TORONTO HYDRO Corporation

CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

INTERIM CONSOLIDATED BALANCE SHEETS

[in thousands of dollars, unaudited]

	As at September 30, 2011 $	As at December 31, 2010 $
ASSETS		
Current		
Cash and cash equivalents	**153,953**	330,151
Investments *[note 3[c]]*	**34,008**	-
Accounts receivable, net of allowance for doubtful accounts *[note 11[b]]*	**220,968**	168,988
Unbilled revenue *[note 11[b]]*	**242,208**	287,893
Payments in lieu of corporate taxes receivable	**9,292**	6,729
Inventories	**7,365**	7,501
Prepaid expenses	**5,382**	4,048
Total current assets	**673,176**	805,310
Property, plant and equipment, net *[note 4]*	**2,321,436**	2,128,777
Intangible assets, net *[note 5]*	**106,008**	85,996
Regulatory assets *[note 6]*	**72,475**	85,113
Other assets	**7,392**	7,518
Future income tax assets *[note 6]*	**207,491**	225,900
Total assets	**3,387,978**	3,338,614
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities *[note 11[b]]*	**389,776**	373,543
Other liabilities *[note 14]*	**21,883**	19,733
Deferred revenue	**16,657**	1,418
Debentures *[note 8]*	**245,057**	245,057
Total current liabilities	**673,373**	639,751
Long-term liabilities		
Debentures *[note 8]*	**1,165,348**	1,164,780
Post-employment benefits *[note 9]*	**177,032**	169,897
Regulatory liabilities *[note 6]*	**225,251**	273,706
Other liabilities *[note 14]*	**11,724**	634
Asset retirement obligations	**4,597**	5,005
Customers' advance deposits	**38,633**	45,462
Total long-term liabilities	**1,622,585**	1,659,484
Total liabilities	**2,295,958**	2,299,235
Commitments, contingencies and subsequent events *[notes 14, 15 and 18]*		
Shareholder's equity		
Share capital *[note 12]*	**567,817**	567,817
Retained earnings	**524,203**	471,562
Total shareholder's equity	**1,092,020**	1,039,379
Total liabilities and shareholder's equity	**3,387,978**	3,338,614

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, 2011 $	Three months ended September 30, 2010 $	Nine months ended September 30, 2011 $	Nine months ended September 30, 2010 $
Revenues	**734,505**	680,504	**2,119,634**	1,955,022
Costs				
Purchased power and other	**586,111**	533,289	**1,695,524**	1,546,933
Operating expenses	**59,170**	57,103	**181,794**	165,624
Depreciation and amortization	**38,152**	41,415	**107,038**	121,267
	683,433	631,807	**1,984,356**	1,833,824
Income before the following:	**51,072**	48,697	**135,278**	121,198
Net financing charges	**(18,856)**	(18,513)	**(55,818)**	(52,672)
Gain on disposals of property, plant and equipment *[note 4]*	**303**	1,127	**5,020**	2,673
Change in fair value of investments	**-**	2,420	**-**	2,420
Income before provision for payments in lieu of corporate taxes	**32,519**	33,731	**84,480**	73,619
Provision for payments in lieu of corporate taxes	**3,537**	6,044	**5,776**	17,542
Net income for the period	**28,982**	27,687	**78,704**	56,077
Basic and fully diluted net income per share	**28,982**	27,687	**78,704**	56,077

INTERIM CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

[in thousands of dollars, unaudited]

	Three months ended September 30, 2011 $	Three months ended September 30, 2010 $	Nine months ended September 30, 2011 $	Nine months ended September 30, 2010 $
Retained earnings, beginning of period	**501,221**	446,827	**471,562**	430,437
Net income for the period	**28,982**	27,687	**78,704**	56,077
Dividends *[note 12]*	**(6,000)**	(6,000)	**(26,063)**	(18,000)
Retained earnings, end of period	**524,203**	468,514	**524,203**	468,514

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of dollars, unaudited]

	Three months ended September 30, 2011 $	Three months ended September 30, 2010 $	Nine months ended September 30, 2011 $	Nine months ended September 30, 2010 $
OPERATING ACTIVITIES				
Net income for the period	**28,982**	27,687	**78,704**	56,077
Adjustments for non-cash items				
Depreciation and amortization	**38,152**	41,415	**107,038**	121,267
Change in fair value of investments	**-**	(2,420)	**-**	(2,420)
Net change in other assets and liabilities	**(365)**	(355)	**(743)**	(1,081)
Payments in lieu of corporate taxes	**8,000**	872	**(2,563)**	7,071
Post-employment benefits	**2,377**	2,180	**7,135**	6,412
Future income taxes	**(188)**	105	**(592)**	760
Gain on disposals of property, plant and equipment *[note 4]*	**(303)**	(1,127)	**(5,020)**	(2,673)
Changes in non-cash working capital balances				
Increase in accounts receivable	**(15,181)**	(28,474)	**(51,980)**	(35,632)
Decrease in unbilled revenue	**57,177**	16,403	**45,685**	35,667
Decrease (increase) in inventories	**74**	252	**136**	(497)
Decrease (increase) in prepaid expenses	**247**	143	**(1,334)**	(2,358)
Increase in accounts payable and accrued liabilities	**16,465**	24,385	**16,457**	33,178
Increase (decrease) in deferred revenue	**8,008**	(1,067)	**16,614**	507
Net cash provided by operating activities	**143,445**	79,999	**209,537**	216,278
INVESTING ACTIVITIES				
Purchase of property, plant and equipment *[note 4]*	**(95,332)**	(85,026)	**(271,301)**	(226,219)
Purchase of intangible assets *[note 5]*	**(6,269)**	(5,449)	**(35,495)**	(18,644)
Purchase of investments	**-**	-	**(59,041)**	-
Proceeds from investments	**-**	-	**25,000**	-
Net change in regulatory assets and liabilities	**(7,322)**	(19,197)	**(17,040)**	(10,469)
Proceeds on disposal of property, plant and equipment	**66**	118	**4,277**	8,787
Net cash used in investing activities	**(108,857)**	(109,554)	**(353,600)**	(246,545)
FINANCING ACTIVITIES				
Dividends paid *[note 12]*	**(6,000)**	(6,000)	**(26,063)**	(18,000)
Proceeds from debentures	**-**	-	**-**	198,493
Increase (decrease) in customers' advance deposits	**5,627**	1,609	**(6,072)**	9,908
Net cash provided by (used in) financing activities	**(373)**	(4,391)	**(32,135)**	190,401
Net increase (decrease) in cash and cash equivalents during the period	**34,215**	(33,946)	**(176,198)**	160,134
Cash and cash equivalents, beginning of period	**119,738**	405,450	**330,151**	211,370
Cash and cash equivalents, end of period	**153,953**	371,504	**153,953**	371,504
Supplementary cash flow information				
Total interest paid	**314**	79	**39,848**	31,664
Payments (recovery of payments) in lieu of corporate taxes	**(3,819)**	5,547	**5,434**	8,692

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, 2011

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, 2010, except as disclosed in note 3, and should be read in conjunction with those statements.

2. REGULATION

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

a) Electricity Distribution Rates

The electricity distribution rates of Toronto Hydro-Electric System Limited ["LDC"] are typically effective from May 1 to April 30 of the following year. Accordingly, for the first four months of 2011, distribution revenue was based on the rates approved for 2010.

On April 9, 2010, the OEB issued its final decision regarding electricity distribution rates of LDC for the 2010 rate year beginning on May 1, 2010 and ending on April 30, 2011. The decision provided for distribution revenue requirement and rate base of $518,700,000 and $2,140,700,000, respectively. The OEB also set the return on equity ["ROE"] of LDC at 9.85% for 2010.

On July 7, 2011, the OEB issued its final decision regarding electricity distribution rates of LDC for the 2011 rate year commencing on May 1, 2011 and ending on April 30, 2012. The decision rendered by the OEB was substantially aligned with a settlement proposal agreed to by LDC and other parties on March 29, 2011. The final decision provided for a distribution revenue requirement and rate base of $522,044,000 and $2,298,227,000, respectively, and a ROE of 9.58% for 2011. The increase in revenue requirement is being recovered over a nine-month period which commenced on August 1, 2011.

On August 26, 2011, LDC filed a rate application, following the cost of service model, with the OEB seeking approval of separate and successive revenue requirements and corresponding rates for three rate years commencing on May 1, 2012, May 1, 2013 and May 1, 2014. The requested distribution revenue requirements for these rate years are $571,369,000, $639,492,000, and $712,777,000, respectively, and the rate bases for these rate years are $2,636,291,000, $3,053,499,000, and $3,503,165,000, respectively. The expected ROE for these three rate years, based on the rate application, is 9.58%. It should be noted that the revenue requirements for each rate year will be adjusted to reflect the allowed ROE once the OEB issues its final decision regarding electricity distribution rates *[note 18[a]]*.

As part of its 2012, 2013 and 2014 electricity distribution rates application, LDC is seeking approval for the disposition of the remaining smart meter deferral balances related to 2008, 2009 and 2010. In its filing, LDC requested the elimination of all the smart meter rate riders and the transfer of $59,227,000 from regulatory assets to property, plant and equipment, representing the expected increase in rate base related to the smart meters. LDC also requested that a balance of $20,018,000 related to stranded meters, currently included in property, plant and equipment and rate base, be transferred to a regulatory asset account for recovery over a period of 36 months. LDC expects that the OEB will provide final direction regarding these balances as part of the 2012 electricity distribution rate setting process.

b) Contact Voltage

On December 10, 2009, the OEB issued its initial decision in regard to the costs incurred in 2009 for the remediation of safety issues related to contact voltage relating to LDC's electricity distribution infrastructure. The decision provided for the recovery of allowable actual expenditures incurred above the amount deemed as controllable expenses in LDC's 2009 approved electricity distribution rates. At the time of the decision, the Corporation estimated the allowable recovery of costs at $9,050,000.

On October 29, 2010, the OEB issued its decision, following further review of the costs incurred by LDC in connection with the contact voltage remediation activities. In its decision, the OEB deemed the balance allowable for recovery at $5,296,000. The variance from the Corporation's original estimate is mainly due to the OEB's interpretation of the definition of controllable expenses used to determine the final allowable recovery. In connection with this decision from the OEB, the Corporation revised its recovery estimate for contact voltage costs, resulting in an increase in operating expenses of $3,754,000 in 2010. On November 18, 2010, LDC filed a motion to review the decision with the OEB seeking an amendment to allow for recovery in accordance with the initial decision rendered on December 10, 2009. On March 25, 2011, the OEB issued its decision on the LDC motion, denying the requested additional recovery.

c) Street Lighting Activities

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution licence for a new wholly-owned legal entity to which the Corporation intended to transfer the street lighting assets of Toronto Hydro Energy Services Inc. 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 was to transfer the street lighting assets to the regulated electricity distribution activities of LDC to increase the overall safety of the related infrastructure.

On February 11, 2010, the OEB issued its decision in regard to these applications. In its decision, the OEB agreed, that under certain conditions, the treatment of certain types of street lighting assets as regulated assets is justified. The OEB ordered the Corporation to provide a detailed valuation of the street lighting assets and to perform an operational review to determine which assets could become regulated assets. The Corporation performed a detailed asset operational review and financial valuation of the street lighting assets, which was submitted to the OEB on January 31, 2011.

On August 3, 2011, the OEB issued its final decision allowing the transfer of street lighting assets in the amount of $28,938,000 to the wholly-owned entity, and for LDC to amalgamate with the new legal entity. The transfer of the street lighting assets is expected to be completed within a period of 18 months as directed by the OEB. The Corporation does not believe such transfer will have a material impact on its financial position and results of operations.

d) Conservation and Demand Management Activities

On March 31, 2010, the Minister of Energy and Infrastructure of Ontario, under the guidance of sections 27.1 and 27.2 of the *Ontario Energy Board Act, 1998*, directed the OEB to establish Conservation and Demand Management ["CDM"] targets to be met by electricity distributors. Accordingly, on November 12, 2010, the OEB amended LDC's distribution licence to require LDC, as a condition of its licence, to achieve 1,304 Gigawatt-Hour of energy savings and 286 Megawatts of summer peak demand savings, over the period beginning January 1, 2011 through December 31, 2014.

Effective January 1, 2011, LDC entered into an agreement with the Ontario Power Authority ["OPA"] to deliver CDM programs in the amount of approximately $50,000,000 extending from January 1, 2011 to December 31, 2014. As at September 30, 2011, LDC has received approximately $19,875,000 from the OPA for the delivery of CDM programs. All programs to be delivered are fully funded and paid in advance by the OPA. These programs are expected to support the achievement of the mandatory CDM targets described above.

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 consolidated financial statements and the reported amounts of revenues and expenses for the period. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Significant areas requiring the use of management estimates relate to unbilled revenue, regulatory assets and liabilities, environmental liabilities and asset retirement obligations, employee future benefits, and revenue recognition. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy, or the Ministry of Finance.

b) Changes in Accounting Estimates

Property, Plant and Equipment – Changes in Estimates

Effective January 1, 2011, the Corporation revised its estimates of useful lives of certain items of property, plant and equipment following a detailed review and analysis supported by external third-party evidence. These changes in estimates have been accounted for on a prospective basis in the consolidated financial statements effective January 1, 2011.

[all tabular amounts in thousands of dollars, unaudited]

Depreciation is provided on a straight-line basis over the estimated service lives at the following annual rates:

	Previous	Revised
Distribution lines	2.5% to 25.0%	1.7% to 5.0%
Transformers	3.3% to 4.0%	3.3% to 5.0%
Stations	2.5% to 6.7%	2.5% to 10.0%
Meters	2.9% to 6.7%	2.5% to 6.7%
Buildings	2.0%	1.3% to 5.0%
Rolling stock	12.5% to 33.3%	12.5% to 25.0%

Effective January 1, 2011, the Corporation revised its estimates of burden rates of certain items of property, plant and equipment following a detailed review and analysis of all the components included in such burden rates. These changes in estimates of burden rates include changes in the allocation of engineering and administration costs, changes in the calculation of standard labour rates, and changes in the calculation of materials handling costs. These changes in estimates have been accounted for on a prospective basis in the consolidated financial statements effective January 1, 2011.

The changes discussed above were reflected in the 2011 electricity distribution rates approved by the OEB on July 7, 2011 *[note 2[a]]*. Accordingly, it is estimated that these changes will decrease distribution revenues by approximately $24,600,000, increase operating expenses by approximately $22,000,000, decrease depreciation expenses by approximately $33,000,000 and decrease Payments in Lieu of Corporate Taxes ["PILs"] by approximately $13,600,000 for the year ended December 31, 2011.

c) Investments

Investments with terms to maturity of greater than 90 days from their date of acquisition are classified as held to maturity and included in current assets.

d) Capital Leases

The fair value of obligations under capital lease are based on discounted cash flow analysis and approximate their carrying values as management believes that the fixed interest rates are representative of current market rates.

e) Future Accounting Pronouncements

Adoption of New Accounting Standards

Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ["IFRS"] in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. On September 10, 2010, the Accounting Standards Board granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation due to the uncertainty created by the International Accounting Standards Board ["IASB"] in regard to rate-regulated accounting ["RRA"]. To date, the IASB has not approved any temporary exemption or finalized a RRA standard under IFRS. The Corporation elected to take the optional one-year deferral of its adoption of IFRS; therefore, it continues to prepare its consolidated financial statements in accordance with Canadian GAAP accounting standards in Part V of the Canadian Institute of Chartered Accountants ["CICA"] Handbook in 2011.

In accordance with Canadian GAAP, the Corporation currently follows specific accounting policies unique to a rate-regulated business. Under RRA, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under Canadian GAAP in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures.

The Corporation's IFRS conversion project was proceeding as planned to meet the January 1, 2011 conversion date. In the absence of a definitive plan to consider the issuance of a RRA standard by the IASB, the Corporation decided to evaluate the option of adopting United States ["US"] GAAP effective January 1, 2012 as an alternative to IFRS. The Corporation's current application of Canadian GAAP for RRA is generally consistent with US GAAP. Under US GAAP, the Corporation's financial reporting could be more stable and comparable with its current Canadian GAAP results than it would have been under IFRS and is expected to facilitate the comparability with other large North American utilities.

On July 8, 2011, the Corporation filed an application with the applicable Canadian securities regulatory authorities pursuant to section 5.1 of National Instrument 52-107 "Acceptable Accounting Principles and Auditing Standards", to permit the Corporation to prepare its consolidated financial statements in accordance with US GAAP without qualifying as a US Securities and Exchange Commission registrant.

On July 21, 2011, the applicable Canadian securities regulatory authorities issued a decision which gave the Corporation the option to prepare its consolidated financial statements in accordance with US GAAP for its financial years beginning on or after January 1, 2012 but before January 1, 2015. The decision is similar to that obtained by other Canadian rate-regulated utilities.

On August 19, 2011, LDC filed a letter with the OEB stating its intention to adopt US GAAP as the basis for the calculation of electricity distribution rates starting in 2012. This letter was filed in accordance with the guidelines provided by the OEB. In its guidelines, the OEB indicated to Ontario utilities that it would permit the use of US GAAP for the calculation of electricity distribution rates if such utilities receive approval from the Ontario Securities Commission and if it benefits the customers. A final decision from the OEB in this regard is expected as part of LDC's 2012 electricity distribution rates application.

On August 26, 2011, the board of directors of the Corporation allowed the adoption of US GAAP for financial reporting purposes for the year beginning on January 1, 2012. Therefore, the Corporation expects to commence reporting under US GAAP in its first quarter consolidated financial statements in 2012. As a result of this decision, the Corporation's IFRS conversion project efforts have been reduced. However, the work will be managed in such a way that it can effectively be restarted if a future transition to IFRS is required.

On August 26, 2011, the Corporation filed with the OEB its three-year cost of service application under US GAAP for the period beginning May 1, 2012 to April 30, 2015.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2011

Based on the results of the detailed assessment of the differences between US GAAP and Canadian GAAP as it applies to its business, the Corporation does not believe that the adoption of US GAAP will have a material impact on its consolidated financial statements in the future. Any differences between Canadian GAAP and US GAAP and their impact on the Corporation's consolidated financial statements will be assessed as part of the Corporation's US GAAP conversion project.

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

	September 30 2011			December 31 2010		
	Cost $	**Accumulated depreciation $**	**Net book value $**	**Cost $**	**Accumulated depreciation $**	**Net book value $**
Land	**9,505**	**—**	**9,505**	9,560	—	9,560
Distribution lines	**2,756,279**	**1,426,425**	**1,329,854**	2,608,555	1,384,876	1,223,679
Transformers	**635,756**	**355,534**	**280,222**	609,702	341,706	267,996
Stations	**269,115**	**134,927**	**134,188**	259,337	128,254	131,083
Meters	**228,388**	**121,680**	**106,708**	214,859	114,808	100,051
Buildings	**153,099**	**60,586**	**92,513**	151,543	55,609	95,934
Rolling stock	**75,731**	**43,286**	**32,445**	73,749	43,208	30,541
Other capital assets	**62,122**	**42,257**	**19,865**	59,049	35,462	23,587
Assets under capital lease	**14,254**	**758**	**13,496**	886	351	535
Equipment and tools	**44,065**	**31,259**	**12,806**	41,604	29,732	11,872
Computer hardware	**42,940**	**34,217**	**8,723**	40,634	31,228	9,406
Communications	**27,997**	**22,760**	**5,237**	26,818	21,013	5,805
Construction in progress	**275,874**	**—**	**275,874**	218,728	—	218,728
	4,595,125	**2,273,689**	**2,321,436**	4,315,024	2,186,247	2,128,777

For the three months and the nine months ended September 30, 2011, allowance for funds used during construction ["AFUDC"] in the amount of $1,198,000 and $2,793,000 [three months and nine months ended September 30, 2010 - $700,000 and $1,174,000] was capitalized to property, plant and equipment and credited to net financing charges.

As at September 30, 2011, the net book value of stranded meters related to the deployment of smart meters amounting to $21,050,000 [December 31, 2010 - $23,120,000] was included in property, plant and equipment. In the absence of rate regulation, property, plant and equipment would have been $21,050,000 lower as at September 30, 2011 [December 31, 2010 - $23,120,000 lower].

For the three months and the nine months ended September 30, 2011, the Corporation recognized $303,000 and $5,020,000 [three months and nine months ended September 30, 2010 - $1,127,000 and $2,673,000] in gains on disposals of surplus properties, of which $nil and $1,375,000 [three months and nine months ended September 30, 2010 - $1,031,000 and $1,719,000] relates to surplus properties for which the OEB reduced electricity distribution rates in 2010. LDC began recognizing the actual gains realized on the sale of these properties over a one-year period from May 1, 2010 to mirror the actual timing of the reduction in 2010 electricity distribution rates.

[all tabular amounts in thousands of dollars, unaudited]

For the three months and the nine months ended September 30, 2011, the Corporation recorded depreciation expense of $31,732,000 and $91,555,000 [three months and nine months ended September 30, 2010 - $37,759,000 and $111,722,000].

5. INTANGIBLE ASSETS, NET

Intangible assets consist of the following:

	September 30 2011			December 31 2010		
	Cost $	**Accumulated amortization $**	**Net book value $**	**Cost $**	**Accumulated amortization $**	**Net book value $**
Computer software	**221,839**	**144,722**	**77,117**	172,709	129,301	43,408
Contributions	**2,043**	**586**	**1,457**	2,043	524	1,519
Software in development	**25,414**	**—**	**25,414**	39,191	—	39,191
Contributions for work in progress	**2,020**	**—**	**2,020**	1,878	—	1,878
	251,316	**145,308**	**106,008**	215,821	129,825	85,996

For the three months and the nine months ended September 30, 2011, the Corporation acquired $6,269,000 and $35,495,000 of intangible assets [three months and nine months ended September 30, 2010 - $5,449,000 and $18,644,000]. All intangible assets are subject to amortization when they become available for use. Software in development and contributions for work in progress relate to assets not currently available for use and therefore are not amortized.

For the three months and the nine months ended September 30, 2011, AFUDC in the amount of $174,000 and $1,066,000 [three months and nine months ended September 30, 2010 - $446,000 and $1,262,000] was capitalized to intangible assets and credited to net financing charges.

For the three months and the nine months ended September 30, 2011, the Corporation recorded amortization expense of $6,420,000 and $15,483,000 [three months and nine months ended September 30, 2010 - $3,656,000 and $9,545,000].

[all tabular amounts in thousands of dollars, unaudited]

6. REGULATORY ASSETS AND LIABILITIES

Regulatory assets consist of the following:

	September 30 2011 $	December 31 2010 $
Smart meters	**62,872**	67,719
Late payment penalties settlement	**—**	7,750
IFRS conversion project	**—**	6,089
Settlement variances	**9,033**	—
Special purpose charge variance	**570**	3,555
	72,475	85,113

Regulatory liabilities consist of the following:

	September 30 2011 $	December 31 2010 $
Future income taxes	**205,569**	224,570
Regulatory assets recovery account	**16,037**	40,275
PILs variances	**2,356**	5,675
Settlement variances	**—**	2,277
Other	**1,289**	909
	225,251	273,706

For the three months and the nine months ended September 30, 2011, LDC disposed of approved net regulatory liabilities amounting to $10,298,000 and $24,816,000 through permitted distribution rate adjustments [three months and nine months ended September 30, 2010 - $8,308,000 and $16,125,000].

The regulatory assets and liabilities of the Corporation are as follows:

a) Smart Meters

The smart meters regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario. LDC completed its smart meter project as at December 31, 2010. In connection with this initiative, the OEB ordered LDC to record all expenditures and related revenues from 2008 to 2010 to a regulatory asset account and allowed LDC to keep the net book value of the stranded meters in property, plant and equipment. Starting on January 1, 2011, LDC began recording smart meter costs in property, plant and equipment and intangible assets as a regular distribution activity as directed by the OEB. LDC applied to the OEB to transfer the 2008 to 2010 smart meter costs from regulatory assets to property, plant and equipment and intangible assets in its 2012 electricity distribution rates application.

The Corporation has incurred costs amounting to $nil for the three months and the nine months ended September 30, 2011 [three months and nine months ended September 30, 2010 - $4,056,000 and $13,857,000]. As at September 30, 2011, smart meter capital expenditures, net of accumulated depreciation, totalling $60,817,000 have been recorded to regulatory assets [December 31, 2010 - $65,588,000]. These expenditures would otherwise have been recorded as property, plant and equipment and intangible assets under Canadian GAAP for unregulated businesses. In the absence of rate regulation, property, plant and equipment and intangible assets would have been $55,972,000 and $4,845,000 higher, respectively, as at September 30, 2011 [December 31, 2010 - $59,416,000 and $6,172,000 higher, respectively].

For the three months and the nine months ended September 30, 2011, deferred smart meter operating expenses were reduced by $482,000 which would have reduced expenses under Canadian GAAP for unregulated businesses [three months and nine months ended September 30, 2010 were increased by $888,000 and $2,475,000]. For the three months and the nine months ended September 30, 2011, smart meter depreciation expense of $1,590,000 and $4,771,000 [three months and nine months ended September 30, 2010 - $1,366,000 and $3,883,000] were deferred which would have been expensed under Canadian GAAP for unregulated businesses. In the absence of rate regulation, for the three months and the nine months ended September 30, 2011, operating expenses would have been $482,000 lower [three months and nine months ended September 30, 2010 - $888,000 and $2,475,000 higher], and depreciation expense would have been $1,590,000 and $4,771,000 higher [three months and nine months ended September 30, 2010 - $1,366,000 and $3,883,000 higher].

For the three months and the nine months ended September 30, 2011, smart meter customer revenues of $1,473,000 and $4,405,000 were deferred [three months and nine months ended September 30, 2010 - $1,454,000 and $4,317,000]. In the absence of rate regulation, for the three months and the nine months ended September 30, 2011, revenue would have been $1,473,000 and $4,405,000 higher [three months and nine months ended September 30, 2010 - $1,454,000 and $4,317,000 higher].

b) Late Payment Penalties Settlement

The late payment penalties settlement regulatory asset account relates to the settlement costs associated with the late payment charges class action. All of the Municipal Electricity Utilities ["MEUs"] involved in the settlement, including LDC, requested an order from the OEB allowing for the future recovery from customers of all costs related to the settlement. On February 22, 2011, the OEB approved the recovery of the costs of $7,526,000. The recovery is occurring over a period of 21 months which commenced on August 1, 2011.

c) IFRS Conversion Project

This regulatory asset account includes the incremental costs incurred by LDC for its conversion to IFRS up to December 31, 2010. On July 7, 2011, the OEB reduced the allowable recoverable costs from $6,134,000 to $3,050,000 as it appears that a portion of the costs claimed for recovery by LDC were included in prior period electricity distribution rates. In connection with this decision from the OEB, the Corporation revised its estimate for IFRS conversion costs recovery, resulting in an increase in operating expenses of $3,017,000 in the second quarter of 2011. The remaining regulatory asset balance of $3,050,000, which includes carrying charges, was transferred to the Regulatory Assets Recovery Account ["RARA"] and is being recovered over a nine-month period which commenced on August 1, 2011. 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, 2011, operating expenses would have been $nil and $3,017,000 lower [three months and nine months ended September 30, 2010 - $685,000 and $2,494,000 higher].

d) Settlement Variances

This account is comprised of the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by LDC. The settlement variances relate primarily to service charges, non-competitive electricity charges, imported power charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electric Distribution Utilities".

The balance for settlement variances continues to be calculated and attract carrying charges in accordance with the OEB's direction. For the three months and the nine months ended September 30, 2011, settlement variances of $10,176,000 and $25,090,000 were disposed through rate adjustments [three months and nine months ended September 30, 2010 - $7,953,000 and $12,857,000].

e) Special Purpose Charge Variance

On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ["SPC"] assessment under Section 26.1 of the *Ontario Energy Board Act, 1998*, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed LDC the amount of $9,698,000 for its apportioned share of the total provincial amount of the SPC of $53,695,000 in accordance with the rules set out in Ontario Regulation 66/10 [the "SPC Regulation"]. In accordance with Section 9 of the SPC Regulation, LDC was allowed to recover this balance. The recovery was completed as at April 30, 2011.

As at September 30, 2011, the balance in the account consists of LDC's assessment of $9,698,000 less the recoveries received from customers. In the absence of rate regulation, revenue for the three months and the nine months ended September 30, 2011, would have been $nil and $3,050,000 higher [three months and nine months ended September 30, 2010 - $2,425,000 and $3,906,000 higher] and operating expenditures for the three months and the nine months ended September 30, 2011 would have $nil impact [three months and nine months ended September 30, 2010 - $nil and $9,698,000 higher].

f) Future Income Taxes

This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of future tax assets.

LDC accounts 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 – "Income Taxes". As at September 30, 2011, LDC recorded a future income tax asset and a corresponding regulatory liability of $205,569,000 [December 31, 2010 - $224,570,000] with respect to its rate-regulated activities. The future income tax asset and the corresponding regulatory liability as at December 31, 2010, have been recast, to reflect an adjustment of $30,247,000 resulting from a change in methodology used to determine the timing differences between the tax value and book value of the assets for accounting purposes.

g) Regulatory Assets Recovery Account

The RARA consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and related rates.

On April 16, 2009, the OEB approved the disposition of regulatory liabilities of $7,582,000, for amounts arising from the extended effectiveness of certain rate riders into the 2008 rate year, over a one-year period commencing on May 1, 2009 and ending on April 30, 2010.

On April 9, 2010, the OEB approved the disposition of net regulatory liabilities of $68,140,000, consisting of credit balances for settlement variances and PILs variances of $58,225,000 and $11,900,000, respectively, and intangible assets debit balance of $1,985,000, over a two-year period commencing on May 1, 2010 and ending on April 30, 2012.

On October 29, 2010, the OEB approved the disposition of regulatory assets of $5,296,000, for amounts in connection with the contact voltage remediation activities, for the period commencing on November 1, 2010 and ending on April 30, 2012 *[note 2[b]]*.

On February 22, 2011, the OEB approved the disposition of the Late Payment Penalties Settlement regulatory asset of $7,526,000, over a 21- month period commencing on August 1, 2011 and ending April 30, 2013.

On July 7, 2011, the OEB approved the disposition of net regulatory liabilities of $8,572,000, consisting of credit balances for settlement variances, PILs variances and 2008 RARA residual of $7,460,000, $3,373,000, and $789,000, respectively, and an IFRS cost debit balance of $3,050,000, over a nine-month period commencing on August 1, 2011 and ending April 30, 2012.

h) PILs Variances

The PILs variances regulatory liability account relates to the differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in the rate adjustment model. As at September 30, 2011, the balance in this account consists of an over-recovery from customers of $2,356,000 [December 31, 2010 - $5,675,000].

7. CREDIT FACILITIES

On May 3, 2011, the Corporation extended its revolving credit facility ["Revolving Credit Facility"], for an additional one-year term, expiring on May 3, 2013, pursuant to which the Corporation may borrow up to $400,000,000, of which up to $140,000,000 is available in the form of letters of credit. Additionally, the Corporation is a party to a bilateral facility for $50,000,000 for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the Independent Electricity System Operator.

[all tabular amounts in thousands of dollars, unaudited]

As at September 30, 2011, no amounts had been drawn under the Corporation's Revolving Credit Facility [December 31, 2010 - $nil]. As at September 30, 2011, no amounts had been drawn for working capital purposes [December 31, 2010 - $nil].

As at September 30, 2011, $45,077,000 had been drawn on the bilateral facility [December 31, 2010 - $46,077,000].

8. DEBENTURES

Debentures consist of the following:

	September 30 2011 $	December 31 2010 $
Senior unsecured debentures		
Series 1 – 6.11% due May 7, 2013	**224,180**	223,838
Series 2 – 5.15% due November 14, 2017	**248,903**	248,793
Series 3 – 4.49% due November 12, 2019	**248,648**	248,546
Series 4 – 6.11% due December 30, 2011	**245,057**	245,057
Series 5 – 6.11% due May 6, 2013	**245,057**	245,057
Series 6 – 5.54% due May 21, 2040	**198,560**	198,546
Total debentures	**1,410,405**	1,409,837
Less: Current portion of debentures	**245,057**	245,057
Long-term portion of debentures	**1,165,348**	1,164,780

All debentures of the Corporation rank equally.

The Corporation may redeem some or all of the debentures (other than the Series 4 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 contain 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.

9. EMPLOYEE FUTURE BENEFITS

a) Pension

For the three months and the nine months ended September 30, 2011, the Corporation's Ontario Municipal Employees Retirement System current service pension costs were $3,654,000 and $10,944,000 [three months and nine months ended September 30, 2010 - $3,035,000 and $9,307,000].

b) *Employee future benefits other than pension*

For the three months and the nine months ended September 30, 2011, the Corporation recognized periodic benefit costs of $4,285,000 and $12,855,000 [three months and nine months ended September 30, 2010 - $3,979,000 and $11,810,000] of which $1,627,000 and $4,926,000 [three months and nine months ended September 30, 2010 - $1,919,000 and $5,324,000] were capitalized as part of property, plant and equipment, resulting in $2,658,000 and $7,929,000 [three months and nine months ended September 30, 2010 - $2,060,000 and $6,486,000] charged to operations.

10. CAPITAL DISCLOSURES

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

- ensure ongoing access to funding to maintain and refurbish the electricity distribution system of LDC;
- ensure compliance with covenants related to its credit facilities and senior unsecured debentures;
- maintain at least an A- credit rating as required under its shareholder direction; and
- align its capital structure for regulated activities of LDC with the deemed debt to equity structure set by the OEB.

As at September 30, 2011, the Corporation's definition of capital includes long-term debt and obligations under capital lease, including the current portion thereof, and shareholder's equity, and has remained unchanged from December 31, 2010. As at September 30, 2011, shareholder's equity amounted to $1,092,020,000 [December 31, 2010 - $1,039,379,000] and long-term debt, including the current portion thereof, amounted to $1,423,979,000 [December 31, 2010 - $1,409,837,000]. The Corporation's capital structure as at September 30, 2011 is 57% debt and 43% equity [December 31, 2010 - 58% debt and 42% equity]. There were no changes in the Corporation's approach to capital management during the period.

As at September 30, 2011, the Corporation is subject to debt agreements that contain various covenants. The Corporation's unsecured debentures limit consolidated funded indebtedness to a maximum of 75% of total consolidated capitalization. As at September 30, 2011, the consolidated funded indebtedness to consolidated capitalization ratio was 56% [December 31, 2010 - 57%].

The Corporation's Revolving Credit Facility limits the debt to capitalization ratio to a maximum of 75%. As at September 30, 2011, the debt to capitalization ratio was 57% [December 31, 2010 - 58%].

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. As at September 30, 2011, and as at December 31, 2010, the Corporation was in compliance with all covenants included in its long-term debt agreements and short-term Revolving Credit Facility.

[all tabular amounts in thousands of dollars, unaudited]

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

	September 30 2011 $		December 31 2010 $	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	**153,953**	**153,953**	330,151	330,151
Investments	**34,008**	**34,008**	—	—
Accounts receivable, net of allowance for doubtful accounts	**220,968**	**220,968**	168,988	168,988
Unbilled revenue	**242,208**	**242,208**	287,893	287,893
Accounts payable and accrued liabilities	**389,776**	**389,776**	373,543	373,543
Obligations under capital lease	**13,574**	**13,574**	505	505
Customers' advance deposits	**58,180**	**58,180**	64,252	64,252
Senior unsecured debentures				
Series 1 – 6.11% due May 7, 2013	**224,180**	**241,209**	223,838	245,310
Series 2 – 5.15% due November 14, 2017	**248,903**	**285,385**	248,793	273,725
Series 3 – 4.49% due November 12, 2019	**248,648**	**274,937**	248,546	259,777
Series 4 – 6.11% due December 30, 2011	**245,057**	**248,050**	245,057	255,199
Series 5 – 6.11% due May 6, 2013	**245,057**	**262,682**	245,057	267,177
Series 6 – 5.54% due May 21, 2040	**198,560**	**240,224**	198,546	217,188

b) *Risk Factors*

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

Credit risk

The Corporation is exposed to credit risk from financial instruments as a result of the risk of counterparties defaulting on their obligations. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The Corporation's credit risk associated with accounts receivable is primarily related to electricity bill payments from LDC customers. LDC has approximately 707,000 customers, the majority of which are residential. LDC collects security deposits from customers in accordance with direction provided by the OEB. As at September 30, 2011, LDC held security deposits in the amount of $58,180,000 [December 31, 2010 - $64,252,000].

[all tabular amounts in thousands of dollars, unaudited]

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

Credit risk associated with accounts receivable is as follows:

	September 30 2011 $	December 31 2010 $
Total accounts receivable	**235,633**	180,900
Less: Allowance for doubtful accounts	**(14,665)**	(11,912)
Total accounts receivable, net	**220,968**	168,988
Of which:		
Outstanding for not more than 30 days	**187,960**	147,457
Outstanding for more than 30 days but not more than 120 days	**32,044**	21,635
Outstanding for more than 120 days	**15,629**	11,808
Less: Allowance for doubtful accounts	**(14,665)**	(11,912)
Total accounts receivable, net	**220,968**	168,988

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings but are unbilled at period-end. As at September 30, 2011, total unbilled revenue was $242,208,000 [December 31, 2010 - $287,893,000]. Unbilled revenue is considered current.

As at September 30, 2011, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties. The Corporation's maximum exposure to credit risk is equal to the carrying value of its financial assets.

Interest rate risk

The Corporation is exposed to interest rate risk in holding certain financial instruments and short-term borrowings under the Corporation's Revolving Credit Facility *[note 7]* may expose the Corporation to fluctuations in short-term interest rates. The Corporation attempts to minimize interest rate risk by issuing long-term fixed rate debt, and by extending or shortening the term of its short-term money market investments by assessing the monetary policy stance of the Bank of Canada, while ensuring that all payment obligations are met on an ongoing basis.

LDC is also exposed to fluctuations in interest rates as its regulated rate of return is derived using a formulaic approach, which is based in part on a forecast of long-term Government of Canada bond yields and A-rated Canadian utility bond spreads. LDC estimates that a 1% (100 basis point) reduction in long-term Government of Canada bond yields, used in determining its regulated rate of return would reduce LDC's annual net income by approximately $4,600,000.

[all tabular amounts in thousands of dollars, unaudited]

Liquidity risk

The Corporation is exposed to liquidity risk related to commitments associated with financial instruments. 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 net financing charges. 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, 2011			
	Due within 1 year $	Due between 1 year and 5 years $	Due after 5 years $
Financial liabilities			
Accounts payable and accrued liabilities	**389,776**	**—**	**—**
Obligations under capital lease	**1,850**	**7,949**	**3,775**
Senior unsecured debentures			
Series 1 – 6.11% due May 7, 2013	**—**	**225,000**	**—**
Series 2 – 5.15% due November 14, 2017	**—**	**—**	**250,000**
Series 3 – 4.49% due November 12, 2019	**—**	**—**	**250,000**
Series 4 – 6.11% due December 30, 2011	**245,057**	**—**	**—**
Series 5 – 6.11% due May 6, 2013	**—**	**245,057**	**—**
Series 6 – 5.54% due May 21, 2040	**—**	**—**	**200,000**
	636,683	**478,006**	**703,775**

12. SHARE CAPITAL

As at September 30, 2011, the Corporation had 1,000 [December 31, 2010 - 1,000] common shares issued and outstanding at a stated value of $567,817,000 [December 31, 2010 - $567,817,000]. The Corporation is authorized to issue an unlimited number of common shares.

Dividends

On March 11, 2011, the board of directors of the Corporation declared dividends in the amount of $14,063,000. The dividends were comprised of $8,063,000 with respect to net income for the year ended December 31, 2010, which was paid to the City of Toronto [the "City"] on March 18, 2011 and $6,000,000 with respect to the first quarter of 2011, which was paid to the City on March 31, 2011.

On May 24, 2011, the board of directors of the Corporation declared a dividend in the amount of $6,000,000 with respect to the second quarter of 2011, which was paid to the City on June 30, 2011.

On August 25, 2011, the board of directors of the Corporation declared a dividend in the amount of $6,000,000 with respect to the third quarter of 2011, which was paid to the City on September 30, 2011.

[all tabular amounts in thousands of dollars, unaudited]

13. 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.

Transactions with Related Parties Summary	Three months ended September 30		Nine months ended September 30	
	2011 $	2010 $	2011 $	2010 $
Revenues	**33,645**	33,561	**105,251**	109,540
Operating expenses and capital expenditures	**6,177**	4,126	**15,513**	9,702
Net financing charges	**—**	—	**—**	7,487

Transactions with Related Parties Summary	September 30 2011 $	December 31 2010 $
Accounts receivable, net of allowance for doubtful accounts	**5,324**	6,711
Unbilled revenue	**9,210**	9,830
Prepaid expenses	**1,489**	—
Other assets	**7,301**	7,368
Accounts payable and accrued liabilities	**20,602**	12,164
Customers' advance deposits	**10,097**	10,953

Revenues represent amounts charged to the City primarily for electricity and street lighting services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Net financing charges represent interest paid to the City on the promissory note which was monetized on April 1, 2010.

Accounts receivable, net of allowance for doubtful accounts represent receivables from the City primarily for the sale of electricity and street lighting services. Unbilled revenue represents receivables from the City related to the provision of electricity not yet billed. Prepaid expenses represent prepayments of property taxes to the City. Other assets represent amounts for prepaid land leases from the City. Accounts payable and accrued liabilities represent amounts payable to the City relating to road cut repairs and other services, as well as funds received from the City for the construction of distribution assets. Customers' advance deposits represent funds received from the City for future expansion projects.

[all tabular amounts in thousands of dollars, unaudited]

14. COMMITMENTS

Operating lease obligations and future commitments

As at September 30, 2011, the future minimum annual lease payments under property operating leases and future commitments with remaining terms from one to five years and thereafter were as follows:

	$
2011[1]	**1,933**
2012	**8,949**
2013	**6,975**
2014	**6,971**
2015	**6,472**
Thereafter	**11,038**
Total	**42,338**

[1] The amount disclosed represents the balance due over the period October 1, 2011 to December 31, 2011.

Capital lease obligations

As at September 30, 2011, the future minimum annual lease payments under capital leases with remaining lease terms from one to five years and thereafter were as follows:

	$
2011	**613**
2012	**2,449**
2013	**2,432**
2014	**2,390**
2015	**2,314**
Thereafter	**5,629**
Total amount of future minimum lease payments	**15,827**
Less interest and executory costs	**2,253**
	13,574
Current portion	**1,850**
Long-term portion	**11,724**

15. CONTINGENCIES

a) Legal Proceedings

In the ordinary course of business, the Corporation is subject to various litigation and claims with customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. The Corporation and its subsidiaries are subject to various legal actions that arise in the normal course of business and if damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under their liability insurance which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions.

Christian Helm Class Action

On December 6, 2010, a Statement of Claim in a proposed class action was issued against LDC. The claim seeks general and special damages in the amount of $100,000,000 for disgorgement of unjust gains allegedly resulting from the receipt of interest on overdue accounts at a rate exceeding 5% per annum in contravention of the *Interest Act* (Canada). A statement of defence has been filed. Prior to any certification of the action as a class proceeding, cross summary judgment motions were heard in June 2011 to determine whether the *Interest Act* (Canada) has been breached. A decision on the cross summary judgment motions is pending. If the court finds a breach of the *Interest Act* (Canada), subject to appeals, the proceeding will continue, and LDC will rely on other defences. While LDC believes it has a defence to this claim, there is no guarantee that it will be successful in defending the action and therefore, the outcome of this proceeding could have a material impact on the Corporation's consolidated financial statements and results of operations.

2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) 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 and third party claim have been served by LDC and a third party defence and counter claim against LDC seeking damages in the amount of $51,000,000 have been filed. A certification order has been issued. Affidavits of Documents have been produced by LDC to the other parties and examinations for discovery have commenced and are continuing. 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.

Another action was commenced against LDC in February 2009 in the Ontario Superior Court of Justice 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. The statement of claim has been served on LDC, a statement of defence has been filed, and a certification order issued. This action was dismissed on August 22, 2011 without costs as the Plaintiffs in this action will be represented in the above class action.

By order of the court, the above class action and a smaller non-class action commenced in April 2009 involving the same incident, will be tried at the same time or consecutively.

On December 20, 2010, LDC was served with a Statement of Claim by the City seeking damages in the amount of $2,000,000 as a result of the fire at 2 Secord Avenue. A statement of defence and third party claim has been served. 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.

Adamopoulos v. LDC

An action was commenced against LDC in November 2004 in the Ontario Superior Court of Justice seeking damages in the amount of $7,750,000 as compensation for damages allegedly suffered as a result of a motor vehicle accident involving an LDC vehicle on January 9, 2001. The plaintiff's motion increasing its claim for damages to $23,790,000 was granted on July 7, 2010. This matter has been settled and a court order has been issued dismissing the action and all related claims by payment of a total amount of approximately $4,550,000. LDC's liability insurance will cover the settlement amount.

b) OEB PILs Proceeding

The OEB conducted a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for certain MEUs. On June 24, 2011, the OEB issued its decision for these MEUs and provided guidelines for the calculation and further disposition of the balances accumulated in the PILs regulatory variance accounts.

Following this decision, the OEB expects all the other electricity distributors to apply for final disposition of their balances following the guidelines established in the decision mentioned above.

LDC has reviewed the balances of its regulatory variance accounts and applied the guidelines provided by the OEB. As at September 30, 2011, LDC estimated its liability at approximately $2,765,000. This balance has been recorded in the Corporation's consolidated financial statements. LDC has applied for disposition of this balance as part of its 2012 electricity distribution rates application. The amount to be approved by the OEB will be based on the OEB's interpretation and application of its guidelines and the final balance which is yet to be approved by the OEB could differ materially from LDC's estimation of its liability.

c) Payments in Lieu of Additional Municipal and School Taxes

The Ministry of Finance has issued assessments in respect of payments in lieu of additional municipal and school taxes under section 92 of the *Electricity Act, 1998* that are in excess of the amounts LDC believes are payable. The dispute arose as a result of inaccurate information incorporated into Ontario Regulation 224/00.

The balance assessed by the Ministry of Finance above the balance accrued by the Corporation amounts to approximately $10,043,000 as at September 30, 2011. The Corporation has worked with the Ministry of Finance to resolve this issue, and as a result the Ministry of Finance issued Ontario Regulation 423/11 on August 31, 2011. The new regulation revoked Ontario Regulation 224/00 and corrected inaccurate information retroactively to 1999. While the Corporation expects that reassessments will be issued as a consequence of the change in regulation, there can be no assurance that the Corporation will not have to pay the full assessed balance in the future.

16. SEASONAL OPERATIONS

The Corporation's quarterly results are impacted by changes in revenues resulting from variations in seasonal weather conditions, the fluctuations in electricity prices, and the timing and recognition of regulatory decisions. 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, 2011 interim consolidated financial statements.

18. SUBSEQUENT EVENTS

a) Electricity Distribution Rates

On October 4, 2011, the OEB issued a procedural order outlining the process it intends to follow in regard to the methodology to be used for the calculation and the approval of LDC's future electricity distribution rates, in particular around the appropriateness of imposing a third generation incentive rate mechanism framework to LDC. Under such framework, electricity distribution rates are derived from a static formula without consideration for the actual infrastructure needs.

LDC has filed its 2012, 2013, and 2014 electricity distribution rate application using the cost of service framework. LDC has put forward arguments supporting its position to use the cost of service framework when considering its planned capital investment requirements. The cost of service framework sets electricity distribution rates using forecasted expenditures required to maintain an appropriate level of service to customers.

The Corporation believes that the imposition of the third generation incentive rate mechanism framework could have a material adverse effect on its consolidated financial statements in the future. A final decision from the OEB regarding this issue is expected in the fourth quarter of 2011 *[note 2[a]]*.

b) Dividends

On November 22, 2011, the board of directors of the Corporation declared a dividend in the amount of $7,000,000 with respect to the fourth quarter of 2011. The dividend is payable on December 30, 2011 *[note 12]*.

c) Medium-Term Note Program

On November 18, 2011, the Corporation issued $300,000,000 in 10-year senior unsecured debentures [“Series 7”] which bear interest at the rate of 3.54% per annum and are payable semi-annually in arrears in equal instalments on May 18 and November 18 of each year. The Series 7 debentures mature on November 18, 2021 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 to repay the Corporation’s outstanding $245,057,000 Series 4 debentures which mature on December 30, 2011 and the balance will be used for general corporate purposes *[note 8]*.