

PETERBOROUGH DISTRIBUTION INC.
NON-CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2004

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AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF PETERBOROUGH DISTRIBUTION INC.

We have audited the balance sheet of the Peterborough Distribution Inc. as at December 31, 2004 and the statements of retained earnings, income and cash flows for the year then ended. These financial statements have been prepared on a non-consolidated basis for income tax purposes, and for use by the Board of Directors and the Ontario Energy Board. 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 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 financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the shareholder of Peterborough Distribution Inc., the federal and provincial income tax authorities for income tax purposes and the Ontario Energy Board. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

Collins Barrow Kawarthas LLP

Peterborough, Ontario
February 25, 2005

Chartered Accountants

PETERBOROUGH DISTRIBUTION INC.**NON-CONSOLIDATED BALANCE SHEET**
At December 31, 2004

	2004 \$	2003 \$
ASSETS		
CURRENT		
Due from Peterborough Utilities Services Inc. - Note 2	2,945,639	2,400,992
Accounts receivable	3,739,549	3,604,162
Unbilled revenue on customer accounts	1,120,000	1,172,000
Inventory	767,726	765,960
Income taxes receivable	20,196	-
	8,593,110	7,943,114
PROPERTY, PLANT AND EQUIPMENT - Note 3	40,372,342	39,748,119
INVESTMENTS - Note 4	2,608,655	2,608,655
REGULATORY ASSETS - Note 5	4,140,914	4,751,912
	55,715,021	55,051,800
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued charges	6,746,820	6,493,288
Income taxes payable	-	492,511
Customer deposits refundable within one year - Note 6	263,500	250,854
	7,010,320	7,236,653
LONG TERM LIABILITIES - Note 6	23,694,829	23,581,527
SHAREHOLDER'S EQUITY		
Stated capital - Note 7	21,657,680	21,657,680
Retained earnings	3,352,192	2,575,940
	25,009,872	24,233,620
	55,715,021	55,051,800

Approved By The Board,

_____, President

_____, Director

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

PETERBOROUGH DISTRIBUTION INC.

NON-CONSOLIDATED STATEMENT OF RETAINED EARNINGS For The Year Ended December 31, 2004

	2004 \$	2003 \$
BALANCE , beginning of year	2,575,940	865,922
Net income for the year	2,094,935	2,528,701
Dividend paid on common shares	(1,318,683)	(818,683)
BALANCE , end of year	3,352,192	2,575,940

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, 2004

	2004 \$	2003 \$
REVENUE - Note 9	12,230,247	12,555,083
EXPENSES		
Operations	3,654,473	3,323,720
Administration	1,505,635	1,463,746
Amortization	2,531,593	2,457,854
	7,691,701	7,245,320
INCOME FROM OPERATIONS	4,538,546	5,309,763
OTHER INCOME (EXPENSE)		
Other income	479,512	456,566
Interest income	489,674	450,192
Interest expense	(1,663,206)	(1,672,344)
Other expense - Note 5	(197,313)	(197,314)
Dividend income	50,000	-
	(841,333)	(962,900)
INCOME BEFORE PROVISION FOR INCOME TAXES	3,697,213	4,346,863
PROVISION FOR INCOME TAXES	1,602,278	1,818,162
NET INCOME FOR THE YEAR	2,094,935	2,528,701

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, 2004

	2004 \$	2003 \$
CASH PROVIDED (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	2,094,935	2,528,701
Add: charges in operations not requiring a current cash payment		
Amortization	2,531,593	2,457,854
	4,626,528	4,986,555
Increase (decrease) in customer deposits	125,948	(55,052)
Decrease in regulatory assets	610,998	1,746,059
Net change in non-cash working capital balances related to operations - Note 12	(888,975)	(2,963,577)
	4,474,499	3,713,985
FINANCING ACTIVITIES		
Dividends paid on common shares	(1,318,683)	(818,683)
INVESTING ACTIVITIES		
Net additions to property, plant and equipment	(3,155,816)	(2,895,302)
NET INCREASE IN CASH DURING THE YEAR	-	-
CASH POSITION - BEGINNING OF YEAR	-	-
CASH POSITION - END OF YEAR	-	-
OTHER CASH FLOW INFORMATION		
Income tax paid	2,230,378	1,797,695
Interest paid	1,662,528	1,672,234

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, 2004

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

Basis of Accounting

These financial statements have been prepared in accordance with the significant accounting policies set out below. These financial statements materially differ from Canadian generally accepted accounting principles because they are non-consolidated. The company's investments in its wholly-owned subsidiaries: Asphodel-Norwood Distribution Inc. and Lakefield Distribution Inc. have been recorded at cost. Earnings from the investments are recognized only to the extent dividends are received or receivable.

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, 2004 are disclosed in Note 5.

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 an application to the OEB with regard to rate recovery of certain distribution regulatory assets. These regulatory assets are expected to be recovered over a four-year period, commencing March 1, 2004. The amount to be recovered is subject to OEB review and approval.

(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 NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2004

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. 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 \$1,456,790 (2003 - \$1,217,309).

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

Buildings	40 years straight-line
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
Computer software	5 years straight-line

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2004

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

The Company provides electricity and services to the 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 at market rates. 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:

Professional services	\$2,716,053
Capital expenditures	1,329,480
Operating costs	1,060,559
Building rent	451,595
Software and equipment rental	337,818

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 from Peterborough Utilities Service Inc. at December 31, 2004 consisted of cash of \$2,945,639 (2003 - \$2,400,992).

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated	Net Book Value	
	\$	\$	2004	2003
			\$	\$
Land	101,080	-	101,080	101,080
Buildings	142,637	14,264	128,373	131,939
Substations	1,589,288	271,176	1,318,112	1,314,824
Overhead lines	18,592,223	3,825,752	14,766,471	14,303,714
Underground lines	15,663,848	3,542,039	12,121,809	12,296,733
Transformers	10,356,932	2,683,467	7,673,465	7,851,880
Meters	3,065,447	673,278	2,392,169	1,927,232
Water heater controllers	1,483,329	736,977	746,352	893,175
Computer software	57,747	23,019	34,728	45,877
Construction in progress	1,089,783	-	1,089,783	881,665
	52,142,314	11,769,972	40,372,342	39,748,119

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2004

4. INVESTMENTS

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

	2004 \$	2003 \$
Lakefield Distribution Inc. - 1,000 common shares	1,851,898	1,851,898
Asphodel-Norwood Distribution Inc. - 1,000 common shares	756,757	756,757
	2,608,655	2,608,655

5. REGULATORY ASSETS

The Company has recorded the following regulatory assets.

	2004 \$	2003 \$
Retail settlement variance accounts	4,464,405	4,532,126
Deferred transition costs	192,829	192,829
Other	105,193	26,957
Regulatory assets recovered	(621,513)	-
	4,140,914	4,751,912

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 \$1,332,828 which are not reflected in the regulatory assets due to uncertainty of recovery. In addition, an amount of \$1,255,642 (2003 - \$1,058,329). The Company intends to recover these items and all other regulatory assets through future rate applications.

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. Any costs 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, 2004

6. LONG TERM LIABILITIES

	2004 \$	2003 \$
Demand loan from City of Peterborough Holdings Inc. bearing interest at 7.25% (2003 - 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	800,649	674,701
	23,958,329	23,832,381
Less: customer deposits refundable within one year	263,500	250,854
	23,694,829	23,581,527

Interest expense on the demand loans for the year ended December 31, 2004 was \$1,611,853 (2003 - \$1,621,757). 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. 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, 2004, 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, 2004, there were no significant balances of accounts receivable due from any single customer.

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2004

9. ELECTRICITY DISTRIBUTION SERVICE CHARGES

	2004 \$	2003 \$
Customer billing for electricity and distribution service charges	64,597,026	60,083,077
Energy	36,271,822	30,998,388
Transmission	7,069,431	6,792,517
Non-competitive energy charges	4,202,654	4,866,466
Debt retirement charge	4,822,872	4,870,623
	52,366,779	47,527,994
Total electricity distribution service charges	12,230,247	12,555,083

10. FUTURE INCOME TAXES

The Company has a future income tax asset of \$788,000. 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.

11. COMPARATIVE FIGURES

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

12. NON-CASH WORKING CAPITAL

Net change in non-cash working capital balances related to operations is comprised of the following:

	2004 \$	2003 \$
Due from Peterborough Utilities Services Inc.	(544,647)	(3,800,187)
Accounts receivable	(135,387)	76,083
Unbilled revenue	52,000	115,138
Inventory	(1,766)	124,298
Income taxes receivable	(20,196)	-
Accounts payable and accrued charges	253,532	324,580
Income taxes payable	(492,511)	196,511
	(888,975)	(2,963,577)

PETERBOROUGH DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2004

13. 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 borrowing facilities in the amount of \$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.

14. AMALGAMATION

Asphodel-Norwood Distribution Inc. and Lakefield Distribution Inc., wholly owned subsidiaries of Peterborough Distribution Inc., were amalgamated with Peterborough Distribution Inc. on December 31, 2004 pursuant to subsection 177(1) of the Business Corporations Act. The issued and outstanding shares of the capital of Asphodel-Norwood Distribution Inc. and Lakefield Distribution Inc. at the date of amalgamation were cancelled without any repayment of capital.