WASAGA DISTRIBUTION INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2002

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, 2002, and the statements of income and retained earnings 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, 2002 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 25, 2003

WASAGA DISTRIBUTION INC.

BALANCE SHEET
AS AT DECEMBER 31

	2002	2001
	$	$
Assets		
Current		
Unbilled revenue	**876,961**	798,048
Capital		
Land	**447,420**	447,420
Buildings	**971,626**	971,626
Distribution stations	**1,103,434**	1,101,240
Subtransmission feeders	**843,837**	844,113
Distribution lines - overhead	**3,873,512**	3,708,413
Distribution lines - underground	**4,598,118**	4,385,739
Distribution transformers	**2,286,685**	2,168,421
Distribution meters	**795,800**	788,330
	14,920,432	14,415,302
Accumulated amortization	**(6,430,336)**	(5,939,132)
Contributions in aid of construction, net of amortization of $41,062 (2001 - $17,148)	**(573,938)**	(411,551)
	7,916,158	8,064,619
Other (Note 7)	**709,242**	61,288
Future payments in lieu of taxes recoverable	**-**	215,038
	9,502,361	9,138,993

Approved on behalf of the Board:

____

____

See accompanying notes to the financial statements

WASAGA DISTRIBUTION INC.

BALANCE SHEET
AS AT DECEMBER 31

	2002	2001
	$	$
Liabilities		
Current		
Accounts payable and accruals	**34,375**	5,000
Interest on note payable to the Town of Wasaga Beach (Note 3)	**175,352**	227,602
	209,727	232,602
Long-term		
Due to Wasaga Resource Services Inc. (Note 2)	**466,314**	60,405
Note payable to the Town of Wasaga Beach (Note 3)	**3,593,269**	3,593,269
	4,059,583	3,653,674
Total liabilities	**4,269,310**	3,886,276
Shareholder's equity		
Capital stock		
Authorized		
Unlimited common shares		
Issued		
100 common shares	**100**	100
Retained earnings	**(18)**	19,648
Miscellaneous paid in capital	**5,232,969**	5,232,969
Total shareholder's equity	**5,233,051**	5,252,717
	9,502,361	9,138,993

See accompanying notes to the financial statements

INCOME AND RETAINED EARNINGS STATEMENT
FOR THE YEAR ENDED DECEMBER 31

	2002	2001
	$	$
Revenue		
Sale of power	7,476,274	8,081,436
Distribution services	1,856,554	-
	9,332,828	8,081,436
Cost of power	7,476,274	6,459,039
Distribution income (19.89%; 2001 - 20.08%)	1,856,554	1,622,397
Other operating revenue	134,009	156,074
	1,990,563	1,778,471
Operating and maintenance expense		
Administration charges (Note 2)	1,030,628	1,117,610
Amortization	491,204	470,596
Management fee	12,150	11,999
Municipal and capital taxes	44,237	25,586
Regulatory expenses	-	7,286
Property insurance	7,138	7,488
Professional fees	27,253	6,000
Interest on long-term liabilities (Note 3)	182,581	195,474
	1,795,191	1,842,039
Net income (loss) before payments in lieu of taxes	195,372	(63,568)
Future payments in lieu of taxes (expense) recoverable	(215,038)	215,038
Net income for the year	(19,666)	151,470
Retained earnings (deficit), beginning of year	19,648	(131,822)
Retained earnings, end of year	(18)	19,648

See accompanying notes to the financial statements

WASAGA DISTRIBUTION INC.

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31

	2002	2001
	$	$
Cash flows from (for):		
Operating activities		
Net income for the year	**(19,666)**	151,470
Items not requiring funds		
Amortization	**491,204**	470,596
Unbilled revenue adjustment	**(78,913)**	177,124
Amortization of contributions in aid of construction	**(23,914)**	(17,148)
Future payments in lieu of taxes	**215,038**	(215,038)
	583,749	567,004
Changes in		
Accounts payable and accruals	**29,375**	188,441
Interest on note payable to the Town of Wasaga Beach	**(52,250)**	227,602
Due to Wasaga Resource Services Inc.	**405,909**	(640,624)
	966,783	342,423
Financing activities		
Net additions to capital assets	**(505,130)**	(348,265)
Investing activities		
Contributions in aid of construction	**186,301**	67,130
Qualifying transition costs	**(95,842)**	(61,288)
Net regulatory assets	**(552,112)**	-
	(461,653)	5,842
Cash position, end of year	**-**	-

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2002

1. Accounting policies

The financial statements of the corporation are the representations of management. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement based on available information. The financial statements have, in the opinion of management, been properly prepared within the framework of the accounting policies summarized below:

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

(b) Capital assets are stated at cost. Contributions received in aid of construction of capital assets are capitalized and amortized at the same rate as the related asset. Capital assets are depreciated over their estimated useful lives, using the straight-line method. Assets constructed by others and donated to the company are recorded at cost to the developer. Depreciation rates are as follows:

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

(c) Restructuring costs related to qualifying transition factors are recorded at cost and will be amortized as they are allowed by the Ontario Energy Board for rate setting purposes. This is expected to begin in 2006.

(d) Net regulatory assets represents variances in the purchase and sale of electricity which will be recovered from rates beginning in 2006.

(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.

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 $1,056,324 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 Wasaga Resource Services Inc. realizes substantially greater costs in providing any new services to the company, compensation can be renegotiated and it would be considered reasonable to have 90% of the costs incurred by the company.

The loan payable to Wasaga Resource Services Inc. of $466,314 ($60,405 in 2001) has no set terms of repayment and is non interest bearing.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2002

3. Note payable to the Town of Wasaga Beach

There are no fixed terms of principal repayment. Interest 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, 2002 was 4.88% (3.00% in 2001). Interest of $175,352 ($227,602 in 2001) pertaining to the note payable has been accrued as at December 31, 2002.

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 and capital taxes.

6. Comparative figures

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

7. Other assets

Other assets consist of the following:

	2002	2001
	$	**$**
Qualifying transition factors	**157,130**	61,288
Net regulatory assets	**552,112**	-
	709,242	61,288

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2002

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 defence 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.