WASAGA DISTRIBUTION INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2001

CONTENTS

GAVILLER & COMPANY LLP
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholder of **Wasaga Distribution Inc.**:

We have audited the balance sheet of **Wasaga Distribution Inc.** as at December 31, 2001, and the statements of income and deficit 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, 2001 and the results of its operations and its cash flows for the year then ended in accordance with the accounting principles disclosed in Note 1 to the financial statements.

Gaviller & Company LLP
Chartered Accountants
Collingwood, Ontario
March 21, 2002

WASAGA DISTRIBUTION INC.

BALANCE SHEET
AS AT DECEMBER 31, 2001

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ASSETS	
CURRENT	
Unbilled revenue	798,048
CAPITAL	
Land	447,420
Buildings	971,626
Distribution stations	1,101,240
Subtransmission feeders	844,113
Distribution lines - overhead	3,708,413
Distribution lines - underground	4,385,739
Distribution transformers	2,168,421
Distribution meters	788,330
	14,415,302
Accumulated depreciation	(5,939,132)
Contributions in aid of construction, net of $17,148 amortization	(411,551)
	8,064,619
OTHER	
Qualifying transition costs	61,288
FUTURE PAYMENTS IN LIEU OF TAXES RECOVERABLE	215,038
	9,138,993

APPROVED ON BEHALF OF THE BOARD:

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See accompanying notes to the financial statements

WASAGA DISTRIBUTION INC.

BALANCE SHEET
AS AT DECEMBER 31, 2001

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LIABILITIES	
CURRENT	
Accounts payable and accruals	5,000
Interest on note payable to the Town of Wasaga Beach (Note 3)	227,602
	232,602
LONG TERM	
Due to Wasaga Resource Services Inc. (Note 2)	60,405
Note payable to the Town of Wasaga Beach (Note 3)	3,593,269
	3,653,674
Total liabilities	3,886,276
SHAREHOLDER'S EQUITY	
CAPITAL STOCK	
Authorized	
Unlimited common shares	
Issued	
100 common shares	100
RETAINED EARNINGS	19,648
MISCELLANEOUS PAID-IN CAPITAL	5,232,969
Total shareholder's equity	5,252,717
	9,138,993

See accompanying notes to the financial statements

WASAGA DISTRIBUTION INC.

INCOME AND DEFICIT STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2001

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DISTRIBUTION REVENUE	8,139,796
COST OF POWER	6,459,039
GROSS MARGIN (20.65%)	1,680,757
OPERATING AND MAINTENANCE EXPENSE	
Administration charges (Note 2)	1,117,610
Amortization	470,596
Management fee	11,999
Municipal taxes	25,586
Regulatory expenses	7,286
Property insurance	7,488
Professional fees	6,000
Interest on long term liabilities (Note 3)	187,893
	1,834,458
Net operating loss	(153,701)
OTHER REVENUE	90,133
Net loss before payments in lieu of taxes	(63,568)
Future payments in lieu of taxes recoverable	215,038
NET INCOME FOR THE YEAR	151,470
Deficit, beginning of year	(131,822)
RETAINED EARNINGS, END OF YEAR	19,648

See accompanying notes to the financial statements

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2001

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CASH FLOWS FROM (FOR):	
OPERATING ACTIVITIES	
Net income for the year	151,470
Items not requiring funds	
Amortization	470,596
Unbilled revenue adjustment	177,124
Future payments in lieu of taxes	(215,038)
	584,152
Changes in	
Accounts payable and accruals	188,441
Interest on note payable to Town of Wasaga Beach	227,602
Due to Wasaga Resource Services Inc.	(640,624)
	359,571
FINANCING ACTIVITIES	
Net additions to capital assets	(348,265)
INVESTING ACTIVITIES	
Miscellaneous paid in capital	49,982
Qualifying transition costs	(61,288)
	(11,306)
CASH POSITION, BEGINNING AND END OF YEAR	-

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2001

1. ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

(a) The financial statements are prepared in accordance with the Ontario Energy Board Accounting Procedures Handbook and directives.

(b) Revenues from subdividers and others with respect to capital work performed for which the company retains ownership are credited to Developer Contributions Received After 1999. These contributions are amortized to revenue at a rate of 4% using the straight line method.

(c) Capital assets are stated at cost. Capital assets are depreciated over their estimated useful lives, using the straight line method. Assets constructed by others and donated to the Utility are recorded at cost to the developer. Depreciation rates are 4% except as follows:

Buildings	2%
Distribution stations	3.33%
Other capital assets	6.67 to 20%
Computer equipment	20%

(d) Restructuring costs related to qualifying transition factors are being amortized as allowed by the Ontario Energy Board for rate setting purposes.

(e) Payments in lieu of taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

2. RELATED PARTIES

The common shares of Wasaga Resource Services Inc., Wasaga Genco Inc. and Wasaga Distribution Inc. are owned by Geosands Inc. which is owned by the Town of Wasaga Beach.

During the year a services agreement was struck between Wasaga Resource Services Inc. and the company. Included in this agreement is an adjustment to the base consideration of $1,137,364 paid by the company for its services up to 80% of the change in customer count. Also included is a relief clause stating that if the company realizes substantially greater costs in providing any new services to Wasaga Distribution Inc., compensation can be renegotiated and it would be considered reasonable to have 90% of the costs incurred by Wasaga Distribution Inc.

The loan payable to Wasaga Resource Services Inc. of $174,745 has no set terms of repayment and no interest.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2001

3. NOTE PAYABLE TO THE TOWN OF WASAGA BEACH

There are no fixed terms of principal repayment. Interest on the note payable is determined on the principal amount outstanding on the 30th day following December 31st of each year in which principal is owing. The interest rate payable in any given year is the Government of Canada 10 year bond rate posted by the Bank of Canada on December 31st of each year. Interest may be payable in cash or in additional common shares issued by the company. The interest rate at December 31, 2001 was 3%. Interest of $227,602 ($32,128 related to 2000) pertaining to the note payable has been accrued as at December 31, 2001.

4. FINANCIAL INSTRUMENTS

The company's financial instruments consist of unbilled revenue, accounts payable and accruals and long term liabilities. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

5. TAX STATUS

The company is exempt from income taxes under section 149 of the Income Tax Act. The company is required to make payments in lieu of tax calculated on the same basis as income taxes on taxable income earned after September 30, 2001 and capital taxes.

6. PAYMENTS IN LIEU OF TAXES

The company has a loss carryforward of $356,000 to use against future taxable income. The loss will expire in 2008.

7. COMPARATIVE BALANCES

These financial statements do not include comparative balances. These balances would not provide meaningful information due to the changes made to the services agreement with Wasaga Resource Services Inc. Also, the results of operations and cash flows in the prior year were for a two month period.

8. CONTINGENT LIABILITY

A class action claiming $500,000,000 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 electric 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 the financial statements of the company.

Due to the uncertainty of the outcome, no liability has been recorded. The Company will treat this transaction as a current year expense when the liability is reasonably assured and the amount can be reasonably estimated.