

**ASPHODEL-NORWOOD
DISTRIBUTION INC.
FINANCIAL STATEMENTS
AT DECEMBER 31, 2003**

**ASPHODEL-NORWOOD
DISTRIBUTION INC.
FINANCIAL STATEMENTS
AT DECEMBER 31, 2003**

TABLE OF CONTENTS

	<u>Page Number</u>
AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement Of Retained Earnings (Deficit)	3
Statement of Income	4
Statement of Cash Flows	5
Notes to the Financial Statements	6 to 10

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF ASPHODEL-NORWOOD DISTRIBUTION INC.

We have audited the balance sheet of the Asphodel-Norwood 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

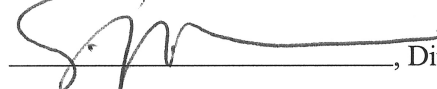
ASPHODEL-NORWOOD DISTRIBUTION INC.

BALANCE SHEET At December 31, 2003

	2003 \$	2002 \$
ASSETS		
CURRENT		
Due from Peterborough Utilities Services Inc. - Note 2	243,298	277,092
Accounts receivable	26,821	39,573
Unbilled revenue on customer accounts	18,600	17,349
	288,719	334,014
PROPERTY, PLANT AND EQUIPMENT - Note 3	430,636	397,086
REGULATORY ASSETS - Note 4	185,711	145,340
	905,066	876,440
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued charges	141,877	126,759
Income taxes payable	2,510	-
Customer deposits refundable within one year	4,451	3,831
	148,838	130,590
LONG TERM LIABILITIES		
Customer deposits	5,459	12,390
SHAREHOLDER'S EQUITY		
Stated capital - Note 5	645,492	645,492
Contributed surplus	111,265	111,265
Retained earnings (deficit)	(5,988)	(23,297)
	750,769	733,460
	905,066	876,440

Approved By The Board,

 , President

 , Director

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

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

	2003 \$	2002 \$
BALANCE , beginning of year	(23,297)	(5,031)
Net income (loss) for the year	17,309	(18,266)
BALANCE , end of year	(5,988)	(23,297)

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

ASPHODEL-NORWOOD DISTRIBUTION INC.

STATEMENT OF INCOME

For The Year Ended December 31, 2003

	2003 \$	2002 \$
REVENUE - Note 7	160,569	150,508
EXPENSES		
Operations	9,489	42,368
Administration	127,650	109,352
Amortization	23,821	21,501
	160,960	173,221
	(391)	(22,713)
OTHER INCOME (EXPENSE)		
Other income	13,287	16,386
Interest income	16,460	9,241
Interest expense	(968)	(804)
Other expense - Note 8	(5,252)	(20,376)
	23,527	4,447
INCOME BEFORE PROVISION FOR INCOME TAXES	23,136	(18,266)
PROVISION FOR INCOME TAXES - Note 1	5,827	-
NET INCOME (LOSS) FOR THE YEAR	17,309	(18,266)

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

ASPHODEL-NORWOOD DISTRIBUTION INC.**STATEMENT OF CASH FLOWS****For The Year Ended December 31, 2003**

	2003 \$	2002 \$
CASH PROVIDED (USED IN)		
OPERATING ACTIVITIES		
Net income (loss) for the year	17,309	(18,266)
Add: charges in operations not requiring a current cash payment		
Amortization	23,821	21,501
	41,130	3,235
Increase (decrease) in customer deposits	(6,311)	3,908
Net change in non-cash working capital balances related to operations (as summarized below)	62,923	157,657
	97,742	164,800
INVESTING ACTIVITY		
Regulatory assets	(40,371)	(130,003)
Net additions to property, plant and equipment	(57,371)	(34,797)
	(97,742)	(164,800)
NET INCREASE (DECREASE) 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.	33,794	74,059
Accounts receivable	12,752	93,916
Unbilled revenue	(1,251)	(3,923)
Accounts payable and accrued charges	15,118	(16,395)
Income taxes payable	2,510	10,000
	62,923	157,657

CASH FLOW INFORMATION

Interest paid	968	804
Income tax paid	4,723	-

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

ASPHODEL-NORWOOD DISTRIBUTION INC.

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

NATURE OF ORGANIZATION

Asphodel-Norwood 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). Asphodel-Norwood Distribution Inc. was acquired by Peterborough Distribution Inc. on September 28, 2001 from the Corporation of the Township of Asphodel-Norwood. The affiliated companies of Asphodel-Norwood Distribution Inc. are:

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

All of the above companies and Asphodel-Norwood 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.

ASPHODEL-NORWOOD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2003

.....2

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. Property, plant and equipment 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 - \$2,661).

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

Overhead lines	20 - 25 years straight-line
Transformers	17 - 25 years straight-line
Meters	17 - 25 years straight-line
Underground lines	25 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.

ASPHODEL-NORWOOD DISTRIBUTION INC.

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

.....3

2. RELATED PARTY TRANSACTIONS

During the year, the Company engaged in transactions in the normal course of operations with affiliate companies. 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	\$121,052
Capital expenditures	21,886
Operating costs	10,712
Software and equipment rental	14,126

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 \$243,298 (2002 - \$277,092).

3. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value	
			2003 \$	2002 \$
Overhead lines	359,844	36,817	323,027	291,645
Transformers	84,669	9,094	75,575	72,663
Meters	33,727	4,304	29,423	31,318
Underground lines	2,755	144	2,611	819
Work in process	-	-	-	641
	480,995	50,359	430,636	397,086

4. REGULATORY ASSETS

The Company has recorded the following regulatory assets.

	2003 \$	2002 \$
Retail settlement variance accounts	172,146	131,775
Deferred transition costs	12,921	12,921
Other	644	644
	185,711	145,340

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 \$26,226 which are not reflected in the regulatory assets due to uncertainty of recovery. In addition, an amount of \$26,557 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.

ASPHODEL-NORWOOD DISTRIBUTION INC.

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

.....4

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 \$645,492

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.

7. ELECTRICITY DISTRIBUTION SERVICE CHARGES

	2003 \$	2002 \$
Customer billing for electricity and distribution service charges	1,025,174	1,169,092
Premarket opening energy	-	383,621
Energy	562,987	298,953
Transmission	134,705	169,923
Non-competitive energy charges	85,357	125,586
Debt retirement charge	81,556	40,501
	864,605	1,018,584
Total electricity distribution service charges	160,569	150,508

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.

ASPHODEL-NORWOOD DISTRIBUTION INC.

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

.....5

9. INCOME TAXES

During the year, the Company utilized \$19,575 of loss carryforwards to reduce income for income tax purposes. The loss carryforward balance at December 31, 2003 was \$nil.

10. FUTURE INCOME TAXES

The Company has a future income tax asset of \$5,500. 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. 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 \$99,607 letter of guarantee to the Independent Electricity Market Operator. As security, the company have 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.