

PETERBOROUGH DISTRIBUTION INC.

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2003

PETERBOROUGH DISTRIBUTION INC.
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TABLE OF CONTENTS

	<u>Page Number</u>
AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Balance Sheet	2
Statement Of Retained Earnings	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, 2003 and the consolidated statements of retained earnings, 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, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow

Peterborough, Ontario
February 27, 2004

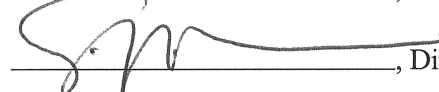
Chartered Accountants

PETERBOROUGH DISTRIBUTION INC.**CONSOLIDATED BALANCE SHEET**
At December 31, 2003

	2003 \$	2002 \$
ASSETS		
CURRENT		
Cash	-	900
Due from Peterborough Utilities Services Inc. - Note 2	3,190,492	-
Accounts receivable	3,844,198	4,038,966
Unbilled revenue on customer accounts	1,224,900	1,337,841
Inventory	765,960	890,258
	9,025,550	6,267,965
PROPERTY, PLANT AND EQUIPMENT - Note 3	41,541,033	41,031,041
REGULATORY ASSETS - Note 4	5,205,841	6,881,614
	55,772,424	54,180,620
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued charges	6,935,436	6,623,332
Due to Peterborough Utilities Services Inc. - Note 2	-	830,082
Income taxes payable	570,829	306,300
Customer deposits refundable within one year - Note 5	259,469	248,706
	7,765,734	8,008,420
LONG TERM LIABILITIES - Note 5	23,613,650	23,676,524
SHAREHOLDER'S EQUITY		
Stated capital - Note 6	21,657,680	21,657,680
Retained earnings	2,735,360	837,996
	24,393,040	22,495,676
	55,772,424	54,180,620

Approved By The Board,


, President


, 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, 2003

	2003 \$	2002 \$
BALANCE , beginning of year	837,996	408,634
Net income for the year	2,716,047	429,362
Dividends paid on common shares	(818,683)	-
BALANCE , end of year	2,735,360	837,996

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

PETERBOROUGH DISTRIBUTION INC.**CONSOLIDATED STATEMENT OF INCOME**
For The Year Ended December 31, 2003

	2003 \$	2002 \$
REVENUE - Note 8	13,231,779	12,058,726
EXPENSES		
Operations	1,380,636	1,548,697
Administration	3,789,514	4,097,908
Amortization	2,548,242	2,377,169
	7,718,392	8,023,774
	5,513,387	4,034,952
OTHER INCOME (EXPENSE)		
Other income	508,610	519,051
Interest income	494,657	292,008
Interest expense	(1,674,800)	(1,699,456)
Other expense - Note 9	(211,779)	(2,257,790)
	(883,312)	(3,146,187)
INCOME BEFORE PROVISION FOR INCOME TAXES	4,630,075	888,765
PROVISION FOR INCOME TAXES - Note 1	1,914,028	459,403
NET INCOME FOR THE YEAR	2,716,047	429,362

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, 2003

	2003 \$	2002 \$
CASH PROVIDED (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	2,716,047	429,362
Add: charges in operations not requiring a current cash payment		
Amortization	2,548,242	2,377,169
	5,264,289	2,806,531
Increase (decrease) in customer deposits	(52,111)	198,585
Net change in non-cash working capital balances related to operations (as summarized below)	(3,011,934)	5,307,018
	2,200,244	8,312,134
INVESTING ACTIVITY		
Additions to property, plant and equipment	(3,069,684)	(2,119,130)
Decrease (increase) in regulatory assets	1,675,773	(6,193,004)
Proceeds from disposal of equipment	11,450	-
	(1,382,461)	(8,312,134)
FINANCING ACTIVITIES		
Dividends paid on common shares	(818,683)	-
NET INCREASE IN CASH DURING THE YEAR	(900)	-
CASH POSITION - BEGINNING OF YEAR	900	900
CASH POSITION - END OF YEAR	-	900
Net change in non-cash working capital balances related to operations		
Due from Peterborough Utilities Services Inc.	(4,020,574)	3,002,476
Accounts receivable	194,768	(1,167,080)
Unbilled revenue	112,941	3,052,177
Inventories	124,298	(67,441)
Accounts payable and accrued charges	405,206	146,586
Income taxes payable (recoverable)	171,427	340,300
	(3,011,934)	5,307,018
OTHER CASH FLOW INFORMATION		
Interest paid	1,674,801	1,699,456
Income tax paid	1,831,597	153,991

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, 2003

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.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

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 significant inter-company balances and transactions have been eliminated.

Electricity Regulation

The company is subject to rate regulation by the Ontario Energy Board (OEB). The following regulatory policies are practiced in a rate regulated environment.

(a) Regulatory Assets

Regulatory assets consist of market ready costs and retail settlement variance accounts. These costs are deferred for accounting purposes because it is probable that they will be recovered in future rates. Regulatory assets recognized at December 31, 2003 are disclosed in Note 4.

The Company continually assesses the likelihood of the recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

The Minister of Energy has granted approval for distributors to make application to the OEB with regard to rate recovery of certain distribution regulatory assets. As a result of the Company's distribution rate application dated January 23, 2004, these regulatory assets are expected to be recovered over a four-year period, effective March 1, 2004. However, the amount to be recovered will be subject to a yet to be determined OEB review and approval process, expected to occur later in 2004.

(b) Corporate Income Taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation (OEFC). The Company provides for payments in lieu of corporate income taxes using the taxes payable method. Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers at that time.

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2003

.....2

1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenue Recognition

In accordance with the Ontario Energy Board regulations, the company recognizes as revenue the regulated distribution service charges associated with the distribution of energy.

In addition to the distribution services charges, the customer electricity bills include, transmission charges, non-competitive energy charges, debt retirement and electricity commodity charges. These additional charges are flow through amounts and are not considered as revenue to the Company. The Company acts as a billing and collecting agent for other market participants.

Revenue is recorded using the accrual basis of accounting, as energy is consumed by customers. Unbilled revenue is the estimated distribution revenue earned but not invoiced 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.

Property, Plant And Equipment

Property, plant and equipment are recorded at cost and include labour, materials, engineering and contracted services.

The cost and related accumulated amortization for identifiable property, plant and equipment, 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. Property, plant and equipment which are recorded on a group basis, such as meters, are removed from the accounts only at the end of their estimated service lives.

In circumstances where external customers are required to make specific contributions to fund the construction and installation of specific fixed assets, the Company nets the customer contributions against the acquisition cost. Customer contributions in aid of construction received by the Company were \$1,237,740 (2002 - \$555,285).

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

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2003

.....3

1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

2. 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. Professional services were provided to Peterborough Utilities Services Inc. for an amount of \$19,528. Energy purchases in the amount of \$1,366,069 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	\$2,722,283
Capital expenditures	1,517,057
Operating costs	992,716
Building rent	432,187
Software and equipment rental	550,708

In addition, Peterborough Utilities Services Inc. maintains a bank account on behalf of the related group. Amounts due to each company are maintained in the accounting records. Interest is accrued as earned. The amount due to Peterborough Utilities Services Inc. at December 31, 2003 consisted of cash of \$3,190,142 (2002 - \$830,082 payable).

3. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value	
			2003 \$	2002 \$
Land	134,522	-	134,522	134,522
Buildings	207,629	14,354	193,275	198,466
Substations	1,604,261	218,370	1,385,891	1,261,684
Overhead lines	18,476,441	3,086,324	15,390,117	14,796,301
Underground lines	15,260,272	2,810,119	12,450,153	12,575,939
Transformers	10,258,762	2,176,568	8,082,194	7,999,998
Meters	2,538,908	527,931	2,010,977	1,962,287
Other	1,541,920	600,257	941,663	1,047,678
Construction in progress	952,241	-	952,241	1,054,166
	50,974,956	9,433,923	41,541,033	41,031,041

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2003

.....4

4. REGULATORY ASSETS

The company has recorded the following regulatory assets.

	2003 \$	2002 \$
Retail settlement variance accounts	4,989,340	6,665,113
Deferred transition costs	212,766	212,766
Other	3,735	3,735
	5,205,841	6,881,614

Regulatory assets arise as a result of the rate-setting process as described in Note 1. The Company has also incurred pre-market opening variances of \$1,369,813 which are not reflected in the regulatory assets due to uncertainty of recovery. In addition, an amount of \$1,099,755 has been provided as an allowance against deferred transition costs. The Company intends to recover these items and all other regulatory assets through future rate applications.

5. LONG TERM LIABILITIES

	2003 \$	2002 \$
Demand loan from City of Peterborough Holdings Inc. bearing interest at 7.25% (2002 - 7.25%)	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	1,500,000
Customer deposits	715,439	767,550
	23,873,119	23,925,230
Less: customer deposits due within one year	259,469	248,706
	23,613,650	23,676,524

Interest expense on the demand loans for the year ended December 31, 2003 was \$1,621,757 (2002 - \$1,613,980). There are no specific terms for repayment of the demand loans.

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2003

.....5

6. STATED CAPITAL

Authorized

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

Issued

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

7. FINANCIAL INSTRUMENTS

The estimated fair value of the Company's financial assets and liabilities approximates carrying value. Financial assets held by the Company expose it to credit risk. As at December 31, 2003, there are no significant concentrations of credit risk with respect to any class of financial assets. The Company earns its revenue from a broad base of customers. As at December 31, 2003, there were no significant balances of accounts receivable due from any single customer.

8. ELECTRICITY DISTRIBUTION SERVICE CHARGES

	2003 \$	2002 \$
Customer billing for electricity and distribution service charges	63,681,544	71,128,788
Premarket opening energy	-	19,126,163
Energy	32,888,091	27,660,061
Transmission	7,247,298	5,113,058
Non-competitive energy charges	5,158,450	4,354,586
Debt retirement charge	5,155,926	2,816,194
	50,449,765	59,070,062
Total electricity distribution service charges	13,231,779	12,058,726

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2003

.....6

9. OTHER OPERATING EXPENSE

Other operating expenses consist of an allowance for specific transition costs and variance accounts for which there is uncertainty related to their recovery from future rate submissions. These costs, if recovered will be recorded in the period in which they are received.

10. FUTURE INCOME TAXES

During the year, Asphodel-Norwood Distribution Inc., a subsidiary, utilized \$19,575 of loss carryforwards to reduce income for tax purposes. The loss carryforward balance at December 31, 2003 was \$nil.

The Company has a future income tax asset of \$552,900. 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.

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

12. 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.

During 2002, the company and its subsidiaries secured an operating line in the amount of approximately \$9 million which consists of an operating line up to \$3.7 million and \$5.3 million letters of guarantee issued to the Independent Electricity Market Operator. As security, the company and its subsidiaries have provided a general security agreement over the assets of the company and its subsidiaries. As a condition of the financing arrangement, the shareholder has provided a subordination agreement to the bank which postpones and subordinates its Creditor Security in favour of the bank.