industry in Ontario, have been deferred pursuant to regulations underlying the Electricity Act, 1998, ("EA") and are subject to review and approval for recovery by the OEB.
- (ii) An amount to represent the cost of funds used during construction and development has been applied based on the value of construction-in-progress.
- (iii) The Company provides for amounts in lieu of corporate income taxes using the taxes payable method for its regulated business activities.

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2002

1. Significant accounting policies (continued):

(b) Rate setting (continued):

- (iv) The Company has deferred recognizing certain pre-market opening cost of power variances and post-market opening retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.

(c) Revenue recognition:

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue, representing customer usage from the date of each customer's last meter reading until the end of the fiscal year. Actual results could differ from estimates made of actual electricity usage.

Services and other revenue are recognized as services are rendered or contract milestones are achieved.

(d) Inventories:

Inventories are valued at the lower of cost and replacement cost, with cost determined on an average cost basis.

(e) Capital assets:

Capital assets are stated at cost. Depreciation is provided on the straight-line basis using the following annual rates:

Asset	Rate
Buildings	2.00%
Underground distribution system	4.00%
Substation equipment	3.33%
Line transformers and meters	4.00%
Overhead distribution system	4.00%
Transmission system	4.00%
System supervisory equipment	6.67%
Meters	4.00%
Tools	10.00%
Software	20.00%

Capital work-in-progress comprises capital assets under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed. An allowance for the cost of funds used during the construction period has been applied. The rate applied for the current period is 7.25% (2001 – 7.25%).

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2002

1. Significant accounting policies (continued):

(f) Contributed capital:

Amounts recovered from customers on capital projects are recorded as a capital asset contra account and amortized on a straight-line basis at the same rate used for amortization of the related property and equipment.

(g) Incorporation costs:

Incorporation costs are recorded at cost, net of accumulated amortization. Amortization is provided on a straight-line basis over ten years.

(h) Regulatory assets and liabilities:

Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in rates. Conversely, regulatory liabilities represent variances between amounts billed to consumers in excess of respective costs. Regulatory assets and/or liabilities are comprised principally of the following:

Transition costs – represent costs related to the transition to a competitive electricity market, mandated by the Electricity Act, 1998. The OEB has established rules in respect of transition costs, to qualify amounts for deferral and amortization against future revenue. To the extent that transition costs have been incurred that do not qualify for deferral, these costs have been expensed during the period in which they were incurred.

Pre-market Opening Cost of Power Variances – represent accumulated variances between the cost of power purchased by the Company and the amount billed for this power prior to the market opening. The OEB directed utilities to accumulate such variances in the period leading up to market opening.

Post-market Opening Retail Settlement Variances – represent accumulated variances that have occurred since May 1, 2002 when the competitive electricity market was declared open and that have accumulated pursuant to direction from the OEB. Specifically, these amounts include:

- (i) variances between the amount charged by the Independent Market Operating ("IMO") for the operation of the markets and grid, as well as various wholesale market settlement charges, transmission charges as compared to the amount billed to consumers based on the OEB approved wholesale market services rate; and
- (ii) variances between the amounts charged by the IMO to allow for purchases of imported power as compared to the amounts billed to consumers based on the OEB approved rates.

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2002

1. Significant accounting policies (continued):

(h) Regulatory assets and liabilities (continued):

In December, the Electricity Pricing, Conservation and Supply Act, 2002 ("Bill 210") was passed into law. Provisions of this legislation have effectively capped distribution rates until 2006. As a result, the Company will not be able to apply for recovery of transition costs expected to commence with the 2003 rates. Bill 210 directed utilities to continue deferral of transition and energy variance accounts until their review by the OEB. In a January 23, 2003 letter to the electricity distributors, the Minister of Energy indicated that he will ask the OEB to complete, before the end of 2003, a review to confirm the costs to be recovered, with recovery to commence no later than 2006.

The Company believes it is probable that the regulatory assets will be recovered through future rates. However, uncertainty as to full recovery is greater than before enactment of Bill 210. The likelihood of recovery of regulatory assets will be assessed on a regular basis. In the event that recovery from future rates is no longer considered probable or portions of those amounts deferred are determined not to be recoverable, such amounts will be expensed in the period this determination is made.

(i) Investment in subsidiary:

The Company is the sole voting shareholder of 1425445 Ontario Limited, a shared-services business, incorporated to provide support services to the Company and to various infrastructure businesses of the City of Kingston. Investment in 1425445 Ontario Limited is reported using the cost method under which the investment is carried at the cost thereof and net earnings of 1425445 Ontario Limited are reflected only to the extent of any dividend received.

(j) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Accounts receivable, unbilled revenue, and regulatory assets are stated after evaluation of amounts expected to be collected or recovered and an appropriate allowance for doubtful accounts.

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2002

1. Significant accounting policies (continued):

(j) Measurement uncertainty (continued):

Measurement uncertainty is elevated due to difficulties the Company has encountered in exchanging information with other market retailer participants. The market rules require the Company to settle transactions daily with each participating retailer. These difficulties are primarily due to application of new business systems by all market participants due to the recent opening of the retail electricity market.

Due to inherent uncertainty involved in making estimates, actual results could differ from those estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the Ontario Energy Board and Minister of Energy. Any adjustments to the estimates made will be recorded in the year they are identified.

(k) Payments in lieu of corporate income taxes ("PILs"):

The Company is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Commencing October 1, 2001 and pursuant to the Electricity Act ("EA"), 1998, the Company is required to compute taxes under the ITA and OCTA and remit such amounts thereunder to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as PILs under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

The Company provides for PILs using the taxes payable method because the Company's billing rates charged to customers are based on the taxes payable method.

(l) Employee future benefits:

The Company accounts for its participation in the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer public sector pension fund, as a defined contribution plan.

The Company accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2002

2. Capital assets:

	2002			2001		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 197,343	\$ —	\$ 197,343	\$ 197,343	\$ —	\$ 197,343
Buildings	440,637	50,412	390,225	440,637	35,278	405,359
Transmission system	1,486,098	333,823	1,152,275	1,486,097	242,924	1,243,173
Substation equipment	2,352,090	383,496	1,968,594	2,260,686	252,757	2,007,929
Distribution system:						
Overhead	6,606,268	798,899	5,807,369	5,053,055	475,108	4,577,947
Underground	4,804,982	967,658	3,837,324	4,342,053	631,437	3,710,616
Transformers	2,704,498	438,736	2,265,762	2,618,473	282,760	2,335,713
Meters	2,172,621	379,219	1,793,402	2,069,041	248,627	1,820,414
Tools	284,379	118,327	166,052	183,685	76,781	106,904
System supervisory equipment	1,842,687	362,776	1,479,911	1,400,304	218,682	1,181,622
Application software	102,207	30,907	71,300	52,324	10,465	41,859
Capital work in progress	904,722	—	904,722	2,940,074	—	2,940,074
Total	\$23,898,532	\$ 3,864,253	\$20,034,279	\$23,043,772	\$ 2,474,819	\$20,568,953

3. Notes receivable from subsidiary:

During the year, an additional amount of \$250,000 was transferred to 1425445 Ontario Limited, operating as Utilities Kingston, to finance the cash requirements of the Broadband Community Networking Business Plan. The total note receivable of \$3,000,000 (2001 - \$2,750,000) bears interest at prime plus 0.5% and has no fixed terms of repayment.

4. Note payable to City of Kingston:

In consideration for transfer of the City of Kingston's electricity distribution business, the City of Kingston took back a note payable on January 1, 2000, for an amount equivalent to 50% of the value of net assets transferred. The note payable, in the amount of \$12,380,619, bears interest at 7.25% per annum and has no fixed terms of repayment.

5. Regulatory assets and liabilities:

Regulatory assets are comprised of:

	2002	2001
Transition costs	\$ 3,140,187	\$ 85,470
Pre-market opening cost of power variances	178,255	—
Total regulatory assets	\$ 3,318,442	\$ 85,470

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2002

5. Regulatory assets and liabilities (continued):

Regulatory liabilities are comprised of:

	2002	2001
Pre-market operating cost of power variances	\$ -	\$ 201,378
Post-market opening retail settlement variances	64,825	-
Total regulatory liabilities	\$ 64,825	\$ 201,378

6. Related party transactions:

(a) 1425445 Ontario Limited (operating as Utilities Kingston):

During the year, the Company paid \$10,150,385 (2001 - \$10,549,685) to 1425445 Ontario Limited (operating as Utilities Kingston) for support services and capital works. 1425445 Ontario Limited is a shared-services business incorporated to provide support services to both the Company and to various infrastructure businesses of the City of Kingston. The Company is the sole voting shareholder of 1425445 Ontario Limited.

(b) City of Kingston:

During the year, the Company contracted financial services from the City of Kingston. As at December 31, 2002, the Company had an amount due from the City of Kingston representing the net balance of cash receipts and disbursements processed on behalf of the Company in the amount of \$1,218,588 (2001 - \$4,464,000).

Charges for the above services are recorded at exchange amounts established and agreed to by the related parties.

7. Employee future benefits:

(a) Pension plan:

The former Hydro-Electric Commission of the Company of the City of Kingston entered into agreements in 1995 with a number of former employees on non-contributory defined benefit pension plans. An actuarial report based upon the pension agreements indicates that the present value of the accrued pension benefits as at December 31, 2002 is \$90,013 (2001 - \$100,734).

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2002

7. Employee future benefits (continued):

(b) Extended health care, dental and life insurance benefits:

The Company provides extended health care, dental and life insurance benefits to its employees. An independent actuarial study of the post-retirement and post-employment benefits has been undertaken. The most recent valuation update of the employee future benefits was completed as at December 31, 2002. The next full valuation of the plan will be effective January 1, 2003.

At December 31, 2002, the Company's accrued benefit obligation relating to post-retirement and post-employment benefit plans is \$850,783 (2001 - \$817,974).

The significant actuarial assumptions adopted in estimating the Company's accrued benefit obligation are as follows:

Discount rate	6.0% per annum
Salary escalation	4.0% per annum
Dental benefits escalation	5.0% per annum
Health benefits escalation	10.0% per annum in 2001, decreasing to 5.0% over 15 years

Information with respect to the Company's post-retirement and post-employment benefit obligations is as follows:

	2002	2001
Accrued benefit liability, January 1, 2002	\$ 817,974	\$ 781,919
Expense recognized for the period	85,593	85,739
Benefits paid for the period	(52,784)	(49,684)
Accrued benefit liability, December 31, 2002	\$ 850,783	\$ 817,974

8. General liability insurance:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE) which is a pooling of general liability risks. Members of MEARIE would be assessed, on a pro-rata basis, based on the total of their respective deposit premiums should losses be experienced by MEARIE that are in excess of their reserves and supplemental insurance, for the years in which the Company, and the former Hydro-Electric Commission, has been a member. The Company has not been made aware of any additional assessments.

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2002

9. Contingent liabilities:

- (a) The nature of the Company's activities is such that there may be litigation pending or is prospect at any time. With respect to claims at December 31, 2002, management believes there are valid defenses and appropriate insurance coverages in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the financial position.
- (b) A class action claiming \$500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

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

The Electricity Distributors Association is undertaking the defense of this class action. At this time, it is not possible to quantify the effect, if any, on the financial statements of the Company. Losses, if any, arising from this matter, will be accounted for in the year in which the case is resolved.

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2002

10. Payments in lieu of corporate income taxes:

The provision for amounts in lieu of corporate income taxes ("PIL's") differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

	2002	2001
Federal and Ontario statutory income tax rate	38.6%	40.6%
Income before provision for PIL's	\$ 1,265,583	\$ 554,078
Provision for PIL's at statutory rate	\$ 488,515	\$ 224,956
Increase (decrease) resulting from:		
Capital cost allowance less than (in excess of) depreciation and amortization	(350,157)	61,387
Large Corporations Tax	70,794	8,762
Ontario Capital Tax	78,000	15,033
Tax effect of income earned prior to date when Company became subject to PIL's	—	(204,168)
Tax effect of transition costs deducted for tax purposes	(73,655)	—
Tax effect of other miscellaneous adjustments	(39,233)	19,030
Provision for PIL's	\$ 174,264	\$ 125,000
Effective income tax rate	13.8%	22.6%

Based on substantively enacted income tax rates, the potential benefit of unrecorded future income tax assets arising substantially from differences between accounting and tax values for capital assets is \$1,009,400 (2001 - \$1,299,600). This would result in a 2002 total future tax expense of \$290,200. However, future income taxes relating to the regulated businesses would not have been recorded in the accounts, as there is uncertainty as to whether the Company would have been able to retain these benefits. The Company was not subject to amounts in lieu of corporate income taxes prior to October 2001.

KINGSTON ELECTRICITY DISTRIBUTION LIMITED

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2002

11. Bank loan and letter of credit:

A revolving bank loan of \$5,000,000 was drawn on December 10, 2002 with interest at the bank's prime rate.

In addition, a three-year term loan of \$3,000,000 was negotiated with interest at the bank's prime rate, with no amount drawn as of December 31, 2002.

On April 12, 2002, to comply with requirements of the Independent Market Operator, as the new supplier of energy to the wholesale electricity market, Kingston Electricity Distribution Limited is required to post security prudentials determined in relation to the Company's credit rating. A Letter of Credit in the amount of \$9,132,436 for a one-year term was provided and subsequently renewed to April 11, 2004.

12. Financial instruments:

The carrying values of cash, due from City of Kingston, accounts receivable, due from retailers, income taxes receivable/payable, unbilled revenue, bank loan, accounts payable and accrued liabilities approximate their fair value due to the short-term maturity of these investments. The carrying value of the notes receivable from subsidiary and the note payable to City of Kingston approximates fair value primarily due to the market rate of returns attached to the instruments.

13. Comparative figures:

Certain 2001 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2002.