WASAGA DISTRIBUTION INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2004

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AUDITORS' REPORT

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

We have audited the balance sheet of **Wasaga Distribution Inc.** as at December 31, 2004, 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gaviller & Company LLP
Chartered Accountants
Collingwood, Ontario
May 18, 2005

WASAGA DISTRIBUTION INC.

BALANCE SHEET
AS AT DECEMBER 31

	2004	2003
	$	$ Restated (Note 11)
Assets		
Current		
Unbilled revenue (Note 11)	**1,886,069**	1,567,734
Due from Wasaga Resource Services Inc. (Note 2)	**-**	725,961
Payments in lieu of taxes recoverable	**85,622**	-
	1,971,691	2,293,695
Capital		
Land	**508,716**	447,420
Buildings	**982,607**	971,626
Distribution stations	**1,171,328**	1,103,434
Subtransmission feeders	**846,805**	846,251
Distribution lines - overhead	**4,326,247**	3,995,896
Distribution lines - underground	**5,287,849**	4,844,727
Distribution transformers	**2,575,224**	2,421,855
Distribution meters	**868,907**	818,077
	16,567,683	15,449,286
Accumulated amortization	**(7,496,948)**	(6,942,971)
Contributions in aid of construction, net of amortization of $108,173 (2003 - $72,322)	**(860,433)**	(748,970)
	8,210,302	7,757,345
Other (Note 9 and 11)	**1,153**	-
	10,183,146	10,051,040

Approved on behalf of the Board:

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See accompanying notes to the financial statements

BALANCE SHEET
AS AT DECEMBER 31

	2004	2003
	$	$ Restated (Note 11)
Liabilities		
Current		
Accounts payable and accruals	**61,834**	29,378
Interest on note payable to the Town of Wasaga Beach (Note 3)	**260,512**	167,446
Due to Wasaga Resource Services Inc. (Note 2)	**20,797**	-
Payments in lieu of taxes	**-**	316,450
	343,143	513,274
Long-term		
Note payable to the Town of Wasaga Beach (Note 3)	**3,593,269**	3,593,269
Other (Note 9 and 11)	**-**	20,559
	3,593,269	3,613,828
Total liabilities	**3,936,412**	4,127,102
Shareholder's equity		
Capital stock		
Authorized		
Unlimited common shares		
Issued		
100 common shares	**100**	100
Retained income	**1,013,665**	690,869
Miscellaneous paid-in capital	**5,232,969**	5,232,969
Total shareholder's equity	**6,246,734**	5,923,938
	10,183,146	10,051,040

See accompanying notes to the financial statements

WASAGA DISTRIBUTION INC.

INCOME AND RETAINED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31

	2004	2003
	$	$ Restated (Note 11)
Revenue		
Sale of power	**7,001,864**	5,515,304
Distribution services	**2,763,182**	2,536,911
	9,765,046	8,052,215
Cost of power	**7,001,864**	5,515,304
Distribution income (28.30%; 2003- 31.51%)	**2,763,182**	2,536,911
Other operating revenue	**199,117**	228,049
	2,962,299	2,764,960
Operating and maintenance expense		
Administration charges (Note 2)	**1,306,324**	1,056,324
Amortization	**553,977**	512,636
Management fee	**39,350**	43,588
Municipal and capital taxes	**35,123**	39,525
Regulatory expenses	**39,989**	-
Property insurance	**868**	8,207
Interest on long-term liabilities (Note 3)	**260,347**	172,303
Miscellaneous	**148,396**	85,251
	2,384,374	1,917,834
Net income before payments in lieu of taxes	**577,925**	847,126
Provision for payments in lieu of taxes		
Current	**255,129**	324,328
Net income for the year	**322,796**	522,798
Retained income, beginning of year (Note 11)	**690,869**	168,071
Retained income, end of year	**1,013,665**	690,869

See accompanying notes to the financial statements

WASAGA DISTRIBUTION INC.

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31

	2004	2003
	$	$ Restated (Note 11)
Cash flows from (for):		
Operating activities		
Net income for the year	**322,796**	522,798
Items not requiring funds		
Amortization	**553,977**	512,636
Unbilled revenue adjustment	**(318,335)**	154,322
Amortization of contributions in aid of construction	**(35,851)**	(31,260)
	522,587	1,158,496
Changes in		
Accounts payable and accruals	**32,457**	(4,997)
Interest on note payable to the Town of Wasaga Beach	**93,066**	(7,906)
Due from Wasaga Resource Services Inc.	**746,758**	(1,192,275)
Payments in lieu of taxes	**(402,072)**	316,450
	992,796	269,768
Investing and financing activities		
Contributions in aid of construction	**147,314**	206,292
Qualifying transition factors	**(59,010)**	(70,131)
Net regulatory liabilities	**37,297**	122,926
Net additions to capital assets	**(1,118,397)**	(528,855)
	(992,796)	(269,768)
Cash position, end of year	**-**	-

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2004

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) Revenue is recognized on the accrual basis and includes unbilled revenue which is an estimate of electricity consumed by customers but billed in the following year.

(c) 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%

(d) 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.

(e) Regulatory liabilities 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.

(f) 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 asset is $158,124 ($124,264 - 2003) and the unrecognized future tax recovery is $33,860 ($12,264 - 2003) arising from differences between the carrying amount and tax value of capital assets.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2004

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 initial 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. In 2004, the base consideration was adjusted upward by $250,000 to $1,306,324.

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, 2004 was 4.39% (4.66% in 2003). For 2004, the Town of Wasaga Beach increased the interest rate for the note to 7.25%.

4. Financial instruments

The company's financial instruments consist of unbilled revenue, accounts payable and accruals, due to 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.

6. Payments in lieu of tax reconciliation

	2004	2003
	%	%
Tax rate per tax return	**32.1**	33.0
Timing differences	**8.0**	5.0
Permanent differences	**4.0**	-
Tax rate per financial statements	**44.1**	38.0

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2004

7. Supplemental cash flow information

Cash payments and (receipts) were as follows:

	2004	2003
	$	$
Interest	**167,446**	175,352
Tax paid	**666,626**	15,480

8. Comparative figures

Certain comparative figures have been reclassified with regard to recording of retailer revenue to decrease both the sale of power and cost of power by $570,525.

9. Other assets (liabilities)

Other assets consist of the following:

	2004	2003
	$	$
Qualifying transition factors	**286,271**	227,261
Net regulatory liabilities	**(285,118)**	(247,820)
	1,153	(20,559)

NOTES TO THE FINANCIAL STATEMENTS
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10. 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.

11. Prior period adjustment

The 2003 balances have been restated as follows to adjust for an error in the calculation of unbilled revenue:

	Originally Stated	Restated	Change
	$	$	$
Unbilled revenue	722,639	1,567,734	845,095
Other Assets/Liabilities	656,447	(20,559)	(677,006)
Retained income, beginning of year	(18)	168,071	168,089

There was no impact on 2003 net income.