

LAKEFIELD DISTRIBUTION INC.

FINANCIAL STATEMENTS

AT DECEMBER 31, 2001

LAKEFIELD DISTRIBUTION INC.
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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, 2001 and the statements of income and retained earnings (deficit) and cash flows for the 94 day period 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, 2001 and the results of its operations and changes in its cash flows for the 94 day period then ended in accordance with the accounting principles disclosed in Note 1 to the financial statements.

Peterborough, Ontario
March 11, 2002

Chartered Accountants

LAKEFIELD DISTRIBUTION INC.**BALANCE SHEET
At DECEMBER 31, 2001**

\$

ASSETS**CURRENT**

Cash	900
Due from Peterborough Utilities Services Inc. - Note 5	691,794
Accounts receivable	115,294
Unbilled revenue on customer accounts	126,357
Prepaid expenses	3,554
Income taxes recoverable	10,000
	947,899

CAPITAL - Note 2 1,182,683

DEFERRED TRANSITION COSTS 13,423

2,144,005

LIABILITIES AND SHAREHOLDER'S EQUITY**CURRENT LIABILITIES**

Accounts payable and accrued charges	
Ontario Power Generation Inc.	254,686
Other	67,909
Customer deposits refundable within one year	8,484
	331,079

LONG TERM LIABILITIES

Customer deposits	3,087
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SHAREHOLDER'S EQUITY

Stated capital - Note 3	1,692,891
Contributed capital	159,007
Retained earnings (deficit)	(42,059)
	1,809,839

2,144,005

Approved By The Board,

_____, Director

_____, Director

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

LAKEFIELD DISTRIBUTION INC.**STATEMENT OF RETAINED EARNINGS (DEFICIT)**
For The 94 Day Period Ended December 31, 2001

	\$
BALANCE , beginning of period - Note 4	-
Net income (loss) for the period	(42,059)
BALANCE , end of period	(42,059)

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

LAKEFIELD DISTRIBUTION INC.

STATEMENT OF INCOME

For The 94 Day Period Ended December 31, 2001

	\$
REVENUE FROM SALE OF ENERGY	638,327
COST OF ENERGY PURCHASED	618,463
GROSS MARGIN	19,864
EXPENSES	
Operations	10,764
Administration	99,828
Amortization	15,735
	126,327
	(106,463)
OTHER INCOME (EXPENSE)	
Other operating income	58,727
Interest income	6,441
Interest expense	(764)
	64,404
NET INCOME (LOSS) FOR THE PERIOD	(42,059)

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

LAKEFIELD DISTRIBUTION INC.**STATEMENT OF CASH FLOWS****For The 94 Day Period Ended December 31, 2001**

\$

CASH PROVIDED (USED IN)**OPERATING ACTIVITIES**

Net income (loss) for the period	(42,059)
Add: charges in operations not requiring a current cash payment	
Amortization	15,735
	(26,324)
Decrease in customer deposits	(59)
Net change in non-cash working capital balances related to operations (as summarized below)	(530,590)
	(556,973)

INVESTING ACTIVITY

Net reduction to capital assets	5,722
Deferred transition costs	(13,423)
	(7,701)

NET INCREASE (DECREASE) IN CASH DURING THE PERIOD (564,674)**CASH POSITION - BEGINNING OF PERIOD** 565,574**CASH POSITION - END OF PERIOD** **900**

Net change in non-cash working capital balances related to operations	
Due from Peterborough Utilities Services Inc.	(691,794)
Accounts receivable	(53,444)
Unbilled revenue	34,169
Inventories	45,754
Prepaid expenses	(3,554)
Accounts payable and accrued charges	148,279
Income taxes recoverable	(10,000)
	(530,590)

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

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS 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

Basis of Presentation

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

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS For The 94 Day Period Ended December 31, 2001

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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.

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:

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

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.

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The 94 Day Period Ended December 31, 2001

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1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 \$
Land	33,442	-	33,442
Buildings	64,992	406	64,586
Substation equipment	78,095	781	77,314
Distribution system - overhead	644,057	8,013	636,044
Distribution system - underground	169,398	2,106	167,292
Transformers	120,215	1,768	118,447
Meters	56,355	829	55,526
Other capital assets	31,611	1,832	29,779
Work in process	253	-	253
	1,198,418	15,735	1,182,683

3. STATED CAPITAL

Authorized and Issued Capital Stock at December 31, 2001

Authorized

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

Issued

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

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS For The 94 Day Period Ended December 31, 2001

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4. PUSH-DOWN ACCOUNTING

On September 28, 2001, Peterborough Distribution Inc. acquired all the outstanding shares of the Company. The Company's financial statements have been prepared to reflect the purchase price adjustments arising from this transaction. The purchase price for these shares was \$1,825,000. Additional acquisition costs of \$26,898 have been added to the purchase price for a total of \$1,851,898. The effect of these adjustments on each of the Company's major classes of assets, liabilities and shareholders' equity accounts are as follows:

	Before Push-Down And Financing Adjustments \$	Push-Down Adjustments \$	After Push-Down Adjustments \$
Assets			
Current	833,704	-	833,704
Capital	1,192,563	11,577	1,204,140
	2,026,267	11,577	2,037,844
Liabilities			
Current	181,396	-	181,396
Long-term liabilities	4,550	-	4,550
	185,946	-	185,946
Shareholder's Equity			
Stated capital	1,692,891	-	1,692,891
Contributed surplus	-	159,007	159,007
Retained earnings	147,430	(147,430)	-
	1,840,321	11,577	1,851,898
	2,026,267	11,577	2,037,844

Retained earnings at September 28, 2001 have been eliminated through an adjustment to contributed surplus.

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS For The 94 Day Period Ended December 31, 2001

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5. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions between related parties. 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 \$41,778. 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	\$ 10,012
Capital expenditures	3,091
Operating costs	6,227
Software and equipment rental	9,162

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 \$691,794.

6. INCOME TAX

The Company has available \$42,000 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.

7. 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.