LAKEFIELD DISTRIBUTION INC.

FINANCIAL STATEMENTS

AT DECEMBER 31, 2002

Collins Barrow

Chartered Accountants

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TABLE OF CONTENTS

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AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF
LAKEFIELD DISTRIBUTION INC.

We have audited the balance sheet of the Lakefield Distribution Inc. as at December 31, 2002 and the 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 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.

Collins Barrow

Peterborough, Ontario
March 17, 2003

Chartered Accountants

LAKEFIELD DISTRIBUTION INC.

BALANCE SHEET
At December 31, 2002

	2002 $	2001 $
ASSETS		
CURRENT		
Cash	900	900
Due from Peterborough Utilities Services Inc. - Note 2	292,021	691,794
Accounts receivable	319,148	118,848
Unbilled revenue on customer accounts	183,781	126,357
Income taxes recoverable	-	10,000
	795,850	947,899
CAPITAL - Note 3	1,323,284	1,182,683
REGULATORY ASSETS - Note 4	102,468	13,423
	2,221,602	**2,144,005**
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued charges	342,457	322,595
Customer deposits refundable within one year	4,657	8,484
Income taxes payable	10,300	-
	357,414	331,079
LONG TERM LIABILITIES		
Customer deposits	16,919	3,087
SHAREHOLDER'S EQUITY		
Stated capital - Note 5	1,692,891	1,692,891
Contributed capital	159,007	159,007
Retained earnings (deficit)	(4,629)	(42,059)
	1,847,269	1,809,839
	2,221,602	**2,144,005**

Approved By The Board,

______________________________, Director

______________________________, Director

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

Collins Barrow
Chartered Accountants

LAKEFIELD DISTRIBUTION INC.

STATEMENT OF RETAINED EARNINGS (DEFICIT)
For The Year Ended December 31, 2002
(with comparative figures for the 94 day period ended December 31, 2001)

	2002 $	2001 $
BALANCE, beginning of year	(42,059)	-
Net income (loss) for the year	37,430	(42,059)
BALANCE, end of year	**(4,629)**	**(42,059)**

LAKEFIELD DISTRIBUTION INC.

STATEMENT OF INCOME
For The Year Ended December 31, 2002
(with comparative figures for the 94 day period ended December 31, 2001)

	2002 $	2001 $
REVENUE FROM SALE OF ENERGY	1,380,191	638,327
COST OF ENERGY PURCHASED	835,361	618,463
GROSS MARGIN	544,830	19,864
EXPENSES		
Operations	108,127	10,764
Administration	410,135	99,828
Amortization	68,043	15,735
	586,305	126,327
	(41,475)	(106,463)
OTHER INCOME (EXPENSE)		
Other income	119,332	58,727
Interest income	15,502	6,441
Interest expense	(1,372)	(764)
Other expense - Note 6	(43,570)	-
	89,892	64,404
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	48,417	(42,059)
PROVISION FOR INCOME TAXES - Note 1	10,987	-
NET INCOME (LOSS) FOR THE YEAR	**37,430**	**(42,059)**

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

LAKEFIELD DISTRIBUTION INC.

STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2002
(with comparative figures for the 94 day period ended December 31, 2001)

	2002 $	2001 $
CASH PROVIDED (USED IN)		
OPERATING ACTIVITIES		
Net income (loss) for the year	37,430	(42,059)
Add: charges in operations not requiring a current cash payment		
Amortization	68,043	15,735
	105,473	(26,324)
Increase (decrease) in customer deposits	10,005	(59)
Net change in non-cash working capital balances related to operations (as summarized below)	182,211	(530,590)
	297,689	(556,973)
INVESTING ACTIVITY		
Net addition (reduction) to capital assets	(208,644)	5,722
Deferred transition costs	(89,045)	(13,423)
	(297,689)	(7,701)
NET INCREASE (DECREASE) IN CASH DURING THE YEAR	-	(564,674)
CASH POSITION - BEGINNING OF YEAR	900	565,574
CASH POSITION - END OF YEAR	**900**	**900**

Net change in non-cash working capital balances related to operations		
Due from Peterborough Utilities Services Inc.	399,773	(691,794)
Accounts receivable	(200,300)	(56,998)
Unbilled revenue	(57,424)	34,169
Inventories	-	45,754
Accounts payable and accrued charges	19,862	148,279
Income taxes payable (recoverable)	20,300	(10,000)
	182,211	**(530,590)**

CASH FLOW INFORMATION

Interest paid	1,372	764
Income tax paid	-	10,000

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

Collins Barrow
Chartered Accountants

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2002
(with comparative figures for the 94 day period ended December 31, 2001)

NATURE OF ORGANIZATION

Lakefield Distribution Inc. is a regulated electricity distribution Company. The Company was formed in 2000 in response to various reorganizational requirements under the provincial government's Electricity Competition Act (Bill 35). Lakefield Distribution Inc. was acquired by Peterborough Distribution Inc. on September 28, 2001 from the Corporation of the Township of Smith-Ennismore-Lakefield. The affiliated companies of Lakefield Distribution Inc. are:

Peterborough Distribution Inc.,
The Peterborough Call Centre Inc.,
Peterborough Utilities Services Inc.,
Peterborough Utilities Inc.,
Asphodel-Norwood Distribution Inc., and
Campbellford/Seymour Electric Generation Inc.

All of the above companies and Lakefield 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.

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.

The following regulatory treatments have resulted in accounting treatments differing from Canadian GAAP from 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.

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2002
(with comparative figures for the 94 day period ended December 31, 2001)

1. **SIGNIFICANT ACCOUNTING POLICIES -** (Continued)

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 4. In recognition of the uncertainty related to these assets, the Company has not reflected Pre-market opening energy variance in the amount of $26,226, in the results of operations or balance sheet for external financial reporting purposes. In addition, an amount of $17,344 has been was provided as an allowance against the deferred transition costs. 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.

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.

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 $17,770 (2001 - $1,700).

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

Buildings	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

LAKEFIELD DISTRIBUTION INC.

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

. 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.

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.

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**

During the year, the Company engaged in transactions in the normal course of operations with affiliate companies. Professional services were supplied to Peterborough Utilities Services Inc. for an amount of $104,569. 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	$ 170,739
Capital expenditures	130,362
Operating costs	66,949
Software and equipment rental	22,911

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, 2002 consisted of cash of $292,021 (2001 - $691,794).

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended December 31, 2002
(with comparative figures for the 94 day period ended December 31, 2001)

. 4

3. CAPITAL ASSETS

	Cost $	Accumulated Amortization $	Net Book Value 2002 $	Net Book Value 2001 $
Land	33,442	-	33,442	33,442
Buildings	64,992	2,031	62,961	64,586
Substation equipment	78,096	3,905	74,191	77,314
Distribution system - overhead	816,473	47,112	769,361	636,044
Distribution system - underground	170,450	10,584	159,866	167,292
Transformers	164,770	10,622	154,148	118,447
Meters	61,855	4,364	57,491	55,526
Other capital assets	15,609	4,159	11,450	29,779
Work in process	374	-	374	253
	1,406,061	82,777	1,323,284	1,182,683

4. 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	94,231	-
Deferred transition costs	7,017	13,423
Other	1,220	-
	102,468	13,423

5. STATED CAPITAL

Authorized and Issued Capital Stock at December 31, 2002

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

Issued
- 1,000 common shares for consideration of $1,692,891

6. 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.

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2002
(with comparative figures for the 94 day period ended December 31, 2001)

. 5

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7. INCOME TAXES

During the year, the Company utilized $42,000 of loss carryforwards to reduce income for tax purposes. The loss carryforward balance at December 31, 2002 was $Nil.

8. FUTURE INCOME TAXES

The Company has a future income tax asset of $10,000. 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.

9. 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 secured financing to provide a $243,239 letter of guarantee to the Independent Electricity Market Operator. As security, the company provided a general security agreement over the assets of the company. As a condition of the financing arrangement, the shareholder also provided a subordination agreement to the bank which postpones and subordinates its Creditor Security in favour of the bank.