

PETERBOROUGH DISTRIBUTION INC.
CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2001

PETERBOROUGH DISTRIBUTION INC.
CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2001

TABLE OF CONTENTS

	<u>Page Number</u>
AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Balance Sheet	2
Statement Of Retained Earnings (Deficit)	3
Statement Of Income	4
Statement Of Cash Flows	5
Notes To The Financial Statements	6 to 11

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF PETERBOROUGH DISTRIBUTION INC.

We have audited the consolidated balance sheet of the Peterborough Distribution Inc. as at December 31, 2001 and the consolidated statements of retained earnings (deficit), income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and the results of its operations and changes in its cash flows for the year then ended in accordance with the accounting principles disclosed in note 1 to the financial statements.

Peterborough, Ontario
March 11, 2002

Chartered Accountants

PETERBOROUGH DISTRIBUTION INC.**CONSOLIDATED BALANCE SHEET****At December 31, 2001**

	2001 \$	2000 \$
ASSETS		
CURRENT		
Cash	900	-
Due from Peterborough Utilities Services Inc. - Note 5	2,172,394	3,692,987
Accounts receivable	2,868,332	1,426,085
Unbilled revenue on customer accounts	4,390,018	3,611,859
Inventory	822,817	818,866
Income taxes recoverable	34,000	-
Prepaid expenses	3,554	-
Deposits paid - Note 6	-	257,500
	10,292,015	9,807,297
CAPITAL - Note 2	41,289,080	39,510,148
DEFERRED TRANSITION COSTS	688,610	248,244
	52,269,705	49,565,689
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued charges		
Ontario Power Generation Inc.	5,414,751	5,222,534
Other	1,061,995	682,447
Customer deposits refundable within one year - Note 3	273,342	182,868
	6,750,088	6,087,849
LONG TERM LIABILITIES - Note 3	23,453,303	21,990,013
SHAREHOLDER'S EQUITY		
Stated capital - Note 4	21,657,680	21,657,680
Retained earnings (deficit)	408,634	(169,853)
	22,066,314	21,487,827
	52,269,705	49,565,689

Approved By The Board,

_____, Director

_____, Director

The accompanying notes are an integral part of this financial statement.

PETERBOROUGH DISTRIBUTION INC.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

For The Year Ended December 31, 2001

	2001 \$	2000 \$
BALANCE , beginning of year	(169,853)	-
Net income (loss) for the year	578,487	(169,853)
BALANCE , end of year	408,634	(169,853)

The accompanying notes are an integral part of this financial statement.

PETERBOROUGH DISTRIBUTION INC.

CONSOLIDATED STATEMENT OF INCOME

For The Year Ended December 31, 2001

	2001 \$	2000 \$
REVENUE FROM SALE OF ENERGY	58,654,216	52,480,650
COST OF ENERGY PURCHASED	50,309,786	46,131,863
GROSS MARGIN	8,344,430	6,348,787
EXPENSES		
Operations	1,407,642	1,104,641
Administration	3,643,192	3,243,355
Amortization	2,254,889	2,258,785
	7,305,723	6,606,781
	1,038,707	(257,994)
OTHER INCOME (EXPENSE)		
Other operating income	792,960	510,841
Interest income	119,656	256,580
Interest expense	(1,351,836)	(679,280)
	(439,220)	88,141
INCOME BEFORE PROVISION FOR INCOME TAXES	599,487	(169,853)
PROVISION FOR INCOME TAXES - Note 1	21,000	-
NET INCOME (LOSS) FOR THE YEAR	578,487	(169,853)

The accompanying notes are an integral part of this financial statement.

PETERBOROUGH DISTRIBUTION INC.**CONSOLIDATED STATEMENT OF CASH FLOWS**
For The Year Ended December 31, 2001

	2001 \$	2000 \$
CASH PROVIDED (USED IN)		
OPERATING ACTIVITIES		
Net income (loss) for the year	578,487	(169,853)
Add: charges in operations not requiring a current cash payment		
Amortization	2,254,889	2,258,785
	2,833,376	2,088,932
Increase in customer deposits	53,764	515,201
Net change in non-cash working capital balances related to operations (as summarized below)	87,947	(3,902,316)
	2,975,087	(1,298,183)
INVESTING ACTIVITY		
Net additions to capital assets	(4,033,821)	(41,768,933)
Deferred transition costs	(440,366)	(248,244)
	(4,474,187)	(42,017,177)
FINANCING ACTIVITIES		
Issuance of note payable	1,500,000	21,657,680
Issuance of common shares	-	21,657,680
	1,500,000	43,315,360
NET INCREASE IN CASH DURING THE YEAR	900	-
CASH POSITION - BEGINNING OF YEAR	-	-
CASH POSITION - END OF YEAR	900	-
Net change in non-cash working capital balances related to operations		
Due from Peterborough Utilities Services Inc.	1,520,593	(3,692,987)
Accounts receivable	(1,442,247)	(1,426,085)
Unbilled revenue	(778,159)	(3,611,859)
Inventories	(3,951)	(818,866)
Deposits paid	257,500	(257,500)
Income taxes recoverable	(34,000)	-
Prepaid expenses	(3,554)	-
Accounts payable and accrued charges	571,765	5,904,981
	87,947	(3,902,316)

The accompanying notes are an integral part of this financial statement.

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2001

NATURE OF ORGANIZATION

Peterborough Distribution Inc. is a regulated electricity distribution company. The Company was formed in 1999 in response to various reorganizational requirements under the provincial government's Electricity Competition Act (Bill 35). The affiliated companies of Peterborough Distribution Inc. are:

The Peterborough Call Centre Inc.,
Peterborough Utilities Services Inc.,
Peterborough Utilities Inc., and
Campbellford/Seymour Electric Generation Inc.

All of the above companies and Peterborough Distribution Inc. are wholly owned by the City of Peterborough Holdings Inc. which, in turn, is wholly owned by the Corporation of the City of Peterborough.

Under the authority of a City of Peterborough by-law, the former Peterborough Utilities Commission transferred, at book-value, certain assets and liabilities to the new corporations (Note 4). The Company remained inactive between the incorporation date and the date of transfer January 1, 2000.

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Peterborough Distribution Inc. and its wholly owned subsidiaries Asphodel-Norwood Distribution Inc. and Lakefield Distribution Inc. All inter-company accounts and transactions have been eliminated.

Basis of Presentation

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada except for accounting for transition costs as explained below.

Regulation

The Company 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 all distribution companies fulfill obligations to connect and service customers. In its capacity to approve or set rates, the OEB has the authority to specify regulatory treatments that differ from Canadian generally accepted accounting principles ("GAAP") for enterprises operating in a non-regulated environment.

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

Amortization of the deferred transition costs will commence upon opening of the competitive electricity markets on May 1, 2002. The OEB will establish the timing and mechanism for the recovery of these transition costs and at that time the Company will establish an amortization policy for such costs. Under Canadian GAAP, the operating costs would be recorded as an expense when incurred.

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2001

.....2

1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenue Recognition

Revenue is recorded using the accrual basis of accounting, as energy is consumed by customers. Unbilled revenue at the balance sheet date is for the estimated power supplied but not billed to customers between the date the meters were last read and the end of the year.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the year. Actual results could differ from these estimates.

Inventory

Inventories consist of distribution system maintenance and construction materials and are valued at the lower of moving average cost and replacement cost.

Capital Assets

Capital assets are recorded at cost and include labour, materials, engineering and contracted services.

The cost and related accumulated amortization for identifiable capital assets, such as substations, remain in the accounts until the assets are retired or disposed of at which time any gain or loss is reflected in operations. Capital assets which are recorded on a group basis, such as meters, are removed from the accounts only at the end of their estimated service lives.

Amortization is provided annually on a basis designed to amortize the assets over their estimated useful lives as follows:

Substations	25 - 40 years straight-line
Overhead lines	20 - 25 years straight-line
Underground lines	20 - 25 years straight-line
Transformers	17 - 25 years straight-line
Meters	17 - 25 years straight-line
Plant equipment	4 - 5 years straight-line
Water heater controllers	10 years straight-line

Customer Deposits

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits. Interest is paid on customer balances at rates established from time to time by the Company.

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2001

.....3

1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Risk Management

The estimated fair value of the company's financial assets and liabilities approximates carrying value. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks. See note 3 for information pertaining to long term liabilities.

Income Taxes

As a municipally owned utility, the Company has been exempt from corporate income tax. Effective October 1, 2001, the Company is required to make payments in lieu of corporate taxes to the Ministry of Finance.

Future Income Taxes

Income taxes are calculated using the taxes payable method of tax accounting permitted under GAAP for rate-regulated enterprises. Temporary differences arising from the difference between the tax basis of an asset and its carrying amount on the balance sheet are not reflected in the Company's financial statements.

2. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value	
	\$	\$	2001	2000
			\$	\$
Land	134,522	-	134,522	99,030
Buildings	207,629	3,972	203,657	-
Substations	1,419,129	102,308	1,316,821	1,206,489
Overhead lines	16,161,626	1,407,496	14,754,130	13,008,486
Underground lines	14,382,961	1,361,558	13,021,403	13,044,906
Transformers	9,272,636	1,082,220	8,190,416	7,825,743
Meters	2,258,258	261,413	1,996,845	1,911,381
Water heater controllers	1,473,948	292,875	1,181,073	1,307,956
Other capital assets	31,611	1,832	29,779	-
Construction in progress	460,434	-	460,434	1,106,157
	45,802,754	4,513,674	41,289,080	39,510,148

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2001

.....4

3. LONG TERM LIABILITIES

	2001 \$	2000 \$
Demand loan from City of Peterborough Holdings Inc. bearing interest at 6.175% (2000 - 6%)	21,657,680	21,657,680
Demand loan from the Corporation of the City of Peterborough bearing interest at bank prime less 1¼%	1,500,000	-
Customer deposits	568,965	515,201
	23,726,645	22,172,881
Less: customer deposits due within one year	273,342	182,868
	23,453,303	21,990,013

Interest expense on the demand loans for the year ended December 31, 2001 was \$1,350,180 (2000 - \$649,730). There are no specific terms for repayment of the demand loans.

4. STATED CAPITAL

Effective January 1, 2000 the Corporation of the City of Peterborough (the "City") approved a by-law which transferred specific assets from the previous Peterborough Utilities Commission - Electric Utility to Peterborough Distribution Inc. The City received consideration in the form of a note receivable for \$21,657,680 and common shares in exchange for the assets transferred. The transfers were recorded at net book value.

\$

Assets and Liabilities Transferred

Cash and cash equivalents	3,750,000
Accounts receivable and prepaids	3,355,033
Unbilled revenue	3,157,350
Inventory and prepaid expenses	1,118,463
Capital assets	37,516,696
Less: liabilities assumed	(5,582,183)

Assets Transferred Less Liabilities Assumed

43,315,359

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2001

.....5

4. STATED CAPITAL - (Continued)

\$

Consideration Received By The City

Note payable	21,657,680
999 common shares	21,657,679

43,315,359

In addition 1 common share was issued November 19, 1999 for consideration of \$1

Authorized and Issued Capital Stock at December 31, 2001

Authorized

- unlimited number of common shares
- unlimited number of preferred shares

Issued

- 1000 common shares for consideration of \$21,657,680

5. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions between related parties. The Company provides electricity and services to the principle shareholder of its parent company, the City of Peterborough. Electrical energy is sold to the City at the same prices and terms as other electricity customers. During the year, the Company also engaged in transactions in the normal course of operations with affiliate companies. Energy purchases in the amount of \$953,861 were provided by Peterborough Utilities Inc. Building rent, software and equipment rental, professional services and other charges were paid to Peterborough Utilities Services Inc. A summary of these charges is as follows:

Administrative services	\$2,728,492
Capital expenditures	1,191,010
Operating costs	985,718
Building rent	421,469
Software and equipment rental	519,764

In addition, Peterborough Utilities Services Inc. maintains a bank account and short term investments on behalf of the related group. Amounts due to each company are maintained in the accounting records. Interest earned on short term investments is accrued as earned. The amount due from Peterborough Utilities Service Inc. at December 31, 2001 consisted of cash of \$2,172,394.

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended December 31, 2001

..... 6

6. ACQUISITIONS

Pursuant to a share purchase agreement dated November 3, 2000, on September 28, 2001, the Company purchased all of the issued and outstanding shares of Lakefield Distribution Inc. A deposit of \$182,500 paid in 2000 has been applied to the purchase price. Additional acquisition costs of \$26,898 have been added to the purchase price for a total of \$1,851,898.

Pursuant to a share purchase agreement dated November 3, 2000, on September 28, 2001, the Company purchased all of the issued and outstanding shares of Asphodel-Norwood Distribution Inc. for \$750,000. A deposit of \$75,000 paid in 2000 has been applied to the purchase price. Additional acquisition costs of \$6,757 have been added to the purchase price for a total of \$756,757.

7. INCOME TAX

The Company has available \$406,000 of losses for income tax purposes that can be used to reduce taxable income of future years. The future benefit of these loss carryforwards has not been recognized in these financial statements. If not used to reduce taxable income, these losses will expire in 2008.

The Company has a future income tax asset of \$142,000. This asset is determined by calculating the temporary differences arising from the difference between the tax basis of an asset and its carrying amount on the balance sheet. Future income tax assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. This asset has not been recognized in these financial statements.

8. CONTINGENCIES

(a) The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

(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 electrical 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 Municipal Electric Association is undertaking the defense of this class action. At this time it is not possible to quantify the effect, if any, on these financial statements.

(c) As a condition of the restructuring of the Peterborough Utilities Commission in 2000, the Corporation of the City of Peterborough advanced funds to the parent of the Company, Peterborough Holdings Inc. All of the Company's assets have been pledged as security provided for the borrowing. The Company has also provided an unlimited guarantee related to the indebtedness of the City of Peterborough Holdings Inc., its subsidiaries and affiliate companies.