

PETERBOROUGH DISTRIBUTION INC.
NON-CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2002

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AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF PETERBOROUGH DISTRIBUTION INC.

We have audited the non-consolidated balance sheet of the Peterborough Distribution Inc. as at December 31, 2002 and the non-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 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 Canadian generally accepted accounting principles, except that they are prepared on a non-consolidated basis, explained in Note 1.

Peterborough, Ontario
March 17, 2003

Collins Barrow

Chartered Accountants

PETERBOROUGH DISTRIBUTION INC.

NON-CONSOLIDATED BALANCE SHEET

At December 31, 2002

	2002 \$	2001 \$
ASSETS		
CURRENT		
Due from Peterborough Utilities Services Inc. - Note 2	-	1,129,449
Accounts receivable	3,680,245	2,619,549
Unbilled revenue on customer accounts	7,465,848	4,250,235
Inventory	890,258	822,817
Income taxes recoverable	-	14,000
	12,036,351	8,836,050
CAPITAL - Note 3	39,310,671	39,722,607
INVESTMENTS - Note 4	2,608,655	2,608,655
REGULATORY ASSETS - Note 5	857,866	659,850
	54,813,543	51,827,162
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued charges	6,707,313	6,010,997
Due to Peterborough Utilities Services Inc. - Note 2	1,399,195	-
Income taxes payable	296,000	-
Customer deposits refundable within one year - Note 6	240,218	258,097
	8,642,726	6,269,094
LONG TERM LIABILITIES - Note 6	23,647,215	23,444,664
SHAREHOLDER'S EQUITY		
Stated capital - Note 7	21,657,680	21,657,680
Retained earnings	865,922	455,724
	22,523,602	22,113,404
	54,813,543	51,827,162

Approved By The Board,

_____, Director

_____, Director

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

PETERBOROUGH DISTRIBUTION INC.

NON-CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT) For The Year Ended December 31, 2002

	2002 \$	2001 \$
BALANCE , beginning of year	455,724	(169,853)
Net income for the year	410,198	625,577
BALANCE , end of year	865,922	455,724

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

PETERBOROUGH DISTRIBUTION INC.**NON-CONSOLIDATED STATEMENT OF INCOME**
For The Year Ended December 31, 2002

	2002 \$	2001 \$
REVENUE FROM SALE OF ENERGY	29,270,569	57,742,526
COST OF ENERGY PURCHASED	17,907,181	49,433,940
GROSS MARGIN	11,363,388	8,308,586
EXPENSES		
Operations	1,398,202	1,388,257
Administration	3,578,421	3,523,824
Amortization	2,287,625	2,234,116
	7,264,248	7,146,197
	4,099,140	1,162,389
OTHER INCOME (EXPENSE)		
Other income	383,333	724,026
Interest income	267,265	110,869
Interest expense	(1,697,280)	(1,350,707)
Other expense - Note 8	(2,193,844)	-
	(3,240,526)	(515,812)
INCOME BEFORE PROVISION FOR INCOME TAXES	858,614	646,577
PROVISION FOR INCOME TAXES - Note 1	448,416	21,000
NET INCOME FOR THE YEAR	410,198	625,577

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

PETERBOROUGH DISTRIBUTION INC.

NON-CONSOLIDATED STATEMENT OF CASH FLOWS For The Year Ended December 31, 2002

	2002 \$	2001 \$
CASH PROVIDED (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	410,198	625,577
Add: charges in operations not requiring a current cash payment		
Amortization	2,287,625	2,234,116
	2,697,823	2,859,693
Increase in customer deposits	184,672	29,880
Net change in non-cash working capital balances related to operations (as summarized below)	(808,790)	1,077,263
	2,073,705	3,966,836
INVESTING ACTIVITY		
Net additions to capital assets	(1,875,689)	(2,446,575)
Regulatory assets	(198,016)	(411,606)
Purchase of common shares	-	(2,608,655)
	(2,073,705)	(5,466,836)
FINANCING ACTIVITIES		
Issuance of note payable	-	1,500,000
NET INCREASE IN CASH DURING THE YEAR	-	-
CASH POSITION - BEGINNING OF YEAR	-	-
CASH POSITION - END OF YEAR	-	-
Net change in non-cash working capital balances related to operations		
Due from Peterborough Utilities Services Inc.	2,528,644	2,563,538
Accounts receivable	(1,060,696)	(1,193,464)
Unbilled revenue	(3,215,613)	(638,376)
Inventories	(67,441)	(3,951)
Income taxes recoverable	310,000	(14,000)
Deposits paid	-	257,500
Accounts payable and accrued charges	696,316	106,016
	(808,790)	1,077,263
OTHER CASH FLOW INFORMATION		
Interest paid	1,697,280	1,350,707
Income tax paid	153,991	14,000

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

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2002

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.,
Asphodel-Norwood Distribution Inc.,
Lakefield Distribution 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

a) Basis of Presentation

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada for rate-regulated entities except that they are prepared on the cost basis of accounting for investments in subsidiary companies instead of on a consolidated basis, and in this respect, are not in accordance with generally accepted accounting principles. The Consolidated Financial Statements of Peterborough Distribution Inc. were audited and reported on effective March 17, 2003.

Regulation

Ontario's wholesale and retail electricity markets became open to competition on May 1, 2002 (Open-market). On December 9, 2002, the Province enacted the Electricity Pricing, Conservation and Supply Act, 2002 (Bill 210), which amended the Electricity Act, 1998 and other statutes for the purpose of implementing the Electricity Action Plan announced by the Premier of Ontario on November 11, 2002.

Prior to the Open-market, rates for the transmission and distribution of electricity were set by the Ontario Energy Board (OEB). 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.

With the Open-market, the Company purchases power from the Independent Electricity Market Operator (IMO) administered spot market, and charges distribution customers unbundled rates, including the OEB-approved distribution rates. These distribution rates were essentially the same as the distribution rates that were incorporated into bundled rates before the Open-market. Bill 210 was enacted for the purpose of implementing the Electricity Action Plan announced by the Premier of Ontario on November 11, 2002.

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2002

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1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Regulation - (Continued)

The following regulatory treatments have resulted in accounting treatments differing from Canadian GAAP for enterprises operating in a non-rate-regulated environment. Market ready costs and retail settlement variance amounts have been deferred in accordance with the criteria set out in the OEB's Electricity Distribution Rate Handbook, The Accounting Procedures Handbook and in subsequent OEB guidelines. In the absence of such regulation, these costs would have been expensed when incurred under Canadian GAAP. The company provides for payments in lieu of corporate income taxes relating to its regulated business using the taxes payable method as directed by the OEB.

Regulatory assets

Regulatory assets represent costs that have been deferred because it is probable that they will be recovered in future rates. Bill 210 provides for the establishment or continuation of deferral accounts for certain amounts until disposition is addressed by the OEB. Regulatory assets recognized at December 31, 2002 are disclosed in Note 5. In recognition of the uncertainty related to these assets, the Company has not reflected Pre-market opening energy variance in the amount of \$1,332,828, in the results of operations or balance sheet for external financial reporting purposes. In addition, an amount of \$1,388,954 has been provided as an allowance against the deferred transition costs during the year. The Company intends to recover these items and all other regulatory assets through future rate applications.

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

b) Other Accounting Policies

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.

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2002

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1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

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 \$543,854 (2001 - \$819,375).

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

Substations	25 - 35 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
Water heater controllers	10 years straight-line

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2002

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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.

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 6 for information pertaining to long term liabilities.

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). These payments are calculated in accordance with the rules for computing 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 regulations.

The Company provides for payments in lieu of corporate income taxes relating to its regulated businesses using the taxes payable method as directed by the OEB. 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.

2. RELATED PARTY TRANSACTIONS

The Company provides electricity and services to the principle shareholder of its parent, the City of Peterborough. Electrical energy is sold to the City at the same prices and terms as other electricity customers. The Company also engaged in transactions in the normal course of operations with affiliate companies. Energy purchases in the amount of \$1,320,410 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	\$2,502,994
Capital expenditures	927,268
Operating costs	966,752
Building rent	440,584
Software and equipment rental	518,792

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 Service Inc. at December 31, 2002 consisted of an operating loan of \$1,399,195 (2001 - \$1,129,449 receivable).

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2002

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3. CAPITAL ASSETS

	Cost \$	Accumulated Amortization \$	Net Book Value	
			2002 \$	2001 \$
Land	101,080	-	101,080	101,080
Buildings	142,637	7,132	135,505	139,071
Substations	1,341,034	153,541	1,187,493	1,239,507
Overhead lines	15,886,500	2,151,205	13,735,295	13,813,659
Underground lines	14,479,003	2,062,930	12,416,073	12,854,111
Transformers	9,355,501	1,582,314	7,773,187	8,022,850
Meters	2,256,420	382,942	1,873,478	1,911,075
Water heater controllers	1,475,871	440,462	1,035,409	1,181,073
Construction in progress	1,053,151	-	1,053,151	460,181
	46,091,197	6,780,526	39,310,671	39,722,607

4. INVESTMENTS

The investment consists of the issued and outstanding common shares of subsidiary companies as follows:

	\$
Lakefield Distribution Inc. - 1,000 common shares	1,851,898
Asphodel-Norwood Distribution Inc. - 1,000 common shares	756,757
	2,608,655

5. REGULATORY ASSETS

Regulatory assets arise as a result of the rate-setting process. As described in Note 1, the Company has recorded the following regulatory assets.

	2002 \$	2001 \$
Retail settlement variance accounts	663,167	-
Deferred transition costs	192,828	659,850
Other	1,871	-
	857,866	659,850

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2002

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6. LONG TERM LIABILITIES

	2002 \$	2001 \$
Demand loan from City of Peterborough Holdings Inc. bearing interest at 7.25% (2001 - 6.175%)	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	729,753	545,081
	23,887,433	23,702,761
Less: customer deposits refundable within one year	240,218	258,097
	23,647,215	23,444,664

Interest expense on the demand loans for the year ended December 31, 2002 was \$1,570,182 (2001 - \$1,350,180). There are no specific terms for repayment of the demand loans.

7. STATED CAPITAL

Authorized

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

Issued

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

8. 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.

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2002

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9. FUTURE INCOME TAXES

The Company has a future income tax asset of \$327,000. 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.

10. 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 the year, the company and its subsidiaries secured an operating line in the amount of approximately \$9 million which consists of an operating line up to \$2 million and \$7 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.