Consolidated Financial Statements

Toronto Hydro Corporation

SEPTEMBER 30, 2009

Toronto Hydro Corporation

INTERIM CONSOLIDATED BALANCE SHEETS

[in thousands of dollars, unaudited]

	As at September 30, 2009 $	As at December 31, 2008 $
ASSETS		
Current		
Cash and cash equivalents	**210,152**	340,492
Accounts receivable, net of allowance for doubtful accounts *[note 10[b]]*	**183,527**	131,582
Unbilled revenue	**259,579**	266,061
Payments in lieu of corporate taxes receivable	**20,140**	24,006
Inventories	**6,046**	5,069
Prepaid expenses	**4,257**	2,503
Assets from discontinued operations	**514**	-
Total current assets	**684,215**	769,713
Property, plant and equipment, net	**1,884,590**	1,853,606
Intangible assets, net	**65,349**	66,701
Investments *[note 4]*	**47,930**	52,908
Regulatory assets *[note 5]*	**57,620**	26,213
Other assets	**7,637**	7,862
Future income tax assets *[notes 3 and 5]*	**295,478**	2,809
Total assets	**3,042,819**	2,779,812
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	**284,043**	294,839
Current portion of other liabilities	**17,214**	17,382
Deferred revenue	**2,764**	3,274
Current portion of promissory note payable *[note 7]*	**245,058**	245,058
Liabilities from discontinued operations	**676**	890
Total current liabilities	**549,755**	561,443
Long-term liabilities		
Debentures *[note 7]*	**471,922**	471,521
Promissory note payable *[note 7]*	**490,115**	490,115
Post-employment benefits *[note 8]*	**160,392**	152,771
Regulatory liabilities *[note 5]*	**332,189**	83,516
Other liabilities	**1,470**	2,230
Asset retirement obligations	**7,227**	6,528
Customers' advance deposits	**32,924**	30,283
Future income tax liabilities	**-**	114
Liabilities from discontinued operations	**512**	-
Total long-term liabilities	**1,496,751**	1,237,078
Total liabilities	**2,046,506**	1,798,521
Contingencies *[note 13]*		
Shareholder's equity		
Share capital *[note 11]*	**567,817**	567,817
Retained earnings	**428,496**	413,474
Total shareholder's equity	**996,313**	981,291
Total liabilities and shareholder's equity	**3,042,819**	2,779,812

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF INCOME

[in thousands of dollars, except for per share amounts, unaudited]

	Three months ended September 30,		Nine months ended September 30,	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Revenues	**639,692**	633,236	**1,827,630**	1,793,476
Costs				
Purchased power and other	**509,646**	501,346	**1,449,258**	1,425,545
Operating expenses	**51,684**	47,970	**158,775**	145,839
Depreciation and amortization	**40,837**	39,450	**122,375**	116,998
	602,167	588,766	**1,730,408**	1,688,382
Income before interest, change in fair value of investments and provision for (recovery of) payments in lieu of corporate taxes	**37,525**	44,470	**97,222**	105,094
Interest income	**975**	2,832	**2,513**	9,340
Interest expense				
Long-term debt	**(17,885)**	(17,885)	**(53,656)**	(53,656)
Other interest	**216**	(604)	**(995)**	(2,521)
Change in fair value of investments *[note 4]*	**(3,507)**	(9,185)	**(1,049)**	(18,612)
Income before provision for (recovery of) payments in lieu of corporate taxes	**17,324**	19,628	**44,035**	39,645
Provision for (recovery of) payments in lieu of corporate taxes	**5,498**	8,599	**10,620**	(1,663)
Income from continuing operations	**11,826**	11,029	**33,415**	41,308
Income (loss) from discontinued operations - net of tax *[note 14]*	**5**	115,594	**(223)**	122,884
Net income for the period	**11,831**	126,623	**33,192**	164,192
Basic and fully diluted net income per share from continuing operations	**11,826**	11,029	33,415	41,308
Basic and fully diluted net income (loss) per share from discontinued operations	**5**	115,594	(223)	122,884
Basic and fully diluted net income per share	**11,831**	126,623	**33,192**	164,192

INTERIM CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

[in thousands of dollars, unaudited]

	Three months ended September 30,		Nine months ended September 30,	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Retained earnings, beginning of period	**422,665**	370,031	**413,474**	360,878
Net income for the period	**11,831**	126,623	**33,192**	164,192
Dividends *[note 11]*	**(6,000)**	(6,000)	**(18,170)**	(34,416)
Retained earnings, end of period	**428,496**	490,654	**428,496**	490,654

The accompanying notes are an integral part of the interim consolidated financial statements.

Toronto Hydro Corporation

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of dollars, unaudited]

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	**2009**	2008
	$	$	**$**	$
OPERATING ACTIVITIES				
Income from continuing operations	**11,826**	11,029	**33,415**	41,308
Adjustments for non-cash items				
Depreciation and amortization	**40,837**	39,450	**122,375**	116,998
Change in fair value of investments *[note 4]*	**3,507**	9,185	**1,049**	18,612
Net change in other assets and liabilities	**(46)**	557	**(801)**	(313)
Payments in lieu of corporate taxes	**1,529**	4,582	**3,866**	(7,959)
Post-employment benefits	**4,299**	2,045	**7,621**	6,120
Future income taxes	**166**	(897)	**504**	(1,042)
Changes in non-cash working capital balances				
Increase in accounts receivable	**(26,281)**	(26,546)	**(52,307)**	(20,367)
Decrease (increase) in unbilled revenue	**(20,559)**	22,526	**6,482**	23,485
Decrease (increase) in inventories	**(511)**	192	**(977)**	(714)
Increase in prepaid expenses	**(160)**	(332)	**(1,830)**	(2,765)
Increase (decrease) in accounts payable and accrued liabilities	**8,230**	(5,620)	**(9,709)**	(14,465)
Decrease in deferred revenue	**(1,242)**	(1,086)	**(443)**	(1,412)
Net cash provided by operating activities	**21,595**	55,085	**109,245**	157,486
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(52,633)**	(54,560)	**(140,894)**	(141,413)
Purchase of intangible assets	**(7,117)**	(5,501)	**(18,555)**	(16,990)
Accumulated cash in conduit trusts *[note 4]*	**-**	-	**3,929**	-
Net change in regulatory assets and liabilities	**(13,909)**	(2,131)	**(67,826)**	38,095
Net cash used in investing activities	**(73,659)**	(62,192)	**(223,346)**	(120,308)
FINANCING ACTIVITIES				
Dividends paid *[note 11]*	**(6,000)**	(6,000)	**(18,170)**	(34,416)
Increase (decrease) in customers' advance deposits	**3,226**	2,943	**2,473**	(172)
Net cash used in financing activities	**(2,774)**	(3,057)	**(15,697)**	(34,588)
Net cash provided by (used in) continuing operations	**(54,838)**	(10,164)	**(129,798)**	2,590
Net cash provided by (used in) discontinued operations	**233**	171,502	**(542)**	168,565
Net increase (decrease) in cash and cash equivalents during the period	**(54,605)**	161,338	**(130,340)**	171,155
Cash and cash equivalents, beginning of period	**264,757**	225,819	**340,492**	216,002
Cash and cash equivalents, end of period	**210,152**	387,157	**210,152**	387,157
Supplementary cash flow information				
Total interest paid	**11,273**	11,553	**48,084**	47,922
Payments in lieu of corporate taxes	**5,264**	26,024	**8,146**	33,751

The accompanying notes are an integral part of the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2009

1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of Toronto Hydro Corporation [the "Corporation"] have been prepared in accordance with Canadian generally accepted accounting principles ["GAAP"] with respect to the preparation of interim financial information. Accordingly, the disclosures in these statements do not conform in all respects to the requirements of Canadian GAAP for annual consolidated financial statements. These financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements of the Corporation for the year ended December 31, 2008, except as disclosed in note 3, and should be read in conjunction with those statements.

2. REGULATION

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the Ontario Energy Board ["OEB"] and interested stakeholders, may affect the distribution rates and other permitted recoveries in the future.

Electricity Distribution Rates

On May 15, 2008, the OEB issued its decision regarding Toronto Hydro-Electric System Limited's ["LDC"] electricity distribution rates application for 2008 and 2009. In its decision, the OEB provided final approval for 2008 base distribution revenue requirement and rate base of $473,000,000 and $1,968,900,000, respectively. It should be noted that the deemed debt to equity structure of LDC was modified to 62.5% debt and 37.5% equity for 2008 and to 60.0% debt and 40.0% equity for 2009 and thereafter.

In its decision on LDC's electricity distribution rates for 2008 and 2009, the OEB ordered that 100% of the net after-tax gains on the sale of certain LDC properties should be deducted from the revenue requirement recovered through distribution rates. The OEB deemed this amount to be $10,300,000 [the "deemed amount"]. On June 16, 2008, LDC filed an appeal with the Divisional Court of Ontario [the "Divisional Court"] seeking to overturn the gain on sale aspects of the OEB decision and also sought and obtained a stay order with respect to the deduction of the deemed amount from the revenue requirement recovered through rates. On April 30, 2009, the Divisional Court denied the appeal by LDC. LDC filed a motion with the Court of Appeal for leave to appeal that decision of the Divisional Court. The requested leave was denied on September 14, 2009.

LDC is currently in the process of preparing a notice of clarification to the OEB in relation to this issue. LDC will be seeking clarification in regards to the timing and the quantum of the expected reduction in distribution revenue. LDC's position is that the reduction in distribution revenue should be done after the deemed properties are sold and for the related actual net after-tax gain. In the event the OEB does not concur with LDC's position and orders an immediate reduction in distribution revenue, the Corporation would have to reduce its distribution revenue by the deemed amount less the net after-tax gain of the deemed properties already sold. At September 30, 2009, the reduction in distribution revenue would be approximately $8,700,000.

On December 15, 2008, LDC applied to the OEB to refund to customers amounts related to the unanticipated extension for three months of rate riders that were to have expired April 30, 2008. On April 16, 2009, in its decision regarding 2009 electricity distribution rates, the OEB approved the refund of $7,582,000 to customers in relation with this extension.

On February 24, 2009, the OEB issued the allowed return on equity for LDC for 2009. The percentage was set at 8.01%. Using approved 2009 distribution expenses and capital expenditures, LDC has estimated the 2009 distribution revenue requirement and rate base of $482,500,000 and $2,035,000,000, respectively.

On August 28, 2009, LDC filed a rate application with the OEB seeking approval of revenue requirement and corresponding rates for the rate year May 1, 2010. The requested base distribution revenue requirement for this rate year is $528,700,000.

Smart Meters

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010, LDC launched its smart meter project in 2006. The project objective is to install smart meters and the supporting infrastructure by the end of 2010 for all residential and commercial customers. LDC had installed approximately 622,000 smart meters as at September 30, 2009.

The OEB's decision issued on May 15, 2008 regarding the electricity distribution rates application of LDC provided directions regarding the accounting treatment of smart meters expenditures incurred in 2007 and 2008. In its decision, the OEB directed LDC to record to property, plant and equipment all capital expenditures incurred prior to December 31, 2007 and to record to a deferral account all expenditures incurred after January 1, 2008. The recovery of expenditures incurred after January 1, 2008 will be subjected to a prudence review by the OEB in the near future. The decision rendered by the OEB also allowed LDC to keep the net book value of the stranded meters related to the deployment of smart meters in its rate base.

Lost Revenue Adjustment Mechanism ["LRAM"] and Shared Savings Mechanism ["SSM"]

On December 15, 2008, LDC applied to the OEB to recover LRAM and SSM amounts related to Conservation and Demand Management ["CDM"] programs undertaken in 2007. On September 22, 2009, the OEB approved the recovery by LDC of $3,490,000 in relation to this application through rate riders commencing May 1, 2010.

Street Lighting Activities

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution license for a new wholly owned legal entity to which the Corporation intends to transfer the street lighting assets of Toronto Hydro Energy Services Inc. ["TH Energy"]. Concurrently, the Corporation filed another application with the OEB seeking approval for the merger of LDC and the new legal entity. The main objective of these applications is to transfer the street lighting assets to the regulated electricity distribution activities of LDC to increase the overall safety of the related infrastructure. The Corporation intends to move forward with the transfer of the street lighting assets from TH Energy to the new legal entity and subsequent merger only if the OEB approves both applications described above.

Contact Voltage

On June 30, 2009, LDC filed an application with the OEB seeking recovery of certain past and future costs incurred for the unexpected impact of the remediation of safety issues on its electricity distribution infrastructure. LDC is seeking recovery of $14,350,000 by way of fixed term rate riders of three years for the street lighting and unmetered scattered load rate classes, and one year for all other classes.

OEB Payments in Lieu of Corporate Taxes [“PILs”] Proceeding

In 2009, the OEB commenced its review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for all municipal electricity utilities. The current proceeding is expected to provide guidance for the definition and calculation of such variances. The outcome of this proceeding could have a material impact on the financial position of the Corporation.

3. ACCOUNTING POLICIES

a) Use of Estimates

The preparation of the Corporation’s unaudited interim consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions which affect 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 period. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or Minister of Finance.

b) Changes in Accounting Standards

Rate-Regulated Operations

Effective January 1, 2009, the Corporation adopted amended Canadian Institute of Chartered Accountants [“CICA”] Handbook Section 1100 – “Generally Accepted Accounting Principles” [“Handbook Section 1100”], Handbook Section 3465 – “Income Taxes” [“Handbook Section 3465”], and Accounting Guideline 19 – “Disclosures by Entities Subject to Rate Regulation”. These amended standards remove a temporary exemption in Handbook Section 1100 pertaining to the application of that section to the recognition and measurement of assets and liabilities arising from rate regulation, require the recognition of future income tax liabilities and assets in accordance with Handbook Section 3465 as well as a separate regulatory asset or liability balance for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers, and retain existing requirements to disclose the effects of rate regulation. The revised standards are effective for interim and annual financial statements for the fiscal years beginning on or after January 1, 2009.

Following the removal of the temporary exemption for rate-regulated operations included in Handbook Section 1100, the Corporation developed accounting policies for its assets and liabilities arising from rate regulation using professional judgment and other sources issued by bodies authorized to issue accounting standards in other jurisdictions. Upon final assessment and in accordance with Handbook Section 1100, the Corporation has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Statement of Financial Accounting Standards No. 71 –

"Accounting for the Effects of Certain Types of Regulation". Accordingly, the removal of the temporary exemption had no effect on the Corporation's results of operations as of September 30, 2009.

The impact of the amendment to Handbook Section 3465 requires the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates, applied on a retroactive basis without prior period restatement. The implementation of these standards did not impact the Corporation's earnings or cash flows. As at September 30, 2009, LDC has recorded a future income tax asset of $293,365,000, and a corresponding regulatory liability of $293,365,000 *[note 5]*.

Goodwill and Intangible Assets

Effective January 1, 2009, the Corporation retrospectively adopted CICA Handbook Section 3064 - "Goodwill and Intangible Assets" ["Handbook Section 3064"]. Handbook Section 3064 replaces Handbook Section 3062 – "Goodwill and Other Intangible Assets" ["Handbook Section 3062"] and provides extensive guidance on recognition, measurement and disclosure of intangible assets.

The Corporation evaluated existing intangible assets as at January 1, 2009 to determine whether the intangible assets recognized under previous Handbook Section 3062 met the definition, recognition, and measurement criteria of an intangible asset in accordance with Handbook Section 3064. The assets included land rights or easements, computer software, and capital contributions. As a result, the Corporation identified $1,985,000 of expenditures that no longer met the definition of intangible assets under Handbook Section 3064. As a result, these expenditures were removed from intangible assets and transferred to a regulatory asset account for future recovery. The Corporation's decision to record these expenditures to regulatory assets is based on the fact that the expenditures have already been approved for recovery by the OEB in prior regulatory proceedings. In the absence of rate regulation, these expenditures would have been recorded to opening retained earnings.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued Emerging Issues Committee Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ["EIC-173"], effective for interim and annual financial statements ending on or after January 2009. EIC-173 provides further information on the determination of the fair value of financial assets and financial liabilities under Handbook Section 3855 - "Financial Instruments - Recognition and Measurement" ["Handbook Section 3855"]. It states that an entity's own credit and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this standard did not have any impact on the Corporation's results of operations or financial position.

Financial Instruments – Recognition and Measurement

In August 2009, the CICA amended Handbook Section 3855 to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply prospectively to reclassifications made on or after July 1, 2009. Earlier adoption is permitted. The application of these amendments did not have any impact on the Corporation's results of operations or financial position since there has not been any financial assets reclassified out of the held-for-trading category.

c) Future Accounting Pronouncements

International Financial Reporting Standards ["IFRS"]

On February 13, 2008, the Accounting Standards Board of Canada ["AcSB"] confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP prior to 2011, with the remaining standards to be adopted at the change over date. The Corporation has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its consolidated financial statements. Although the impact of the adoption of IFRS on the Corporation's financial position and results of operations is not yet reasonably determinable or estimable, the Corporation does expect a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS, and is designing the systems and related processes changes, which will be required in order to provide the additional information required to make these disclosures.

Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued Handbook Section 1601 – "Consolidated Financial Statements" ["Handbook Section 1601"]. This section along with the new Handbook Section 1602 – "Non-controlling Interests" ["Handbook Section 1602"] replace Handbook Section 1600 – "Consolidated Financial Statements" and establish standards for the preparation of consolidated financial statements. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted as of the beginning of a fiscal year. The Corporation has determined that these standards will have no impact on the classification or valuation of its consolidated financial statements.

Financial Instruments - Disclosures

In June 2009, the CICA amended Handbook Section 3862 – "Financial Instruments – Disclosures" to include additional disclosures requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009, and comparative information is not required in the first year of application. The Corporation is currently evaluating the impact of these amendments and will include the additional required disclosures for the year ending December 31, 2009.

Financial Instruments – Recognition and Measurement

In June 2009, the CICA amended Handbook Section 3855 to clarify when an embedded prepayment option is separated from its host debt instrument for accounting purposes. This amendment applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. This section has also been amended to clarify the application of the effective interest method after a debt instrument has been impaired. This amendment applies retrospectively to financial statements for fiscal years beginning on or after January 1, 2010. The Corporation is currently in the process of evaluating the potential impact of these amendments on its financial statements.

Comprehensive Revaluation of Assets and Liabilities

In August 2009, the CICA amended Handbook Section 1625 – "Comprehensive Revaluation of Assets and Liabilities" to be consistent with Handbook Section 1582 – "Business Combinations", Handbook Section 1601 and Handbook Section 1602, which were issued in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Corporation is currently in the process of evaluating the potential impact of these amendments on its financial statements.

Impaired Loans

In August 2009, the CICA amended Handbook Section 3025 – "Impaired Loans" to include held-to-maturity investments and to conform the definition of a loan to that in amended Handbook Section 3855. These amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. The Corporation is currently in the process of evaluating the potential impact, if any, of these amendments on its financial statements.

4. INVESTMENTS

On January 12, 2009, the Ontario Superior Court approved the restructuring plan proposed by the Montreal Committee and supported by the noteholders of the Canadian third-party Asset Backed Commercial Paper ["ABCP"] market. On January 21, 2009, the amended restructuring plan was completed and the Corporation received its replacement notes. The replacement notes received have an aggregate principal amount of $87,700,000.

The distribution by class is listed below:

Master Asset Vehicle II	Amount Received	Percent of Total
Class A-1	36,900,000	42.1%
Class A-2	34,500,000	39.3%
Class B	6,300,000	7.2%
Class C	2,400,000	2.7%
Ineligible Asset Tracking notes	7,600,000	8.7%

Of the $87,700,000, $80,100,000 includes a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets which is represented by senior Class A-1 and Class A-2 and subordinated Class B and Class C long-term restructured notes, and $7,600,000 is represented by assets that have an exposure to U.S. mortgages and sub-prime mortgages, which has been replaced by Ineligible Asset Tracking ["IAT"] notes.

At the time of issuance, DBRS assigned an "A" credit rating to the Class A-1 and A-2 notes; the Class B, C and IAT notes were unrated. On August 11, 2009, DBRS downgraded the rating of the Class A-2 notes from A to BBB (low).

According to the Eighteenth and Nineteenth Reports of the Monitor, the "legal final maturity" of the restructured notes is July 15, 2056. However, the expected repayment date for the restructured Class A-1 and Class A-2 notes is January 22, 2017. Based on the information contained in the above-mentioned reports, there is no obligation to pay interest on the notes before 2019 and no legal requirement to pay principal until 2056.

As part of the implementation of the restructuring plan, the Corporation re-measured its investments in ABCP notes prior to the exchange. This valuation considered new information available at that date and reflected current market conditions. As a result of this valuation, the Corporation increased the fair value of its investment in ABCP notes from $52,908,000 at December 31, 2008 to $56,524,000 at January 20, 2009. The increase in fair value reflected the expected payment to the Corporation of its share of cash accumulated in the conduit trusts from August 2007 to January 2009. The increase in fair value was recorded as income in the first quarter of 2009, under change in fair value of investments.

On January 23, 2009, the Corporation received $2,712,000 representing the first instalment of its share of the accumulated cash in the conduit trusts up to August 31, 2008. On May 15, 2009, the Corporation received a further $1,217,000 representing the second instalment of its share of accumulated cash in the conduit trusts from September 2008 through January 20, 2009. These balances reduced the value of the investments.

Following the receipt of the new notes, the Corporation changed the classification of its ABCP holdings from "Investments Held To Maturity" to "Investments Held For Trading". This change was mainly related to the underlying nature of the new notes and follows the guidance issued by the AcSB on February 2, 2009. The new notes are measured at fair value at each period end with changes in fair value included in the income statement in the period in which they arise.

There is currently no active reliable market for the notes received by the Corporation. Accordingly, the Corporation has developed a valuation technique that incorporates available information and market data. The valuation technique used by the Corporation to estimate the fair value of its investments in the restructured notes as at September 30, 2009, incorporates a discounted cash flow model considering the best available public information regarding market conditions, including the ratings assigned by DBRS regarding the Class A-1 and Class A-2 notes, and other factors that a market participant would consider for such investments and a mark-to-model valuation of the notes.

A weighted average interest rate of 2.15% was used to determine the expected interest income on the restructured notes, except for the IAT notes, for which a weighted average interest rate of 2.85% was used. These rates were based on a forecast of 90-day Bankers' Acceptance ["BA"] rates less 50 basis points from 2009 through 2017; except for the IAT notes for which a discount rate based on forecast 90-day BA rate plus 20 basis points was used. To derive a net present value of the principal and future cash flows, the restructured notes were discounted using an

interest rate spread over forecast BA rates ranging from 340 basis points to 1,600 basis points over a seven-year period. On a weighted average basis, the interest rates used to discount the notes ranged from 4.94% to 17.54%.

The discount rates vary by each of the different replacement long-term notes issued as each is expected to have a different risk profile. The discount rates used to value the notes include a risk premium factor that incorporates current indicative credit default swap spreads, an estimated liquidity premium, and a premium for credit losses.

Based on the assumptions described above, the discounted cash flows resulted in an estimated fair value of the Corporation's investment in the restructured notes of $47,930,000 as at September 30, 2009 as compared to $56,524,000 as at January 20, 2009. The variance was mainly related to the cash received in connection with the Corporation's share of cash accumulated in the conduit trusts and changes in market conditions including the impact of the credit rating downgrade of the Class A-2 notes in August 2009.

A sensitivity analysis was also conducted to examine the impact of an increase or a decrease in the overall weighted average discount rate. Based on the Corporation's mark-to-model valuation, a variation of 1% (100 basis points) would reduce or increase the estimated fair value of the restructured notes by $3,700,000.

The estimation by the Corporation of the fair value of the restructured notes, as at September 30, 2009, is subject to significant risks and uncertainties, including the timing and amount of future cash flows, market liquidity and the quality of the underlying assets and financial instruments. Accordingly, there can be no assurance that the Corporation's assessment of the estimated fair value of the restructured notes will not change materially in subsequent periods.

The on-going liquidity crisis in the third-party ABCP market has had no significant impact on the Corporation's operations. The Corporation has sufficient cash to fund all of its ongoing liquidity and capital expenditure requirements and is in compliance with the financial covenants under the terms of its outstanding indebtedness.

5. REGULATORY ASSETS AND LIABILITIES

In its decision regarding the electricity distribution rates of LDC issued on May 15, 2008, the OEB approved the disposition of regulatory liabilities of $18,622,000, consisting of settlement variances of $14,590,000 and pre-market opening line loss variance of $4,032,000. For the three months and the nine months ended September 30, 2009, LDC disposed of approved regulatory liability amounts of $2,043,000 and $11,763,000 through permitted distribution rate adjustments [three months and nine months ended September 30, 2008 - $3,576,000 and $3,576,000].

As at September 30, 2009, LDC has accumulated a PILs variance amount representing differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in the rate adjustment model totaling an over-recovery of $14,354,000 [December 31, 2008 – $11,712,000].

For the three months and the nine months ended September 30, 2009, LDC has incurred $800,000 and $4,984,000 of unexpected costs for the remediation of safety issues on its electricity distribution infrastructure in 2009. These costs have been recorded to regulatory assets as LDC expects to obtain recovery of these costs in the near future. Under Canadian GAAP for unregulated businesses, these costs would have been recorded to operating expenses. In

the absence of rate regulation, for the three months and the nine months ended September 30, 2009, operating expenses would have been $800,000 and $4,984,000 higher.

For the three months and the nine months ended September 30, 2009, LDC has incurred $673,000 and $1,958,000 [three months and nine months ended September 30, 2008 - $nil and $nil] of costs relating to the IFRS conversion project. These costs have been recorded to regulatory assets as LDC expects to obtain recovery of these costs in the future. Under Canadian GAAP for unregulated businesses, these costs would have been recorded to operating expenses. In the absence of rate regulation, for the three months and the nine months ended September 30, 2009, operating expenses would have been $673,000 and $1,958,000 higher [three months and nine months ended September 30, 2008 - $nil and $nil].

In connection with its smart meter initiatives, LDC has incurred costs amounting to $5,387,000 and $17,402,000, for the three months and the nine months ended September 30, 2009 [three months and nine months ended September 30, 2008 - $6,653,000 and $24,520,000]. As at September 30, 2009, smart meter capital expenditures, net of accumulated depreciation, totalling $41,318,000 have been recorded to regulatory assets [December 31, 2008 - $27,559,000]. These expenditures would otherwise have been recorded as property, plant and equipment under Canadian GAAP for unregulated businesses. In the absence of rate regulation, property, plant and equipment would have been $41,318,000 higher as at September 30, 2009 [December 31, 2008 - $27,559,000]. For the three months and the nine months ended September 30, 2009, smart meter customer revenues of $1,436,000 and $4,302,000 were deferred [three months and nine months ended September 30, 2008 - $1,425,000 and $2,369,000]. In the absence of rate regulation, revenue for the three months and the nine months ended September 30, 2009 would have been $1,436,000 and $4,302,000 higher [three months and nine months ended September 30, 2008 - $1,425,000 and $2,369,000]. For the three months and the nine months ended September 30, 2009, smart meter depreciation expense of $1,038,000 and $2,324,000 was deferred which otherwise would have been charged to depreciation expense under Canadian GAAP for unregulated businesses [three months and nine months ended September 30, 2008 - $333,000 and $680,000]. In the absence of rate regulation, for the three months and nine months ended September 30, 2009, depreciation expense would have been $1,038,000 and $2,324,000 higher [three months and nine months ended September 30, 2008 - $333,000 and $680,000].

As at September 30, 2009, the net book value of stranded meters related to the deployment of smart meters amounting to $25,769,000 [December 31, 2008 - $25,866,000] is included in property, plant and equipment. In the absence of rate regulation, property, plant and equipment would have been $25,769,000 lower as at September 30, 2009 [December 31, 2008 - $25,866,000].

On January 1, 2009, LDC began to account for the differences between its financial statement carrying value and tax basis of assets and liabilities following the liability method in accordance with CICA Handbook Section 3465 *[note 3]*. As at September 30, 2009, LDC has recorded a future income tax asset of $293,365,000, and a corresponding regulatory liability of $293,365,000.

6. CREDIT FACILITIES

As at September 30, 2009, $45,077,000 [December 31, 2008 - $45,078,000] had been utilized under the Corporation's revolving credit facility in the form of letters of credit primarily to support the prudential requirements of LDC with the Independent Electricity System Operator. As at September 30, 2009, no amounts had been drawn for working capital purposes [December 31, 2008 - $nil].

As at September 30, 2009, no amounts had been drawn on the $20,000,000 bilateral demand line of credit [December 31, 2008 - $nil].

7. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30 2009 $	**December 31 2008 $**
Senior unsecured debentures		
Series 1 – 6.11% due May 7, 2013	**223,303**	223,001
Series 2 – 5.15% due November 14, 2017	**248,619**	248,520
Promissory note payable to the City	**735,173**	735,173
	1,207,095	1,206,694
Less: Current portion of promissory note payable to the City	**245,058**	245,058
Long-term debt	**962,037**	961,636
Comprising:		
Debentures	**471,922**	471,521
Promissory note payable to the City	**490,115**	490,115

All long-term debt of the Corporation ranks equally.

a) Senior unsecured debentures

On May 7, 2003, the Corporation issued $225,000,000, 10-year senior unsecured debentures ["Series 1"]. The Series 1 debentures bear interest at a rate of 6.11% per annum, payable semi-annually in arrears in equal instalments on May 7 and November 7 of each year. The Series 1 debentures mature on May 7, 2013.

On November 14, 2007, the Corporation issued $250,000,000, 10-year senior unsecured debentures ["Series 2"]. The Series 2 debentures bear interest at the rate of 5.15% per annum, payable semi-annually in arrears in equal instalments on May 14 and November 14 of each year. The Series 2 debentures mature on November 14, 2017.

The Corporation may redeem some or all of the debentures at any time prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest up to but excluding the date fixed for redemption. Also, the Corporation may, at any time and from time to time, purchase debentures for cancellation, in the open market, by tender or by private contract, at any price. The debentures have the benefit of certain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets.

b) Promissory note payable to the City of Toronto

The Corporation's promissory note [the "City Note"] in the principal amount of $735,173,000 is payable to the City of Toronto [the "City"] and bears interest at a rate of 6.11%. The Corporation is required to pay the principal amount of the note as follows: $245,058,000 on the last business day before each of December 31, 2009, December 31, 2011 and on May 6, 2013. As a result of the next scheduled payment for December 31, 2009, $245,058,000 of the principal amount outstanding under the City Note is classified as a short-term liability, with the remainder being classified as a long-term liability. Interest is calculated and payable quarterly in arrears on the last business day of March, June, September and December of each year.

8. EMPLOYEE FUTURE BENEFITS

a) Pension

For the three months and the nine months ended September 30, 2009, the Corporation's current service pension costs payable to Ontario Municipal Employees Retirement System were $2,515,000 and $8,400,000 [three months and nine months ended September 30, 2008 - $2,405,000 and $8,236,000].

b) Employee future benefits other than pension

For the three months and the nine months ended September 30, 2009, the Corporation recognized periodic benefit costs of $6,138,000 and $12,188,000 [three months and nine months ended September 30, 2008 – $3,444,000 and $10,331,000] of which $2,824,000 and $5,350,000 [three months and nine months ended September 30, 2008 – $1,602,000 and $4,521,000] were capitalized as part of property, plant and equipment, resulting in $3,314,000 and $6,838,000 [three months and nine months ended September 30, 2008 – $1,842,000 and $5,810,000] charged to operations.

9. CAPITAL DISCLOSURES

The Corporation's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain and improve the electricity distribution system of LDC, and to meet any capital needs of its other subsidiary companies should such needs arise;
- ensure compliance with covenants related to its credit facilities, senior unsecured debentures and the City Note;
- maintain an A- credit rating as required under its shareholder direction; and
- align its capital structure for regulated activities of LDC with the debt to equity structure deemed by the OEB.

As at September 30, 2009, the Corporation's definition of capital includes shareholder's equity and long-term debt which includes the current portion of the promissory note payable to the City, and has remained unchanged from December 31, 2008. As at September 30, 2009, shareholder's equity amounts to $996,313,000 [December 31, 2008 – $981,291,000] and long-term debt, including the current portion of the promissory note payable to the City, amounts to $1,207,095,000 [December 31, 2008 – $1,206,694,000]. The Corporation's capital structure as at September 30, 2009 is 55% debt and 45% equity [December 31, 2008 - 55% debt and 45% equity]. There have been no changes in the Corporation's approach to capital management during the period.

As at September 30, 2009, the Corporation is subject to debt agreements that contain various covenants. The Corporation's unsecured debentures and the City Note limit consolidated funded indebtedness to a maximum of 75% of total consolidated capitalization. As at September 30, 2009, consolidated funded indebtedness to consolidated capitalization was 55% [December 31, 2008 – 56%].

The Corporation's revolving credit facility limits the debt to capitalization ratio to a maximum of 75%. As at September 30, 2009, the debt to capitalization ratio was 56% [December 31, 2008 – 56%].

The Corporation's long-term debt agreements also include negative covenants such as limitations on funded indebtedness, limitations on designated subsidiary indebtedness, restrictions on mergers and dispositions of designated subsidiaries, and amendments to the City Note. As at September 30, 2009, and as at December 31, 2008, the Corporation was in compliance with all covenants included in its long-term debt agreements, City Note and short-term revolving credit facility.

10. FINANCIAL INSTRUMENTS

a) Recognition and measurement

The measurement of each financial instrument depends on the balance sheet classification elected by the Corporation. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

The Corporation's carrying value and fair value of financial instruments consist of the following:

	September 30 2009 $		December 31 2008 $	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	**210,152**	**210,152**	340,492	340,492
Accounts receivable, net of allowance for doubtful accounts	**183,527**	**183,527**	131,582	131,582
Investments	**47,930**	**47,930**	52,908	52,908
Accounts payable and accrued liabilities	**284,043**	**284,043**	294,839	294,839
Senior unsecured debentures				
Series 1 – 6.11% due May 7, 2013	**223,303**	**251,066**	223,001	242,522
Series 2 – 5.15% due November 14, 2017	**248,619**	**269,629**	248,520	247,872
Promissory note payable to the City	**735,173**	**778,283**	735,173	770,224

b) Risk Factors

The Corporation's activities provide for a variety of financial risks, particularly credit risk and liquidity risk.

Credit risk

Financial instruments are exposed to credit risk as a result of the risk of the counter-party defaulting on its obligations. The Corporation monitors and limits its exposure to credit risk on a continuous basis. The Corporation provides reserves for credit risks based on the financial condition and short and long-term exposures to counter-parties.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from LDC customers. LDC has approximately 689,000 customers, the majority of which are residential. LDC collects security deposits from customers in accordance with directions provided by the OEB. As at September 30, 2009, LDC held security deposits in the amount of $49,158,000 [December 31, 2008 - $46,685,000].

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement.

Credit risk associated with accounts receivable is as follows:

	September 30 2009 $	December 31 2008 $
Total accounts receivable	**195,937**	141,692
Less: Allowance for doubtful accounts	**(12,410)**	(10,110)
Total accounts receivable, net	**183,527**	131,582
Of which:		
Outstanding for not more than 30 days	**159,238**	104,869
Outstanding for more than 30 days but not more than 120 days	**21,708**	21,668
Outstanding for more than 120 days	**14,991**	15,155
Less: Allowance for doubtful accounts	**(12,410)**	(10,110)
Total accounts receivable, net	**183,527**	131,582

As at September 30, 2009, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties with the exception of investments in long-term restructured notes *[note 4]*. The Corporation's maximum exposure to credit risk is equal to the carrying value of its financial assets.

Liquidity risk

The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest expense. The Corporation has access to credit facilities and monitors cash balances daily to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due. Liquidity risks associated with financial commitments are as follows:

September 30, 2009			
	Due within 1 year $	Due between 1 year and 5 years $	Due after 5 years $
Financial liabilities			
Accounts payable and accrued liabilities	**284,043**	—	—
City Note	**245,058**	**490,115**	—
Senior unsecured debentures			
Series 1 – 6.11% due May 7, 2013	—	**225,000**	—
Series 2 – 5.15% due November 14, 2017	—	—	**250,000**
	529,101	**715,115**	**250,000**

11. SHARE CAPITAL

As at September 30, 2009, the Corporation had 1,000 [December 31, 2008 – 1,000] common shares issued and outstanding at a stated value of $567,817,000 [December 31, 2008 – $567,817,000]. The Corporation is authorized to issue an unlimited number of common shares.

Dividends

On March 10, 2009, the board of directors of the Corporation declared dividends in the amount of $6,169,500. The dividends are comprised of a $169,500 payment with respect to net income for the year ended December 31, 2008, which was paid on March 19, 2009 and a $6,000,000 payment with respect to the first quarter of 2009, which was paid on March 31, 2009.

On May 19, 2009, the board of directors of the Corporation declared a dividend in the amount of $6,000,000 with respect to the second quarter of 2009, which was paid on June 30, 2009.

On August 17, 2009, the board of directors of the Corporation declared a dividend in the amount of $6,000,000 with respect to the third quarter of 2009, which was paid on September 30, 2009.

12. RELATED PARTIES

For the Corporation, transactions with related parties include transactions with the City. All transactions with the City are conducted at prevailing market prices and normal trade terms.

For the three months and the nine months ended September 30, 2009, LDC provided electricity to the City in the amount of $27,840,000 and $80,077,000 [three months and nine months ended September 30, 2008 - $26,856,000 and $80,969,000]. As at September 30, 2009, included in "Unbilled revenue" is a balance amounting to $8,810,000 [December 31, 2008 - $9,090,000] receivable from the City related to the provision of electricity for the previous months.

As at September 30, 2009, included in LDC's "Accounts receivable, net of allowance for doubtful accounts" is $2,857,000 [December 31, 2008 - $4,098,000] receivable from the City related to relocation services and other construction activities.

For the three months and the nine months ended September 30, 2009, TH Energy provided energy management services, street lighting services and consolidated billing services to the City amounting to $4,711,000 and $14,863,000 [three months and nine months ended September 30, 2008 - $4,806,000 and $14,914,000]. As at September 30, 2009, included in TH Energy's "Accounts receivable, net of allowance for doubtful accounts" is $2,524,000 [December 31, 2008 - $4,884,000] receivable from the City related to these services.

For the three months and the nine months ended September 30, 2009, LDC purchased road cut and other services of $419,000 and $1,691,000 [three months and nine months ended September 30, 2008 - $572,000 and $1,935,000] from the City. As at September 30, 2009, included in "Accounts payable and accrued liabilities" is $3,140,000 [December 31, 2008 - $4,514,000] payable to the City related to services received from the City.

For the three months and the nine months ended September 30, 2009, LDC and TH Energy paid property tax expenses to the City of $3,213,000 and $6,264,000 [three months and nine months ended September 30, 2008 - $3,215,000 and $6,526,000].

As at September 30, 2009, a promissory note in the amount of $735,173,000 [December 31, 2008 - $735,173,000] was payable to the City. As a result of the next scheduled payment for December 31, 2009, $245,058,000 of the principal amount outstanding under the promissory note is classified as a short-term liability, with the remainder being classified as a long-term liability. For the three months and the nine months ended September 30, 2009, interest of $11,230,000 and $33,689,000 [three months and nine months ended September 30, 2008 - $11,230,000 and $33,689,000] on the promissory note was paid to the City *[note 7]*.

13. CONTINGENCIES

Legal Proceedings

Late Payment Charges Class Action

On April 22, 2004, in a decision in a class action commenced against The Consumers' Gas Company Limited [now Enbridge Gas Distribution Inc., hereinafter referred to as "Enbridge"], the Supreme Court of Canada [the "Supreme Court"] ruled that Enbridge was required to repay the portion of certain late payment charges collected by it from its customers that were in excess of the interest limit stipulated in section 347 of the Criminal Code. Although the claim related to charges collected by Enbridge after the enactment of section 347 of the Criminal Code in 1981, the Supreme Court limited recovery to charges collected after the action was initiated in 1994. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for a determination of the plaintiffs' damages. The parties reached a settlement of this class action. The Ontario Superior Court of Justice has approved this settlement.

On February 4, 2008, the OEB, in response to an application filed by Enbridge, ruled that all of Enbridge's costs related to settlement of the class action lawsuit, including legal costs, settlement costs and interest, are recoverable from ratepayers. The representative plaintiff in the class action lawsuit has made a petition to the Lieutenant Governor in Council ["Cabinet"] under subsection 34(1) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B. for an order that the matter be submitted back to the OEB for reconsideration. The Cabinet dismissed the petition.

LDC was not a party to the Enbridge class action. It is, however, subject to the two class actions described below in which the issues are analogous.

The first is an action commenced against a predecessor of LDC and other Ontario municipal electric utilities under the *Class Proceedings Act, 1992* seeking $500,000,000 in restitution for late payment charges collected by them from their customers that were in excess of the interest limit stipulated in section 347 of the Criminal Code. This action is at a preliminary stage. Pleadings have closed but examinations for discovery have not been conducted and the classes have not been certified. After the release by the Supreme Court of its 2004 decision in the Enbridge case, the plaintiffs in this proposed class action indicated their intention to proceed with the litigation, but no formal steps have been taken.

The second is an action commenced against a predecessor of LDC under the *Class Proceedings Act, 1992* seeking $64,000,000 in restitution for late payment charges collected by it from its customers that were in excess of the interest limit stipulated in section 347 of the Criminal Code. This action is also at a preliminary stage. Pleadings have closed and examinations for discovery have been conducted but, as in the first action, the classes have not been certified as the parties were awaiting the outcome of the Enbridge class action.

The claims made against LDC and the definitions of the plaintiff classes are identical in both actions. As a result, any damages payable by LDC in the first action would reduce the damages payable by LDC in the second action, and vice versa.

It is anticipated that the first action will now proceed for determination in light of the reasons of the Supreme Court in the Enbridge class action.

LDC may have defences available to it in these actions that were not disposed of by the Supreme Court in the Enbridge class action.

The determination of whether the late payment charges collected by LDC from its customers were in excess of the interest limit stipulated in section 347 of the Criminal Code is fact specific in each circumstance. Also, decisions of the OEB are fact specific in each circumstance and the decision of the OEB in respect of Enbridge's application for recovery of costs related to the settlement is not necessarily determinative of the outcome of any similar application which LDC may make to the OEB in the future. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of the Enbridge decision on these actions or of these actions on the financial performance of the Corporation.

2 Secord Avenue

An action was commenced against LDC in October 2008 under the *Class Proceedings Act, 1992* seeking damages in the amount of $30,000,000 as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, a statement of defence has been filed, and a certification order issued. Affidavits of Documents have been produced by LDC to the other parties and examinations for discovery have been scheduled for early December 2009. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this class action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

Another action was commenced against LDC in February 2009 seeking damages in the amount of $20,000,000 as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, a

statement of defence has been filed, and a certification order issued. Affidavits of Documents have been produced by LDC to the other parties and examinations for discovery have been scheduled for early December 2009. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

By order of the court, these two actions, together with a third smaller non-class action involving the same incident, will be tried at the same time or consecutively. Consequently, documentary discovery and examinations for discovery will be joined for all three actions.

3650 Kingston Road

An action was commenced against LDC in March 2009 under the *Class Proceedings Act, 1992* seeking damages in the amount of $30,000,000 as compensation for damages allegedly suffered as a result of a fire and explosion in the electrical room at 3650 Kingston Road on March 19, 2009. This action is at a preliminary stage. A statement of claim has been served on LDC but a statement of defence has not been filed. Accordingly, given the preliminary status of this action, it is not possible at this time to reasonably quantify the effect, if any, of this class action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 under the *Class Proceedings Act, 1992* seeking damages in the amount of $30,000,000 as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. This action is at a preliminary stage. A third party claim has been served on LDC but a statement of defence to the third party claim has not been filed. Accordingly, given the preliminary status of this action, it is not possible at this time to reasonably quantify the effect, if any, of this class action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

Another third party action was commenced against LDC in October 2009 seeking damages in the amount of $30,000,000 as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. This action is at a preliminary stage. A third party claim has been served on LDC and a statement of defence to the third party claim has not been filed. Accordingly, given the preliminary status of this action, it is not possible at this time to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

14. DISCONTINUED OPERATIONS

Sale of Toronto Hydro Telecom Inc.

On July 31, 2008, the Corporation sold all of the shares of Toronto Hydro Telecom Inc. ["Telecom"] to Cogeco Cable Canada Inc. for cash consideration of $200,000,000. In connection with this transaction, the Corporation recorded a net gain of $118,673,000 in the third quarter of 2008, and recorded a post-closing adjustment of $1,448,000 in the second quarter of 2009. The results of operations and financial position of Telecom have been segregated and presented as discontinued operations in the interim consolidated financial statements.

Sale of The SPi Group Inc.

On April 30, 2009, EBT Express, an equal partnership between the Corporation's wholly owned subsidiary 1455948 Ontario Inc. and OPG EBT Holdco Inc., sold its interest in The SPi Group Inc. ["SPi"] to ERTH Corporation for cash consideration of approximately $5,200,000 subject to post-closing adjustments and transaction costs. The Corporation's share of the sale proceeds from this transaction as it relates to 1455948 Ontario Inc. was approximately $2,600,000. In connection with this transaction and other activities related to this business, the Corporation recorded a net gain of $1,220,000 in the second quarter of 2009. The results of operations and financial position of SPi have been segregated and presented as discontinued operations in the interim consolidated financial statements.

15. SEGMENT REPORTING

The designation of the segments has been based on a combination of the regulatory status and the nature of products and services provided. The Corporation has two reportable segments:

[a] Electricity Distribution
The regulated business which consists of the electricity distribution business and conservation activities including Ontario Power Authority contracts of LDC; and

[b] Non-regulated
The non-regulated business of TH Energy which consists primarily of the delivery of street lighting and expressway lighting services and energy efficiency products and services.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2009

Segment information is as follows:

Three months ended September 30, 2009				
	Electricity Distribution $	Non-Regulated $	Intersegment Eliminations $	Total $
Revenues	**634,256**	**5,451**	**(15)**	**639,692**
Purchased power and other	**508,093**	**1,553**	**—**	**509,646**
Operating expenses	**47,401**	**4,298**	**(15)**	**51,684**
Depreciation and amortization	**38,954**	**1,883**	**—**	**40,837**
Income (loss) before interest, change in fair value of investments and provision for (recovery of) PILs	**39,808**	**(2,283)**	**—**	**37,525**
Interest income	**367**	**608**	**—**	**975**
Interest expense	**16,830**	**839**	**—**	**17,669**
Change in fair value of investments	**—**	**(3,507)**	**—**	**(3,507)**
Provision for (recovery of) PILs	**6,592**	**(1,094)**	**—**	**5,498**
Income (loss) from continuing operations	**16,753**	**(4,927)**	**—**	**11,826**
Expenditures on property, plant and equipment and intangible assets	**57,771**	**1,979**	**—**	**59,750**

Three months ended September 30, 2008				
	Electricity Distribution $	Non-Regulated $	Intersegment Eliminations $	Total $
Revenues	623,244	10,231	(239)	633,236
Purchased power and other	495,794	5,552	—	501,346
Operating expenses	43,238	4,753	(21)	47,970
Depreciation and amortization	37,658	1,792	—	39,450
Income (loss) before interest, change in fair value of investments and provision for (recovery of) PILs	46,554	(1,866)	(218)	44,470
Interest income	1,567	1,265	—	2,832
Interest expense	17,922	567	—	18,489
Change in fair value of investments	—	(9,185)	—	(9,185)
Provision for (recovery of) PILs	13,858	(5,259)	—	8,599
Income (loss) from continuing operations	16,341	(5,094)	(218)	11,029
Expenditures on property, plant and equipment and intangible assets	57,870	2,191	—	60,061

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2009

Nine months ended September 30, 2009	Electricity Distribution $	Non-Regulated $	Intersegment Eliminations $	Total $
Revenues	**1,811,003**	**16,677**	**(50)**	**1,827,630**
Purchased power and other	**1,444,750**	**4,508**	**—**	**1,449,258**
Operating expenses	**145,202**	**13,623**	**(50)**	**158,775**
Depreciation and amortization	**116,781**	**5,594**	**—**	**122,375**
Income (loss) before interest, change in fair value of investments and provision for (recovery of) PILs	**104,270**	**(7,048)**	**—**	**97,222**
Interest income	**1,095**	**1,418**	**—**	**2,513**
Interest expense	**51,688**	**2,963**	**—**	**54,651**
Change in fair value of investments	**—**	**(1,049)**	**—**	**(1,049)**
Provision for (recovery of) PILs	**13,351**	**(2,731)**	**—**	**10,620**
Income (loss) from continuing operations	**40,326**	**(6,911)**	**—**	**33,415**
Expenditures on property, plant and equipment and intangible assets	**154,183**	**5,266**	**—**	**159,449**

Nine months ended September 30, 2008	Electricity Distribution $	Non-Regulated $	Intersegment Eliminations $	Total $
Revenues	1,770,891	24,169	(1,584)	1,793,476
Purchased power and other	1,414,608	10,959	(22)	1,425,545
Operating expenses	131,696	14,217	(74)	145,839
Depreciation and amortization	111,681	5,317	—	116,998
Income (loss) before interest, change in fair value of investments and provision for (recovery of) PILs	112,906	(6,324)	(1,488)	105,094
Interest income	7,294	2,046	—	9,340
Interest expense	54,420	1,757	—	56,177
Change in fair value of investments	—	(18,612)	—	(18,612)
Provision for (recovery of) PILs	5,336	(6,999)	—	(1,663)
Income (loss) from continuing operations	60,444	(17,648)	(1,488)	41,308
Expenditures on property, plant and equipment and intangible assets	151,708	6,695	—	158,403

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2009

Assets	September 30 2009 $	December 31 2008 $
Electricity Distribution	**2,797,380**	2,506,141
Non-Regulated	**278,112**	300,071
Intersegment Eliminations	**(33,187)**	(26,400)
Discontinued Operations	**514**	—
Total	**3,042,819**	2,779,812

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

16. SEASONAL OPERATIONS

The Corporation's quarterly results are impacted by changes in revenues resulting from variations in seasonal weather conditions. The Corporation's revenues tend to be higher in the first and third quarters of a year as a result of higher energy consumption for winter heating in the first quarter and air conditioning/cooling in the third quarter.

17. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the September 30, 2009 interim consolidated financial statements.

18. SUBSEQUENT EVENTS

a) Dividends

On November 26, 2009, the board of directors of the Corporation declared a dividend in the amount of $7,000,000 with respect to the fourth quarter of 2009. The dividend is payable on December 31, 2009.

b) Medium-Term Note Program

On November 12, 2009, the Corporation issued $250,000,000 in 10-year senior unsecured debentures ["Series 3"] which bear interest at the rate of 4.49% per annum and are payable semi-annually in arrears in equal instalments on May 12 and November 12 of each year. The Series 3 debentures mature on November 12, 2019, and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The net proceeds of this issuance will be used principally to repay $245,058,000 of indebtedness outstanding to the City under the terms of the City Note.