WASAGA DISTRIBUTION INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2003

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, 2003, and the statements of income and retained 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 Wasaga Distribution Inc. as at December 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gaviller & Company LLP
Chartered Accountants
Collingwood, Ontario
April 7, 2004

WASAGA DISTRIBUTION INC.

BALANCE SHEET
AS AT DECEMBER 31

	2003	2002
	$	$
Assets		
Current		
Unbilled revenue	**722,639**	876,961
Due from Wasaga Resource Services Inc. (Note 2)	**725,961**	-
	1,448,600	876,961
Capital		
Land	**447,420**	447,420
Buildings	**971,626**	971,626
Distribution stations	**1,103,434**	1,103,434
Subtransmission feeders	**846,251**	843,837
Distribution lines - overhead	**3,995,896**	3,873,512
Distribution lines - underground	**4,844,727**	4,598,118
Distribution transformers	**2,421,855**	2,286,685
Distribution meters	**818,077**	795,800
	15,449,286	14,920,432
Accumulated amortization	**(6,942,971)**	(6,430,336)
Contributions in aid of construction, net of amortization of $72,322 (2002 - $41,062)	**(748,970)**	(573,938)
	7,757,345	7,916,158
Other (Note 7)	**656,447**	709,242
	9,862,392	9,502,361

Approved on behalf of the Board:

____

____

See accompanying notes to the financial statements

WASAGA DISTRIBUTION INC.

BALANCE SHEET
AS AT DECEMBER 31

	2003	2002
	$	$
Liabilities		
Current		
Accounts payable and accruals	**29,378**	34,375
Interest on note payable to the Town of Wasaga Beach (Note 3)	**167,446**	175,352
Due to Wasaga Resource Services Inc. (Note 2)	**-**	466,314
Payments in lieu of taxes	**316,450**	-
	513,274	676,041
Long-term		
Note payable to the Town of Wasaga Beach (Note 3)	**3,593,269**	3,593,269
Total liabilities	**4,106,543**	4,269,310
Shareholder's equity		
Capital stock		
Authorized		
Unlimited common shares		
Issued		
100 common shares	**100**	100
Retained income	**522,780**	(18)
Miscellaneous paid-in capital	**5,232,969**	5,232,969
Total shareholder's equity	**5,755,849**	5,233,051
	9,862,392	9,502,361

See accompanying notes to the financial statements

WASAGA DISTRIBUTION INC.

INCOME AND RETAINED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31

	2003	2002
	$	$
Revenue		
Sale of power	**6,085,829**	7,476,274
Distribution services	**2,536,911**	1,856,554
	8,622,740	9,332,828
Cost of power	**6,085,829**	7,476,274
Distribution income (29.42%; 2002 - 19.89%)	**2,536,911**	1,856,554
Other operating revenue	**228,049**	134,009
	2,764,960	1,990,563
Operating and maintenance expense		
Administration charges (Note 2)	**1,056,324**	1,030,628
Amortization	**512,636**	491,204
Management fee	**43,588**	12,150
Municipal and capital taxes	**39,525**	44,237
Property insurance	**8,207**	7,138
Professional fees	**85,251**	27,253
Interest on long-term liabilities (Note 3)	**172,303**	182,581
	1,917,834	1,795,191
Net income before payments in lieu of taxes	**847,126**	195,372
Provision for payments in lieu of taxes expense		
Current	**324,328**	-
Future	-	215,038
	324,328	215,038
Net income (loss) for the year	**522,798**	(19,666)
Retained (deficit) income, beginning of year	**(18)**	19,648
Retained income (deficit), end of year	**522,780**	(18)

See accompanying notes to the financial statements

WASAGA DISTRIBUTION INC.

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31

	2003	2002
	$	$
Cash flows from (for):		
Operating activities		
Net income for the year	**522,798**	(19,666)
Items not requiring funds		
Amortization	**512,636**	491,204
Unbilled revenue adjustment	**154,322**	(78,913)
Amortization of contributions in aid of construction	**(31,260)**	(23,914)
Future payments in lieu of taxes	**-**	215,038
	1,158,496	583,749
Changes in		
Accounts payable and accruals	**(4,997)**	29,375
Interest on note payable to the Town of Wasaga Beach	**(7,906)**	(52,250)
Due (from) to Wasaga Resource Services Inc.	**(1,192,275)**	405,909
Payments in lieu of taxes	**316,450**	-
	269,768	966,783
Investing and financing activities		
Contributions in aid of construction	**206,292**	186,301
Qualifying transition factors	**(70,131)**	(95,842)
Net regulatory assets	**122,926**	(552,112)
Net additions to capital assets	**(528,855)**	(505,130)
	(269,768)	(966,783)
Cash position, end of year	**-**	-

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2003

1. Accounting policies

The financial statements of the company 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 judgment 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) Significant restructuring costs related to qualifying transition factors are being amortized as allowed by the Ontario Energy Board for rate setting purposes. Transition costs related to industry restructuring that do not qualify for recapture through the rate setting process are recorded as Deferred charges - restructuring transition and are being amortized on a straight-line basis over five years.

(d) Regulatory assets represent variances in the purchase and sale of electricity which will be recovered from rates. Ontario Energy Board has authorized the recovery of 25% of the December 31, 2002 regulatory asset balances beginning in April 2004 and has put a process in place to address the future recovery of remaining asset balances over the following three years.

(e) Payments in lieu of taxes are calculated using the taxes payable method as directed by the Ontario Energy Board. Under the taxes payable method, no provision is made for future income taxes arising from the temporary difference between the tax basis of an asset or liability and its carrying amount on the balance sheet. 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 of the company at that time. The unrecognized future tax liability is $124,264 ($112,338 - 2002) and the unrecognized future tax expense is $12,264 ($102,650 recovery - 2002) arising from differences between the carrying amount and tax value of capital assets. In 2002, the opening future tax liability of $215,038 was expensed when the policy was implemented.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2003

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.

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, 2003 was 4.66% (4.88% in 2002).

4. Financial instruments

The company's financial instruments consist of unbilled revenue, accounts payable and accruals, due to and from Wasaga Resources Services Inc. 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. Fair value does not vary significantly from recorded value.

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. There is a temporary difference of 5% between the tax rate per financial statement (38%) and the tax rate per tax return (33%).

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:

	2003	2002
	$	$
Qualifying transition factors	**227,261**	157,130
Net regulatory assets	**429,186**	552,112
	656,447	709,242

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2003

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 Electricity Distributors 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.