

**LAKEFIELD DISTRIBUTION INC.**

**FINANCIAL STATEMENTS**

**AT DECEMBER 31, 2003**

**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, 2003 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, 2003 and the results of its operations and its cash flows for the year then ended in accordance with the Canadian generally accepted accounting principles.

*Collins Barrow*

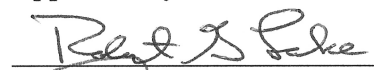
Peterborough, Ontario  
February 27, 2004

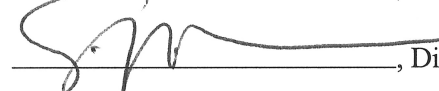
Chartered Accountants

**LAKEFIELD DISTRIBUTION INC.****BALANCE SHEET**  
**At December 31, 2003**

	2003 \$	2002 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	-	900
Due from Peterborough Utilities Services Inc. - Note 2	546,202	292,021
Accounts receivable	213,215	319,148
Unbilled revenue on customer accounts	34,300	33,354
	793,717	645,423
<b>PROPERTY, PLANT AND EQUIPMENT</b> - Note 3	1,362,278	1,323,284
<b>REGULATORY ASSETS</b> - Note 4	268,218	238,303
	<b>2,424,213</b>	<b>2,207,010</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued charges	300,271	327,865
Income taxes payable	75,808	10,300
Customer deposits refundable within one year	4,164	4,657
	380,243	342,822
<b>LONG TERM LIABILITIES</b>		
Customer deposits	26,664	16,919
<b>SHAREHOLDER'S EQUITY</b>		
Stated capital - Note 5	1,692,891	1,692,891
Contributed capital	159,007	159,007
Retained earnings (deficit)	165,408	(4,629)
	2,017,306	1,847,269
	<b>2,424,213</b>	<b>2,207,010</b>

Approved By The Board,


, President


, Director

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

**LAKEFIELD DISTRIBUTION INC.****STATEMENT OF RETAINED EARNINGS (DEFICIT)**  
**For The Year Ended December 31, 2003**

	2003 \$	2002 \$
<b>BALANCE</b> , beginning of year	(4,629)	(42,059)
Net income for the year	170,037	37,430
<b>BALANCE</b> , end of year	<b>165,408</b>	<b>(4,629)</b>

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

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

	2003 \$	2002 \$
<b>REVENUE</b> - Note 7	516,127	544,830
<b>EXPENSES</b>		
Operations	34,200	108,127
Administration	211,345	410,135
Amortization	66,567	68,043
	312,112	586,305
	204,015	(41,475)
<b>OTHER INCOME (EXPENSE)</b>		
Other income	38,757	119,332
Interest income	28,005	15,502
Interest expense	(1,488)	(1,372)
Other expense - Note 8	(9,213)	(43,570)
	56,061	89,892
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	260,076	48,417
<b>PROVISION FOR INCOME TAXES</b> - Note 1	90,039	10,987
<b>NET INCOME FOR THE YEAR</b>	<b>170,037</b>	<b>37,430</b>

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

# LAKEFIELD DISTRIBUTION INC.

## STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2003

	2003 \$	2002 \$
<b>CASH PROVIDED (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net income for the year	170,037	37,430
Add: charges in operations not requiring a current cash payment		
Amortization	66,567	68,043
	236,604	105,473
Increase (decrease) in customer deposits	9,252	10,005
Net change in non-cash working capital balances related to operations (as summarized below)	(111,280)	318,046
	134,576	433,524
<b>INVESTING ACTIVITY</b>		
Additions to property, plant and equipment	(117,011)	(208,644)
Regulatory assets	(29,915)	(224,880)
Proceeds on disposal of equipment	11,450	-
	(135,476)	(433,524)
<b>NET INCREASE (DECREASE) IN CASH DURING THE YEAR</b>	(900)	-
<b>CASH POSITION - BEGINNING OF YEAR</b>	900	900
<b>CASH POSITION - END OF YEAR</b>	-	<b>900</b>
Net change in non-cash working capital balances related to operations		
Due from Peterborough Utilities Services Inc.	(254,181)	399,773
Accounts receivable	105,933	(200,300)
Unbilled revenue	(946)	93,003
Accounts payable and accrued charges	(27,594)	5,270
Income taxes payable	65,508	20,300
	(111,280)	<b>318,046</b>

## CASH FLOW INFORMATION

Interest paid	1,488	1,372
Income tax paid	29,179	-

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

## LAKEFIELD DISTRIBUTION INC.

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

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#### 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

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

##### **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.



# LAKEFIELD DISTRIBUTION INC.

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

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### 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.

#### 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 \$750 (2002 - \$17,770).

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	23 - 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

# LAKEFIELD DISTRIBUTION INC.

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

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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.

### 2. RELATED PARTY TRANSACTIONS

During 2003, the Company engaged in transactions in the normal course of operations with affiliate companies. Professional services and building rent were supplied to Peterborough Utilities Services Inc. for an amount of \$19,528 (2002 - \$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	\$181,790
Capital expenditures	40,236
Operating costs	29,738
Software and equipment rental	26,299

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, 2003 consisted of cash of \$546,202 (2002 - \$292,021).

### 3. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value 2003 \$	2002 \$
Land	33,442	-	33,442	33,442
Buildings	64,992	3,656	61,336	62,961
Substation equipment	78,096	7,029	71,067	74,191
Distribution system - overhead	850,935	87,559	763,376	769,361
Distribution system - underground	172,578	19,158	153,420	159,866
Transformers	174,608	19,869	154,739	154,148
Meters	62,236	7,914	54,322	57,491
Other capital assets	-	-	-	11,450
Work in process	70,576	-	70,576	374
	1,507,463	145,185	1,362,278	1,323,284

## LAKEFIELD DISTRIBUTION INC.

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

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#### 4. REGULATORY ASSETS

The Company has recorded the following regulatory assets.

	2003 \$	2002 \$
Retail settlement variance accounts	259,981	230,066
Deferred transition costs	7,017	7,017
Other	1,220	1,220
	268,218	238,303

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 \$10,759 which are not reflected in the regulatory assets due to uncertainty of recovery. In addition, an amount of \$14,869 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. STATED CAPITAL

##### Authorized and Issued Capital Stock at December 31, 2003

##### Authorized

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

##### Issued

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

#### 6. 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.

# LAKEFIELD DISTRIBUTION INC.

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

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### 7. ELECTRICITY DISTRIBUTION SERVICE CHARGES

	2003 \$	2002 \$
Customer billing for electricity and distribution service charges	2,573,293	2,877,463
Premarket opening energy	-	835,361
Energy	1,326,716	980,062
Transmission	320,076	239,885
Non-competitive energy charges	206,627	162,993
Debt retirement charge	203,747	114,332
	2,057,166	2,332,633
Total electricity distribution service charges	516,127	544,830

### 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. Any costs recovered will be recorded in the period in which they are received.

### 9. FUTURE INCOME TAXES

The Company has a future income tax asset of \$14,000. 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. COMPARATIVE FIGURES

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

## LAKEFIELD DISTRIBUTION INC.

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

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#### 11. 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 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.