FINANCIAL STATEMENTS

KITCHENER-WILMOT HYDRO INC.

January 1 - December 31, 2002

Kitchener-Wilmot Hydro Inc.

BALANCE SHEET

As at December 31st

	2002	2001
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**18,792,725**	17,365,963
Accounts receivable (note 4)	**17,081,797**	12,696,196
Accounts receivable from related parties (note 5)	**120,777**	112,435
Unbilled revenue receivable	**14,374,300**	10,121,300
Inventories	**2,389,343**	2,171,342
Prepaid expenses	**412,323**	146,646
Accrued interest receivable	**32,014**	28,992
Total current assets	**53,203,279**	42,642,874
Capital assets - net of accumulated amortization (note 6)	**124,183,068**	122,604,242
Computer software - net of accumulated amortization (note 7)	**479,552**	585,722
Regulatory assets (note 8)	**5,581,699**	917,943
Reserve for impairment of regulatory assets (notes 2 & 3)	**(3,444,911)**	(917,943)
Total assets	**180,002,687**	165,832,838
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	**18,806,592**	14,765,093
Payment-in-lieu of corporate income taxes payable	**1,736,642**	-
Current portion of customers deposits	**1,458,000**	865,000
Construction and property deposits	**4,072,710**	2,156,824
Total current liabilities	**26,073,944**	17,786,917
Long-term liabilities		
Long-term debt (note 10)	**76,962,142**	76,962,142
Customer deposits	**1,458,002**	868,167
Retailer prudential deposits	**369,435**	-
Post-employment benefits (note 12)	**4,067,523**	3,834,696
Total long-term liabilities	**82,857,102**	81,665,005
Total liabilities	**108,931,046**	99,451,922
Shareholders' equity		
Share capital, - common shares (note 13)	**63,689,499**	63,689,499
Retained earnings	**7,382,142**	2,691,417
Total shareholders' equity	**71,071,641**	66,380,916
Total liabilities and shareholders' equity	**180,002,687**	165,832,838

See accompanying notes

Kitchener-Wilmot Hydro Inc.

STATEMENT OF RETAINED EARNINGS

For the Year Ended December 31st

	2002	2001
	$	$
Retained earnings (deficit), beginning of period	**2,691,417**	(113,333)
Net Income	**4,690,725**	2,804,750
Retained earnings, end of year	**7,382,142**	2,691,417

See accompanying notes

Kitchener-Wilmot Hydro Inc.

STATEMENT OF OPERATIONS

For the Year Ended December 31st

	2002	2001
REVENUE	$	$
Sales revenue		
Distribution services revenue	**29,008,419**	20,076,261
Electricity sales	**113,198,998**	125,676,337
Wholesale market services	**8,452,246**	-
Transmission services	**11,238,980**	-
Retailer services	**46,557**	-
	161,945,200	145,752,598
Other revenue		
Investment income	**548,619**	719,982
Late payment penalties	**399,693**	658,863
Miscellaneous (note 14)	**892,658**	1,190,884
	1,840,970	2,569,729
Total revenue	**163,786,170**	148,322,327
EXPENSES		
Electricity purchases	**113,198,998**	125,770,436
Reserve for impairment of regulatory assets	**2,526,968**	917,943
Wholesale market services	**8,452,246**	-
Transmission services	**11,238,980**	-
Retailer services	**46,557**	-
Distribution operations	**2,086,117**	1,692,527
Distribution maintenance	**2,880,289**	2,601,497
General administration	**1,988,213**	1,573,891
Customer accounts	**2,372,665**	1,980,497
Community relations	**129,987**	123,365
Property and capital taxes	**980,218**	884,169
Amortization (note 15)	**7,184,857**	6,925,128
Total expenses	**153,086,095**	142,469,453
Income before interest and provision for payments in lieu of corporate income taxes	**10,700,075**	5,852,874
Interest expense	**3,715,810**	2,970,171
Income before provision for payments in lieu of corporate income taxes	**6,984,265**	2,882,703
Provision for payments in lieu of corporate income taxes (note 17)	**2,293,540**	77,953
NET INCOME	**4,690,725**	2,804,750

See accompanying notes

Kitchener-Wilmot Hydro Inc.

STATEMENT OF CASH FLOWS

For the Year Ended December 31st

	2,002	2,001
	$	$
OPERATING ACTIVITIES		
Net income	**4,690,725**	2,804,750
Add (deduct) charges to operations not requiring a current cash payment:		
(Gain) on disposal of capital assets	**(80,491)**	(77,959)
Amortization (note 15)	**7,713,430**	7,462,237
Increase in post-employment benefits obligation (note 12)	**232,827**	104,014
Increase (decrease) in non-current customer deposits	**959,269**	264,455
Net change in non-cash operating working capital (note 18)	**1,680,352**	719,932
Cash provided by operating activities	**15,196,112**	11,277,429
INVESTING ACTIVITIES		
Additions to capital assets	**(12,314,357)**	(11,933,927)
Additions to regulatory assets	**(4,270,927)**	-
Proceeds on disposals of capital assets	**88,020**	78,045
Cash (applied to) investing activities	**(16,497,264)**	(11,855,882)
FINANCING ACTIVITIES		
Increase in contributed capital	**2,727,914**	3,548,360
Cash provided by (applied to) financing activities	**2,727,914**	3,548,360
Net cash provided (applied) during year	**1,426,762**	2,969,907
Cash and cash equivalents, beginning of year	**17,365,963**	14,396,056
Cash and cash equivalents, end of year	**18,792,725**	17,365,963
Cash and cash equivalents is represented by:		
Cash	**1,792,725**	865,963
Cash equivalents	**17,000,000**	16,500,000
	18,792,725	17,365,963
Supplemental cash flow information		
Interest paid	**3,601,828**	2,886,080
Payments in lieu of corporate income taxes and capital taxes	**1,018,258**	227,092

See accompanying notes

1. INCORPORATION

On July 1, 2000, Kitchener Power Corporation was incorporated under the Business Corporation Act (Ontario) along with three wholly-owned subsidary companies, Kitchener-Wilmot Hydro Inc., Kitchener Energy Services Inc. and FibreTech (Kitchener) Inc. The incorporation was required in accordance with the provincial government's Electricity Competition Act (Bill 35). The City of Kitchener and the Township of Wilmot both passed by-laws which transferred the net assets of the former Hydro-Electric Commission of Kitchener-Wilmot to the new corporations on August 1, 2000. Certain surplus property assets and cash funds were excluded from the transfer and were retained by the City and the Township. The net assets of FibreTech (Kitchener) Inc. were subsequently transferred to Fibretech Telecommunications Inc. on November 1, 2000 as a result of a statutory amalgamation with Fibretech Telecommunications (Cambridge) Inc. and Fibretech Waterloo Inc. The City of Kitchener and the Township of Wilmot are the shareholders of Kitchener Power Corporation.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"] including accounting principles prescribed by the Ontario Energy Board ["OEB"] in the handbook "Accounting Procedures Handbook for Electric Distribution Utilities" and reflect the significant accounting policies as summarized below:

Rate regulation

The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring the distribution companies fulfill obligations to connect and service customers.

On December 9, 2002, Royal Assent was given to Bill 210 [the "Electricity Pricing, Conservation and Supply Act, 2002"] that made amendments to the Ontario Energy Board Act, 1998.

The economic impact of rate regulation is reported in these financial statements. Regulatory assets represent certain costs that may be recovered from customers in future periods through the rate-making process. In its capacity to approve or fix rates, the OEB has specified the following regulatory treatments, which have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulated environment:

Regulatory assets

Bill 210 deems certain costs and variance account balances to be accounted for as regulatory assets. The OEB will review these costs no later than the end of 2003. The OEB will be providing direction on the method and timing for the recovery of these costs. No recovery can commence prior to fiscal 2006.

[i] Transition costs:
Costs incurred to align systems and practices with the requirements of the future competitive electricity market in Ontario [Transition costs or Market Ready costs] have been deferred in accordance with the criteria set out in the OEB's Electricity Distribution Rate Handbook and the AP Handbook. Under such regulation, certain costs are allowed to be deferred that would be expensed when incurred under GAAP. 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.

In 2001, transition costs of $392,830 were accounted for as part of capital work-in-progress assets. In 2002, the costs now in service were transferred to regulatory assets [note 8].

[ii] Pre-market Opening Energy variance:
At December 31, 2002, the Corporation recognized the pre-market opening energy variance [the "variance"] for the period January 1, 2001 to April 30, 2002, the date of market opening [notes 3 and 8], in accordance with the AP Handbook. The variance represents the difference between the utility's cost of power purchased based upon time-of-use ["TOU"] rates, and the amounts billed for the cost of power to non-TOU customers at an average rate for the same period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[iii] Settlement variances:
The Corporation has recognized settlement variances for the period May 1, 2002 to December 31, 2002 in accordance with criteria set out in the AP Handbook. The settlement variances relate primarily to service charges, non-competitive electricity charges, and power charges [note 8]. Other than the variance for the cost of imported power, the nature of the settlement variances is such that their balance shall change each reporting period-end date.

Cash and cash equivalents

Cash equivalents are readily convertible investments with maturities of three months or less from their date of acquisition. Investments are carried at cost, which approximates market value.

Inventories

Inventories consist of parts, supplies and material held for the future capital expansion and are valued at the lower of average weighted cost and net realizable value.

Spare transformers and meters

Spare transformers and meters are classified as capital assets based on the CICA Handbook's definition of inventory.

Capital assets and amortization

Capital assets are valued at cost. Costs for assets installed or erected by the Corporation include material, labour and overhead.

Amortization is provided on a straight-line basis for capital assets available for use over their estimated service lives, at the following annual rates:

Buildings	2%
Transformer station equipment	2.5%
Distribution station equipment	3.33%
SCADA equipment	6.67%
Distribution system	4%
Meters	4%
General equipment	10 - 25%

Amortization on general equipment directly used in the installation of other capital assets, is capitalized to the new assets based on a pro-ration of the time during the year they are used for such purposes.

Full amortization is recorded in the year of acquisition and none in the year of disposal, except for readily identified assets which are amortized on a monthly basis.

For readily identifiable assets retired or disposed of, the asset and related accumulated amortization are removed from the records. Differences between the proceeds, if any, and the unamortized asset amount plus removal costs are recorded as a gain or loss in the year of disposal.

For grouped assets, the assets and accumulated amortization are removed from the records at the end of their estimated average service life, regardless of actual service life.

Construction-in-progress

Capital assets under construction at year-end are referred to as construction in progress and disclosed as a component of capital assets. Construction-in-progress is recognized as a capital asset and amortized when the asset is either put into service or construction is substantially completed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Computer software

The acquisition costs of major computer software systems are amortized by the straight-line method at an annual rate of 20%, which approximates their estimated useful lives.

Contributed capital

Prior to January 1, 2000, contractor's capital contributions toward the construction or acquisition of capital assets by the Corporation were referred to as miscellaneous paid-in capital and disclosed as a permanent component of utility equity.

Effective May 1, 2000, the Company prospectively adopted the change in accounting policy for contributions received in aid of construction [contributed capital], as prescribed by the OEB "Accounting Procedures Handbook for Electric Distribution Utilities". Contributed capital contributions are required contributions received from outside sources, used to finance additions to capital assets. Contributed capital contributions received are treated as a "credit" contra account included in the determination of capital assets. The amount is subsequently amortized by a charge to accumulated amortization and a credit to amortization expense, at an equivalent rate to that used for the amortization of the related capital assets.

Revenue recognition and cost of electrical energy

The Corporation records revenue from the sale of energy on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the year. The cost of power is recognized when the energy is consumed.

Pension plan

Kitchener-Wilmot Hydro Inc. provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ["OMERS"]. OMERS is a multi-employer pension plan, which operates as the Ontario Municipal Employees Retirement Fund [the "Fund"] and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Company recognizes the expense related to this plan as contributions are made.

Post-employment benefits

Employee future benefits provided by Kitchener-Wilmot Hydro Inc. include medical and life insurance benefits. These plans provide benefits to certain employees when they are no longer providing active service. Employee future benefit expense is recognized in the period in which the employees render the services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. Actuarial gains (losses) are amortized into expense over the average remaining service period of active employees to full eligibility.

Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

Use of estimates

The preparation of financial statements, in conformance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the year. Actual results could differ from those estimates including changes as a result of future decisions made by the OEB, Minister of Energy, or the Minister of Finance.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Corporate income taxes and capital taxes

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by municipalities. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company is required, under the Electricity Act, 1998, to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation. 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.

As a result of becoming subject to payments in lieu of corporate income taxes [“PILs”], the Company’s taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Company was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Company was

deemed to be a new company and, as a result, tax credits or tax losses not previously utilized by the Company would not be available to it after the change in tax status. Essentially, the Company was taxed as though it had a “fresh start” at the time of its change in tax status.

The Company provides for PILs relating to its regulated business using the taxes payable method as directed by the OEB. Under the taxes payable method, no provisions are booked for temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes as a result of temporary differences between tax basis and accounting purposes become payable, they will be charged to the statement of operations at that time.

Kitchener-Wilmot Hydro Inc. provides for payments in lieu of corporate income taxes using the taxes payable method as directed by the OEB.

3. ELECTRIC INDUSTRY RESTRUCTURING AND REGULATION

The Energy Competition Act, 1998 [the "Act"] was given Royal Assent on October 30, 1998. The Act provides for a competitive market in the sale of electricity and the regulation of the monopoly electricity delivery system in the Province of Ontario, by the Ontario Energy Board [the "OEB"]. Electricity retailers began competing for customers as of March 1, 2000. On May 1, 2002, with the electricity market opening, or "Open Access", electricity retailers, including Energy Services, began to sell electricity.

The Ontario Energy Board has regulatory authority over the electricity distribution sector. The Act sets out the OEB's powers to issue a distribution licence which must be obtained by any person owning or operating a distribution system under the Ontario Energy Board Act, 1998. The OEB may prescribe license requirements and conditions including, amoung other things, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing/process requirements for rate setting purposes.

On December 9, 2002, Royal Assent was given to Bill 210 [the "Electricity Pricing, Conservation and Supply Act, 2002"] Bill 210 made amendments to the Ontario Energy Board Act, 1998.

[a] Rates for the electricity commodity are capped at 4.3 cents per kilowatt-hour, for residential customers and small business customers with consumption of less than 150,000 kilowatt hours per year, and for a designated customer class effective May 1, 2002.

[b] The Corporation's electricity distribution rates, in effect on November 11, 2002, are capped to 2006. With this distribution rate cap, the Corporation may recover its regulatory assets $4,663,756 (2002) and $917,943 (2001) no later than 2006 [notes 2 and 8].

[c] Due to the uncertainty of the timeliness of recovery, in light of the lengthy time span (2006) and associated political risks, management has recorded a reserve for regulatory asset impairment in the amount of $3,444,911. This represents the pre-market opening energy variance of $3,033,473 as well as the transition costs of $411,438 incurred to meet the requirements of market readiness.

4. ACCOUNTS RECEIVABLE

	2002 $	2001 $
Electrical energy	13,523,653	11,171,740
Miscellaneous	3,883,144	1,774,456
	17,406,797	12,946,196
Less: Allowance for doubtful accounts	325,000	250,000
	17,081,797	12,696,196

5. RELATED PARTY TRANSACTIONS

During the year, Kitchener-Wilmot Hydro Inc. provided capital construction, maintenance, engineering and administrative services to Fibretech Telecommunications Inc. in the amount of $ 195,917 as well as capital and maintenance street light services billed to the City of Kitchener in the amount of $338,112 and to the Township of Wilmot in the amount of $20,691. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

At year-end, the related party balances are as follows:

	2002 $	2001 $
Receivable from Fibretech Telecommunications Inc.	17,171	12,086
Receivable from City of Kitchener	95,092	95,102
Receivable from Township of Wilmot	8,514	5,247
	120,777	112,435

6. CAPITAL ASSETS

2002	Cost $	Accumulated Amortization $	Net Book Value $
Land	2,698,307	---	2,698,307
Land rights	261,699	228,734	32,965
Buildings	13,051,666	2,861,933	10,189,733
Transformer stations	30,742,816	8,316,429	22,426,387
Distribution stations	2,759,055	1,224,518	1,534,537
Distribution lines - overhead and underground	109,714,547	47,516,945	62,197,602
Distribution transformers	34,188,019	13,858,403	20,329,616
Distribution meters	9,036,386	3,489,124	5,547,262
Other capital assets	12,038,413	7,941,465	4,096,948
Construction-in-progress	3,196,237	---	3,196,237
	217,687,145	85,437,551	132,249,594
Less: Contributed Capital	-8,753,965	-687,439	-8,066,526
	208,933,180	84,750,112	124,183,068

6. CAPITAL ASSETS (CONTINUED)

2001	Cost $	Accumulated Amortization $	Net Book Value $
Land	2,698,307	---	2,698,307
Land rights	261,699	225,821	35,878
Buildings	11,880,085	2,650,799	9,229,286
Transformer stations	28,151,032	7,563,405	20,587,627
Distribution stations	2,479,193	1,131,249	1,347,944
Distribution lines - overhead and underground	104,036,716	43,321,457	60,715,259
Distribution transformers	32,682,235	12,516,764	20,165,471
Distribution meters	8,728,411	3,140,008	5,588,403
Other capital assets	11,457,266	7,587,234	3,870,032
Construction-in-progress	4,054,806	---	4,054,806
	206,429,750	78,136,737	128,293,013
Less: Contributed Capital	-6,026,051	-337,280	-5,688,771
	200,403,699	77,799,457	122,604,242

7. COMPUTER SOFTWARE-NET OF ACCUMULATED AMORTIZATION

2002	Cost $	Accumulated Amortization $	Net Book Value $
Financial System Software	497,926	304,800	193,126
Supervisory Control Software	60,619	42,854	17,765
Meter Interrogation Software	61,071	36,388	24,683
Computer Aided Design System Software	319,242	138,958	180,284
Network Software	76,660	12,966	63,694
	1,015,518	535,966	479,552

2001	Cost $	Accumulated Amortization $	Net Book Value $
Financial System Software	497,926	216,981	280,945
Supervisory Control Software	55,620	35,597	20,023
Meter Interrogation Software	61,071	25,675	35,396
Computer Aided Design System Software	286,542	79,564	206,978
Network Software	45,408	3,028	42,380
	946,567	360,845	585,722

8. REGULATORY ASSETS

Regulatory assets consist of the following [note 2, rate regulation]:

	2002 $	2001 $
Transition costs	411,438	-
Pre-market opening energy variance	3,033,473	917,943
Settlement variances	2,019,655	-
Retail cost variances	17,425	-
Bill 210 rebate program costs	99,708	-
	5,581,699	917,943

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2002 $	2001 $
Independent Electricity Market Operator	**11,619,341**	**12,767,959**
Ontario Electricity Financial Corporation	**1,277,087**	**-**
Provincial Bill 210 rebates	**3,462,205**	**-**
Other	**2,447,959**	**1,997,134**
	18,806,592	**14,765,093**

10. LONG-TERM DEBT

Effective August 1, 2000, Kitchener-Wilmot Hydro Inc. incurred unsecured promissory notes payable to the City of Kitchener and to the Township of Wilmot. The amounts due at the end of the year are:

	2002 $	2001 $
Note payable to City of Kitchener	**70,997,576**	**70,997,576**
Township of Wilmot	**5,964,566**	**5,964,566**
	76,962,142	**76,962,142**

Interest is payable annually at an annual effective rate of 4.68% and 7.00% for the years 2002 and 2003 respectively and the OEB deemed debt rate [currently 7%] each year thereafter. Repayment of all or part of the outstanding principal may be made upon eighteen months written notice.

11. PENSION PLAN

The Company did not incur current service pension costs for the year ended December 31, 2002 [2001 - nil]. Effective August 1, 1998, OMERS provided a temporary contribution holiday, with no Company or employee pension contributions required until after December 31, 2002. OMERS contributions have resumed on January 1, 2003 and will be phased in over three years and will start at one third of their normal rate.

12. POST-EMPLOYMENT BENEFITS

Kitchener-Wilmot Hydro Inc. pays certain health, dental and life insurance benefits on behalf of its retired employees.

The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows:

	2002 %	2001 %
Discount rate	**6.0**	**6.0**
Future general salary and wage levels increase	**2.0**	**2.0**
Future general inflation increase	**3.5**	**3.5**
Dental costs increase	CPI rate plus a further 2.8% increase in 2002, graded down to CPI in 2011 and thereafter	CPI rate plus a further 3.2% increase in 2001, graded down to CPI in 2010 and thereafter
Medical costs increase	CPI rate plus a further 10.5% increase in 2002, graded down to CPI in 2011 and thereafter	CPI rate plus a further 11.0% increase in 2001, graded down to CPI in 2010 and thereafter

12. POST-EMPLOYMENT BENEFITS (CONTINUED)

Information about the Kitchener-Wilmot Hydro's defined benefit plans is as follows:

	2002 $	2001 $
Accrued benefit obligation		
Balance at the beginning of the year	3,834,696	3,730,682
Expense for the year	366,114	227,773
Benefits paid for the year	(133,287)	(123,759)
Balance at the end of the year	4,067,523	3,834,696
Projected accrued benefit obligation at December 31	4,067,523	3,834,696
Unamortized actuarial gain	-	-

13. SHARE CAPITAL

		2002 $	2001 $
Authorized			
Unlimited	common shares		
Issued			
10,000	common shares	63,689,499	63,689,499

14. MISCELLANEOUS REVENUE

	2002 $	2001 $
Proceeds from settlement of class action [note 16]	-	553,784
Pole attachment rentals, buildings and other rentals	473,212	237,154
Change of occupancy charges	120,794	107,992
Scrap sales	66,849	37,190
Net gain on disposal of capital assets	88,020	23,425
Unsealing/reconnection charges	14,855	18,045
Accounts payable discounts taken	11,892	17,080
Return cheque charges	13,608	12,425
NBV of capital assets disposals	-7,529	-86
Sundry	110,957	183,875
	892,658	1,190,884

15. AMORTIZATION EXPENSE

	2002 $	2001 $
Amortization	7,184,857	6,925,128
Various expense accounts	528,573	537,109
	7,713,430	7,462,237

16. PROCEEDS FROM SETTLEMENT OF CLASS ACTION

During 2001, the Company received $553,784 representing their pro-rata share of the proceeds from the settlement in the class action against the former Ontario Hydro ["OPGI"]. The Municipal Electric Association's member utilities [MEU] launched the lawsuit in 1997. The lawsuit dealt primarily with three of Ontario Hydro's special rates and subsidies for its large industrial customers and asserted that MEU and their customers were being forced to pay higher rates in order to fund those subsidies. During 2001, the lawsuit was brought to a successful conclusion after court approval of a settlement with OPGI.

17. CORPORATE INCOME AND CAPITAL TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. Reconciliation between the statutory and effective tax rates is provided as follows:

Statement of operations

	2002 $	2001 $
Rate reconciliation		
Income from continuing operations before income taxes	6,984,265	2,882,703
Statutory Canadian federal and provincial income tax rate	**38.62%**	**40.62%**
Expected taxes on income	2,697,323	1,170,954
Taxes associated with non-taxable pre-October 1, 2001 income	-	(2,413,219)
Other permanent differences	(5,141)	(10,450)
Increase (decrease) in income taxes resulting from:		
Tax on non-deductible reserves	975,915	-
Utilization of temporary differences previously unbenefited	(1,878,682)	-
Large corporations tax net of surtax	274,258	77,953
Post-October 1, 2001, loss not benefited	-	986,564
Other current year timing differences not benefited	(226,243)	(107,380)
Effect of rate changes on timing differences	456,110	373,531
Income tax expense	**2,293,540**	**77,953**
Effective tax rate	**32.84%**	**2.70%**
Components of income tax expense		
Current tax expense [including Large Corporations Tax]	2,293,540	77,953
Future income tax expense related to the origination and reversal of temporary differences	-	-
Income tax expense	**2,293,540**	**77,953**

Balance Sheet

Future income taxes relating to the regulated businesses have not been recorded in the accounts as they are expected to be recovered through future revenues. As at December 31, 2002, future income tax assets of $8,674,771, based on substantively enacted income tax rates, have not been recorded.

18. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	2002 $	2001 $
(Increase) in accounts receivable	**-4,393,943**	**-1,122,218**
Increase in construction and property deposits	**1,915,886**	**1,011,047**
Increase in reserve-impairment of regulatory assets	**2,526,968**	**-**
Increase in accounts payable and accrued liabilities	**5,778,141**	**481,294**
Increase in current portion of customer deposits	**593,000**	**261,000**
(Increase) in unbilled revenue receivable	**-4,253,000**	**-187,900**
(Increase) decrease in inventories	**-218,001**	**193,901**
(Increase) decrease prepaid expense and accrued interest rec.	**-268,699**	**82,808**
	1,680,352	**719,932**

19. COMPARATIVE FIGURES

Unbundling of sales revenue occurred during 2002, thus creating new revenue and associated expense accounts. Certain of the prior year comparative figures have been restated to conform with the current year's presentation.

20. CREDIT RISK AND FINANCIAL INSTRUMENTS

Credit risk

For distribution retail customers, credit losses are generally low across the sector. The Company provides for an allowance for doubtful accounts to absorb credit losses. At December 31, 2002, there are no significant concentrations of credit risk with respect to any class of financial assets.

20. CREDIT RISK AND FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments

The carrying value of cash and cash equivalents, bank indebtedness, accounts receivable, accounts payable and accrued liabilities and promissory note payable approximates their fair value due to the immediate or short-term maturity of these financial instruments.

SUPPLEMENTARY FINANCIAL STATEMENTS

KITCHENER-WILMOT HYDRO INC.

January 1 - December 31, 2002

Kitchener-Wilmot Hydro Inc.

YEAR IN BRIEF

For The Year Ended December 31st

Financial Highlights

	2002	2001
Total Revenue	$ 163,786,170	$ 148,322,327
Total Expenses	159,095,445	145,517,577
Net Income	4,690,725	2,804,750
Capital Expenditures	12,325,157	11,933,927
Net Fixed Assets	124,183,068	122,604,242
Long Term Debt	76,962,142	76,962,142
Shareholders Equity	71,071,641	66,380,916
Rate of Return on Net Capital Assets	5.75%	4.20%
Debt To Equity Ratio	52.0%	53.7%
Current Ratio	2.0	2.4

Customer Data

	2002	2001
Number of Customers	73,324	71,907
Number of Employees	163.0	160.0
Kilowatt Hour Sales	2,019,109,568	1,927,085,552
Kilowatts Purchased	3,839,477	3,682,802
Kilowatt Peak Demand	360,765	365,879

Performance Indicators

	2002	2001
Controllable Expenses Per Customer	$ 128.98	$ 110.86
Average Monthly System Load Factor	72.5%	73.1%

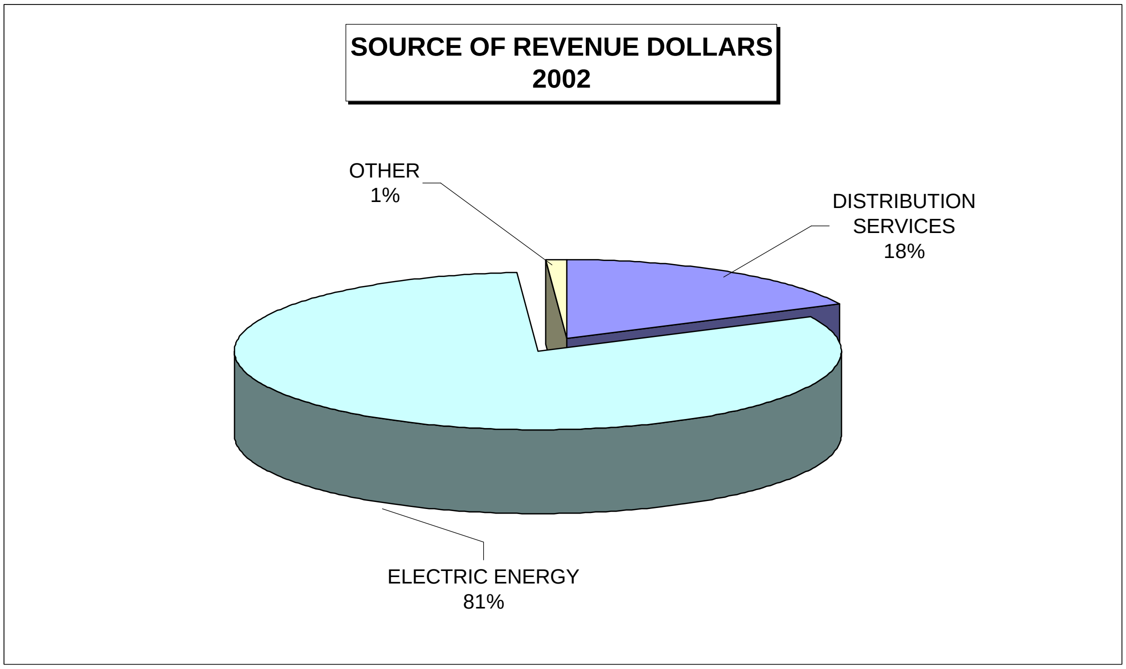
	Annual % Met within Minimum Standards (2002)	Annual % Met within Minimum Standards (2001)
Connection of new services-Low Voltage	94.0%	93.0%
Connection of new services-High Voltage	100.0%	100.0%
Underground cable locates	97.0%	97.0%
Telephone Accessibility	73.0%	79.0%
Appointments Met	94.0%	97.0%
Written responses to inquiries	100.0%	100.0%
Emergency response-Urban areas	97.0%	98.0%
Emergency response-Rural areas	95.0%	100.0%

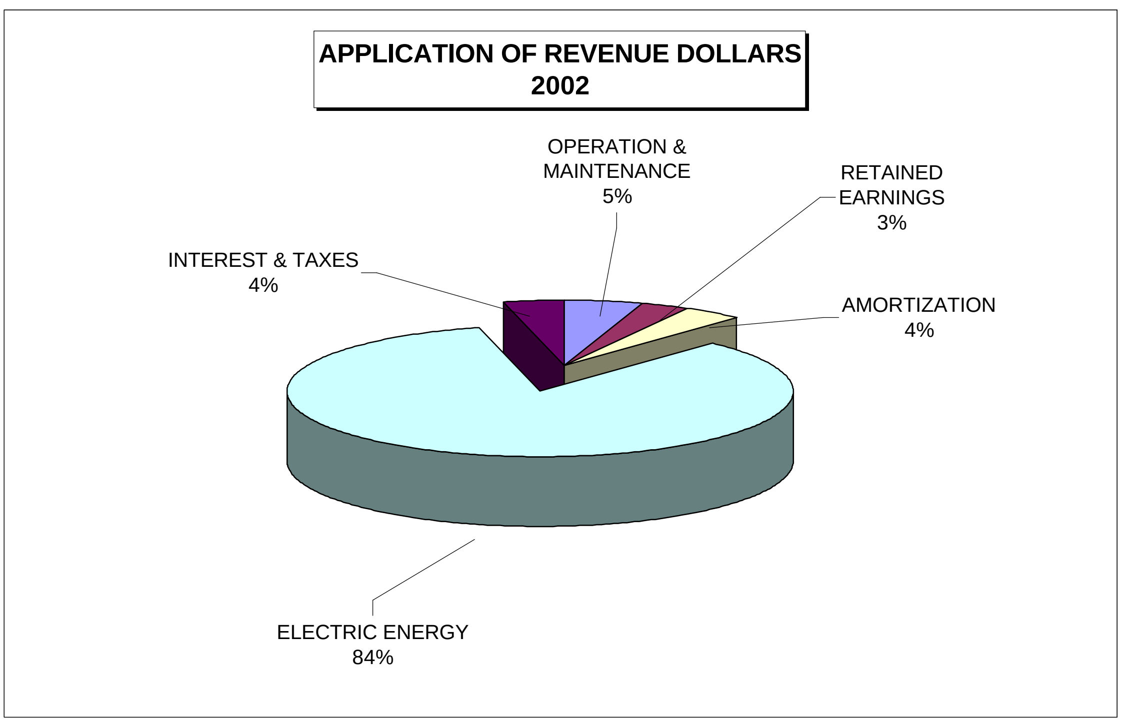
Service Reliability Indices

	2002	2001
System Average Interruption Duration (minutes)	42.0	23.4
System Average Interruption Frequency Index - (average number of interruptions per customer)	0.77	0.32
Customer Average Interruption Duration (minutes)	54.6	71.4

SOURCE & APPLICATION OF REVENUE DOLLARS

For The Year Ended December 31 st





Kitchener-Wilmot Hydro Inc.

OPERATING STATISTICS

For The Year Ended December 31st

	2002	2001
KILOWATT HOURS SOLD		
Residential	**627,482,547**	591,030,949
General Service	**1,120,041,595**	1,091,475,446
Large User	**258,723,198**	230,286,087
Street Lighting	**12,862,228**	14,293,070
	2,019,109,568	1,927,085,552
NUMBER OF CUSTOMERS		
Residential	**65,683**	64,284
General Service	**7,637**	7,619
Large User	**4**	4
	73,324	71,907
Average Monthly Kilowatts	**319,956.5**	306,900.2

Kitchener-Wilmot Hydro Inc.

STATEMENT OF CAPITAL ASSETS

As at December 31st

		2002 $
LAND:		2,698,307
LAND EASEMENTS:		261,699
BUILDINGS:		
Transformer Stations (as per list)	5,631,820	
Operations Centre - Victoria St.South	7,020,389	
Vehicle Maintenance Garage Building	399,455	
		13,051,664
EQUIPMENT:		
Transformer Stations (as per list)	32,173,501	
Spare Power Transformer	1,115,380	
Portable Mobile Transformer Substation	79,664	
Portable Mobile Generator	133,327	
		33,501,872
Distribution Lines & Feeders - Overhead		42,188,936
Distribution Lines & Feeders - Underground		67,525,611
Distribution Transformers	33,432,315	
Network Transformers	755,704	
		34,188,019
Meters Energy		9,036,386
General Office Equipment	733,525	
Computer Equipment	1,769,064	
Computer Application Software	479,552	
Stores Warehouse Equipment	109,433	
Vehicles & Equipment	6,153,021	
Major Tools, Instruments & Radios	1,382,763	
System Supervisory Equipment	1,890,607	
Wires Construction Work in Progress	3,196,237	
		15,714,202
Contributed Capital		(8,753,965)
		209,412,731

INVENTORIES:

	2002 $
Stores Inventory	1,721,493
Transformers in Inventory	556,341
Meters in Inventory	111,510
	2,389,343

Kitchener-Wilmot Hydro Inc.

STATEMENT OF TRANSFORMER STATION BUILDINGS AND EQUIPMENT

As at December 31st

	2002 $ BUILDINGS	2002 $ EQUIPMENT
Distribution Station #1 New Hamburg	110,211	403,613
Distribution Station #2 New Hamburg	31,314	262,291
Distribution Station #3 New Dundee	122,611	330,143
Distribution Station #5 Josephsburg	50,227	239,304
Distribution Station #6 Baden	109,666	493,728
Distribution Station #7 New Hamburg	144,047	330,440
Distribution Station #8 Philipsburg	156,153	486,545
High Tension Station #1 West Avenue	709,637	4,402,862
High Tension Station #2 Bleams Road	460,149	1,312,316
High Tension Station #3 Bleams Road	817,729	6,399,883
High Tension Station #4 West Avenue	156,309	3,998,118
High Tension Station #5 Graber Place	402,273	2,745,511
High Tension Station #6 Ottawa St. S.	548,653	5,854,801
High Tension Station #7 Fairway Road	666,626	4,108,179
High Tension Station #8 Huron Road	1,146,215	805,767
	5,631,820	**32,173,501**

Kitchener-Wilmot Hydro Inc.

CAPITAL EXPENDITURES

For The Year Ended December 31st

		2002
		$
Buildings		
High tension station building # 3	25,366	
High tension station building # 8	1,146,215	
		1,171,581
High tension station equipment		
High tension station # 3	1,619,105	
High tension station # 4	166,912	
High tension station # 8	805,767	
		2,591,784
Distribution station equipment		
Distribution station # 6	274,053	
Distribution station # 7	5,809	
		279,862
Distribution lines		
Overhead	2,610,579	
Underground	3,067,251	
		5,677,830
Distribution transformers		1,505,784
Meters		307,976
Office equipment		38,801
Computer equipment		276,306
Information systems software		68,952
Vehicles and equipment		727,243
Tools, instruments and radio equipment		139,803
Meter shop accreditation		4,974
Construction in progress		(465,739)
		12,325,157

Kitchener-Wilmot Hydro Inc.

CHANGES IN WORKING CAPITAL COMPONENTS

As at December 31st

	2002
	$
Current Assets	**53,203,279**
Current Liabilities	**26,073,944**
Working Capital	**27,129,335**

	2002	2001	Change
	$	$	$
Cash and cash equivalents	**18,792,725**	17,365,963	1,426,762
Accounts receivable	**17,202,574**	12,808,631	4,393,943
Unbilled revenue receivable	**14,374,300**	10,121,300	4,253,000
Inventories	**2,389,343**	2,171,342	218,001
Prepaid expenses	**412,323**	146,646	265,677
Accrued interest receivable	**32,014**	28,992	3,022
Accounts payable & accrued liabilities	**20,543,234**	14,765,093	(5,778,141)
Current portion of customers deposits	**1,458,000**	865,000	(593,000)
Construction and property deposits	**4,072,710**	2,156,824	(1,915,886)
Working capital	**27,129,335**	24,855,957	2,273,378