toronto hydro corporation

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010

INTERIM CONSOLIDATED BALANCE SHEETS

[in thousands of dollars, unaudited]

	As at June 30, 2010 $	As at December 31, 2009 $
ASSETS		
Current		
Cash and cash equivalents	**405,450**	211,370
Accounts receivable, net of allowance for doubtful accounts *[note 11[b]]*	**157,953**	150,281
Unbilled revenue *[note 11[b]]*	**276,383**	295,647
Payments in lieu of corporate taxes receivable	**9,733**	15,932
Inventories	**6,973**	6,224
Prepaid expenses	**5,832**	3,331
Assets from discontinued operations	**-**	514
Total current assets	**862,324**	683,299
Property, plant and equipment, net *[note 4]*	**1,987,107**	1,919,954
Intangible assets, net	**81,135**	73,829
Investments *[note 5]*	**47,930**	47,930
Regulatory assets *[note 6]*	**88,359**	68,193
Other assets	**7,787**	7,615
Future income tax assets *[note 6]*	**249,742**	253,149
Assets held for sale	**-**	5,258
Total assets	**3,324,384**	3,059,227
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities *[note 11[b]]*	**343,479**	316,768
Current portion of other liabilities	**20,465**	18,001
Deferred revenue	**5,433**	421
Liabilities from discontinued operations	**1,079**	1,549
Total current liabilities	**370,456**	336,739
Long-term liabilities		
Debentures *[note 8]*	**1,409,430**	720,475
Promissory note payable *[note 8]*	**-**	490,115
Post-employment benefits *[note 9]*	**165,580**	161,348
Regulatory liabilities *[note 6]*	**315,619**	308,575
Other liabilities	**978**	1,473
Asset retirement obligations	**7,146**	7,552
Customers' advance deposits	**40,531**	34,696
Total long-term liabilities	**1,939,284**	1,724,234
Total liabilities	**2,309,740**	2,060,973
Commitments and contingencies *[notes 14, 15 and 18]*		
Shareholder's equity		
Share capital *[note 12]*	**567,817**	567,817
Retained earnings	**446,827**	430,437
Total shareholder's equity	**1,014,644**	998,254
Total liabilities and shareholder's equity	**3,324,384**	3,059,227

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 June 30, 2010 $	Three months ended June 30, 2009 $	Six months ended June 30, 2010 $	Six months ended June 30, 2009 $
Revenues	**629,815**	575,256	**1,276,626**	1,187,423
Costs				
Purchased power and other	**493,921**	451,976	**1,013,644**	939,612
Operating expenses	**56,849**	48,265	**110,629**	107,091
Depreciation and amortization	**40,166**	40,810	**79,852**	81,538
	590,936	541,051	**1,204,125**	1,128,241
Income before the following:	**38,879**	34,205	**72,501**	59,182
Interest income	**372**	596	**607**	1,538
Interest income (expense)				
Long-term debt	**(18,122)**	(17,886)	**(35,070)**	(35,771)
Other interest	**211**	(729)	**304**	(1,211)
Change in fair value of investments *[note 5]*	**-**	313	**-**	2,458
Gain on disposals of property, plant and equipment *[note 4]*	**862**	515	**1,546**	515
Income before provision for payments in lieu of corporate taxes	**22,202**	17,014	**39,888**	26,711
Provision for payments in lieu of corporate taxes	**6,363**	2,393	**11,498**	5,122
Income from continuing operations	**15,839**	14,621	**28,390**	21,589
Loss from discontinued operations - net of tax	**-**	(246)	**-**	(228)
Net income for the period	**15,839**	14,375	**28,390**	21,361
Basic and fully diluted net income per share from continuing operations	**15,839**	14,621	**28,390**	21,589
Basic and fully diluted net loss per share from discontinued operations	**-**	(246)	**-**	(228)
Basic and fully diluted net income per share	**15,839**	14,375	**28,390**	21,361

INTERIM CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

[in thousands of dollars, unaudited]

	Three months ended June 30, 2010 $	Three months ended June 30, 2009 $	Six months ended June 30, 2010 $	Six months ended June 30, 2009 $
Retained earnings, beginning of period	**436,988**	414,290	**430,437**	413,474
Net income for the period	**15,839**	14,375	**28,390**	21,361
Dividends *[note 12]*	**(6,000)**	(6,000)	**(12,000)**	(12,170)
Retained earnings, end of period	**446,827**	422,665	**446,827**	422,665

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 June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
	$	$	**$**	$
OPERATING ACTIVITIES				
Income from continuing operations	**15,839**	14,621	**28,390**	21,589
Adjustments for non-cash items				
Depreciation and amortization	**40,166**	40,810	**79,852**	81,538
Change in fair value of investments *[note 5]*	**-**	(313)	**-**	(2,458)
Net change in other assets and liabilities	**(327)**	(1,816)	**(726)**	(758)
Payments in lieu of corporate taxes	**649**	1,267	**6,199**	2,337
Post-employment benefits	**2,249**	1,827	**4,232**	3,322
Future income taxes	**461**	161	**655**	338
Gain on disposals of property, plant and equipment *[note 4]*	**(862)**	(515)	**(1,546)**	(515)
Changes in non-cash working capital balances				
Decrease (increase) in accounts receivable	**10,622**	996	**(7,672)**	(26,026)
Decrease (increase) in unbilled revenue	**(16,755)**	(12,305)	**19,264**	27,041
Decrease (increase) in inventories	**(400)**	286	**(749)**	(466)
Decrease (increase) in prepaid expenses	**395**	1,307	**(2,501)**	(1,670)
Increase (decrease) in accounts payable and accrued liabilities	**2,372**	(14,101)	**9,263**	(17,939)
Increase (decrease) in deferred revenue	**(905)**	(1,229)	**1,574**	799
Net cash provided by operating activities	**53,504**	30,996	**136,235**	87,132
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(74,576)**	(46,340)	**(141,193)**	(88,261)
Purchase of intangible assets	**(7,285)**	(5,727)	**(13,195)**	(11,438)
Accumulated cash received from conduit trusts *[note 5]*	**-**	1,217	**-**	3,929
Net change in regulatory assets and liabilities	**13,659**	(23,404)	**8,728**	(53,917)
Proceeds on disposal of property, plant and equipment *[note 4]*	**7,952**	518	**8,669**	518
Net cash used in investing activities	**(60,250)**	(73,736)	**(136,991)**	(149,169)
FINANCING ACTIVITIES				
Dividends paid *[note 12]*	**(6,000)**	(6,000)	**(12,000)**	(12,170)
Proceeds from debentures *[note 8]*	**198,493**	-	**198,493**	-
Increase (decrease) in customers' advance deposits	**7,712**	8,180	**8,299**	(753)
Net cash provided by (used in) financing activities	**200,205**	2,180	**194,792**	(12,923)
Net cash provided by (used in) continuing operations	**193,459**	(40,560)	**194,036**	(74,960)
Net cash provided by (used in) discontinued operations	**(117)**	(603)	**44**	(775)
Net increase (decrease) in cash and cash equivalents during the period	**193,342**	(41,163)	**194,080**	(75,735)
Cash and cash equivalents, beginning of period	**212,108**	305,920	**211,370**	340,492
Cash and cash equivalents, end of period	**405,450**	264,757	**405,450**	264,757
Supplementary cash flow information				
Total interest paid	**24,089**	25,481	**31,585**	36,811
Payments in lieu of corporate taxes	**3,145**	-	**3,145**	2,882

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]

June 30, 2010

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, 2009, 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 distribution rates and other permitted recoveries in the future.

Electricity Distribution Rates

Toronto Hydro-Electric System Limited ["LDC"] electricity distribution rates are typically effective from May 1 to April 30 of the following year. Accordingly, for the first four months of 2010, distribution revenue of LDC is based on the rates approved for 2009.

On May 15, 2008, the OEB issued its decision regarding LDC's electricity distribution rates application for 2008 and 2009. In its decision, the OEB approved LDC's 2008 distribution revenue requirement and rate base of $473,000,000 and $1,968,900,000, respectively. As part of the decision, 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 expected 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 filed a notice of clarification with the OEB with respect to the timing and the quantum of the expected reduction in distribution revenue. The OEB indicated that it intended to provide a final ruling on this issue as part of LDC's electricity distribution rates decision for 2010.

On February 24, 2009, the OEB set LDC's allowed return on equity ["ROE"] for the 2009 rate year at 8.01%. In addition to setting the ROE, the OEB also set LDC's 2009 distribution revenue requirement and rate base at $482,500,000 and $2,035,000,000, respectively.

On December 11, 2009, the OEB issued revised cost of capital guidelines for implementation in 2010. Under the new guidelines, the ROE formula will be adjusted periodically to reflect the forecasted long Canada bond yield and A-rated Canadian utility bond spreads. At the date of issuance of the new guidelines, the impact of the changes would have increased LDC's ROE from 8.01% to 9.75%.

On April 9, 2010, the OEB issued its final decision regarding electricity distribution rates of LDC for the rate year beginning May 1, 2010 and ending April 30, 2011. The decision rendered by the OEB was aligned with the settlement proposal accepted by LDC and other various parties with regard to the major components of the revenue requirements such as operating expenditures, capital expenditures and load forecast. The decision provides for capital expenditures of $350,000,000 with an additional $27,800,000 allowed to cover expenditures related to Transit City and operating expenses of $204,100,000. The OEB also increased the ROE of LDC from 8.01% in 2009 to 9.85% for 2010, as it transitioned to the new ROE formula guidelines issued in December 2009. Finally, the OEB ordered LDC to reduce its revenue requirement by $10,300,000 to reflect the expected gains on sale related to some designated surplus properties. This reduction was related to the OEB's 2008 decision with regard to LDC's distribution rates for which LDC had filed a notice of clarification in September 2009. Accordingly, after considering all the elements of the 2010 OEB decision, the distribution revenue requirement and rate base of LDC were set at $518,700,000 and $2,140,700,000, respectively.

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.

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 is currently performing a detailed asset and financial valuation of the street lighting assets, and expects to have this comprehensive review completed by the end of 2010. The Corporation is evaluating the impact of this decision on its regulated and unregulated businesses and whether to transfer all or a portion of the street lighting assets to LDC in the future.

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 Ministry of Energy, the Ministry of Finance, or the Ministry of Revenue.

b) Changes in Accounting Policies

Financial Instruments – Recognition and Measurement

In June 2009, the Canadian Institute of Chartered Accountants ["CICA"] amended Handbook Section 3855 – "Financial Instruments – Recognition and Measurement" ["Handbook Section 3855"] 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 adoption of this amendment did not have any impact on the Corporation's results of operations or financial position.

c) Future Accounting Pronouncements

International Financial Reporting Standards ["IFRS"]

On February 13, 2008, the Canadian Accounting Standards Board ["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. Prior to the developments noted below, the Corporation's IFRS conversion project was proceeding as planned to meet the January 1, 2011 conversion date. The Corporation has an internal initiative to govern the conversion process.

On July 28, 2010, the AcSB issued an exposure draft applicable to Canadian publicly accountable enterprises, which proposes that qualifying entities with rate-regulated activities be permitted, but not required, to continue applying the Canadian GAAP accounting standards in Part V of the CICA Handbook and proposes an optional deferral to the adoption of IFRS until January 1, 2013, with earlier application permitted. The Corporation believes it is a qualifying entity for the purposes of this deferral. The exposure draft is open for comments until August 31, 2010. A final decision is expected by the AcSB before the end of 2010.

Due to the continued uncertainty around the timing, scope and eventual adoption of a rate-regulated accounting ["RRA"] standard under IFRS and the potential material impact of RRA on the Corporation's financial statements, if the AcSB's exposure draft is approved, the Corporation expects to defer its adoption of IFRS accordingly, and continue to prepare its consolidated financial statements in accordance with Canadian GAAP to maintain the use of RRA.

As a result of these developments related to RRA under IFRS and the uncertainty regarding the impact of IFRS on the OEB electricity distribution rates application process, the Corporation cannot reasonably quantify the full impact that adopting IFRS would have on its future financial position and results of operations.

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 its results of operations and financial position.

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. The Corporation expects this amendment will have no impact on its results of operations and financial position.

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 expects these amendments will have no impact on its results of operations and financial position.

[all tabular amounts in thousands of dollars, unaudited]

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

	June 30 2010			December 31 2009		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Land	**4,001**	**—**	**4,001**	4,048	—	4,048
Buildings	**146,652**	**54,171**	**92,481**	146,163	53,476	92,687
Stations	**254,682**	**124,220**	**130,462**	253,659	120,201	133,458
Distribution lines	**2,488,872**	**1,337,287**	**1,151,585**	2,449,630	1,291,104	1,158,526
Transformers	**577,982**	**331,270**	**246,712**	567,573	321,140	246,433
Meters	**205,714**	**110,280**	**95,434**	204,425	105,829	98,596
Other capital assets	**54,988**	**32,570**	**22,418**	53,269	29,935	23,334
Communications	**25,365**	**19,887**	**5,478**	23,860	18,994	4,866
Computer hardware	**36,950**	**28,938**	**8,012**	33,136	27,380	5,756
Rolling stock	**67,756**	**42,768**	**24,988**	68,043	42,650	25,393
Equipment and tools	**39,417**	**28,813**	**10,604**	37,154	28,011	9,143
Construction in progress	**194,932**	**—**	**194,932**	117,714	—	117,714
	4,097,311	**2,110,204**	**1,987,107**	3,958,674	2,038,720	1,919,954

For the three months and the six months ended June 30, 2010, allowance for funds used during construction in the amount of $317,000 and $486,000 [three months and six months ended June 30, 2009 - $704,000 and $1,126,000] was capitalized to property, plant and equipment and credited to interest expense.

As at June 30, 2010, the net book value of stranded meters related to the deployment of smart meters amounting to $24,418,000 [December 31, 2009 - $25,347,000] is included in property, plant and equipment. In the absence of rate regulation, property, plant and equipment would have been $24,418,000 lower as at June 30, 2010 [December 31, 2009 - $25,347,000].

For the six months ended June 30, 2010, the Corporation recognized $1,546,000 of net gain on the disposal of various surplus properties, of which, $688,000 relates to properties for which the OEB reduced electricity distribution rates in 2010 *[note 2]*. LDC is recognizing the actual gains realized on the sale of these properties over a one-year period beginning May 1, 2010 to mirror the actual timing of the reduction in 2010 electricity distribution rates. LDC intends to file an application with the OEB in the future to seek recovery for the difference between the actual gains of $4,126,000 on these properties and the expected gains on those properties used to reduce electricity distribution rates in 2010.

[all tabular amounts in thousands of dollars, unaudited]

5. INVESTMENTS

As at June 30, 2010, the Corporation continues to hold the following investments (listed by distribution of class) that were issued upon the 2009 completion of the restructuring of the non-bank sponsored asset backed commercial paper:

Master Asset Vehicle II	Amount $	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 [“IAT”] notes	7,600,000	8.7%
Total	87,700,000	100.0%
Fair value as at June 30, 2010	47,930,000	54.7%

At the time of issuance, DBRS Limited [“DBRS”] issued 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). The “legal final maturity” of the 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. On June 22, 2010, DBRS confirmed the Class A-2 notes at BBB (low) and placed the A-1 notes under review with positive implications.

Although there have been some transactions subsequent to January 21, 2009, there are currently no active liquid markets with reliable quotations available for these investments. Accordingly, there is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the investments. The Corporation uses a mark-to-model valuation technique that incorporated 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 June 30, 2010, incorporated 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 to evaluate such investments. The Corporation may change its valuation methodology to a mark-to-market valuation in the future as a more robust market for these investments develops.

A weighted average interest rate of 1.11% 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 1.81% was used. These rates were based on a forecast of 90-day Bankers’ Acceptance [“BA”] rates less 50 basis points from 2010 through 2017, except for the IAT notes for which a discount rate based on a 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 4.35% to 16.95%.

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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

June 30, 2010

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 June 30, 2010 and December 31, 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 approximately $3,500,000.

The estimation by the Corporation of the fair value of the restructured notes, as at June 30, 2010, 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 market uncertainty regarding the investments described above has had no significant impact on the Corporation's operations. The Corporation has sufficient cash to fund all of its on-going liquidity and capital expenditure requirements and is in compliance with the financial covenants under the terms of its outstanding indebtedness.

6. REGULATORY ASSETS AND LIABILITIES

Regulatory assets consist of the following:

	June 30 2010 $	**December 31 2009 $**
Smart meters	**58,340**	50,669
Contact voltage	**9,115**	9,050
Special purpose charge variance	**8,217**	—
Late payment penalties settlement	**7,750**	—
Lost Revenue Adjustment Mechanism and Shared Savings Mechanism	**—**	3,546
Other	**4,937**	4,928
	88,359	68,193

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

June 30, 2010

Regulatory liabilities consist of the following:

	June 30 2010 $	December 31 2009 $
Future income taxes	**248,196**	250,948
Regulatory assets recovery account	**60,526**	3,598
Payments in Lieu of Corporate Taxes variances	**5,646**	15,197
Settlement variances	**1,079**	36,615
Other	**172**	2,217
	315,619	308,575

For the three months and the six months ended June 30, 2010, LDC disposed of approved regulatory liabilities of $5,728,000 and $7,817,000 through permitted distribution rate adjustments [three months and six months ended June 30, 2009 – $3,180,000 and $9,720,000].

The regulatory assets and liabilities balances 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 by 2010. LDC launched its project shortly following the Province of Ontario's announcement in 2006. As at June 30, 2010, LDC had installed approximately 649,000 smart meters. In 2008, in connection with this initiative, the OEB approved the disposition of the balances incurred in 2006 and 2007. The OEB also approved the transfer from regulatory assets to property, plant and equipment of all capital expenditures incurred in 2006 and 2007. In a separate decision regarding LDC's electricity distribution rates for 2008, the OEB ordered LDC to record all future expenditures and revenues related to smart meters to a regulatory asset account and allowed LDC to keep the net book value of the stranded meters related to the deployment of smart meters in its rate base.

In connection with its smart meter initiatives, the Corporation has incurred costs amounting to $5,414,000 and $9,801,000, for the three months and the six months ended June 30, 2010 [three months and six months ended June 30, 2009 - $7,554,000 and $12,015,000]. As at June 30, 2010, smart meter capital expenditures, net of accumulated depreciation, totalling $57,898,000 have been recorded to regulatory assets [December 31, 2009 - $51,501,000]. 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 $52,666,000 and $5,232,000 higher as at June 30, 2010 [December 31, 2009 - $45,606,000 and $5,895,000, respectively]. For the three months and the six months ended June 30, 2010, smart meter operating expenses of $663,000 and $1,587,000 [three months and six months ended June 30, 2009 - $614,000 and $1,031,000], and smart meter depreciation expense of $1,305,000 and $2,517,000 [three months and six months ended June 30, 2009 - $743,000 and $1,286,000] 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 six months ended June 30, 2010, operating expenses would have been $663,000 and $1,587,000 higher [three months and six months ended June 30, 2009 - $614,000 and $1,031,000 higher], and depreciation expense would have been $1,305,000 and $2,517,000 higher [three months and six months ended June 30, 2009 - $743,000 and $1,286,000 higher].

For the three months and the six months ended June 30, 2010, smart meter customer revenues of $1,449,000 and $2,863,000 were deferred [three months and six months ended June 30, 2009 - $1,467,000 and $2,866,000]. In the absence of rate regulation, for the three months and the six months ended June 30, 2010, revenue would have been $1,449,000 and $2,863,000 higher [three months and six months ended June 30, 2009 - $1,467,000 and $2,866,000 higher].

[b] Contact Voltage

On December 10, 2009, the OEB issued its decision in regard to the costs incurred in the first quarter of 2009 for the remediation of safety issues related to contact voltage on LDC's electricity distribution infrastructure. The decision provides for the recovery of $9,050,000. The recovery of the costs is expected to begin on May 1, 2011.

[c] 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 has 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 will be allowed to recover this balance. The recovery is to be achieved over a one-year period, starting from May 1, 2010.

This variance account relates to the difference between the amount remitted to the Ministry of Finance for LDC's SPC assessment, and the amounts recovered from customers, which commenced on May 1, 2010. Carrying charges shall apply to the monthly opening balance in the variance account. Per the SPC Regulation, LDC shall apply to the OEB no later than April 15, 2012 for an order authorizing it to clear any remaining debit or credit balance in the SPC variance account. As at June 30, 2010, the account consists of LDC's accrued assessment offset by two months of recoveries. In the absence of rate regulation, revenue for the three months and the six months ended June 30, 2010, would have been $1,481,000 higher and operating expenditures would have been $9,698,000 higher.

[d] Late Payment Penalties Settlement

The late payment penalties settlement account relates to the settlement costs accrual associated with the late payment charges class action *[note 15 [a]]*. All of the municipal electric utilities ["MEUs"] involved in the settlement, including LDC, are requesting an order from the OEB allowing for future recovery from customers of all costs related to the settlement. The manner and timing of disposition of the late payment penalties settlement has not been determined by the OEB. LDC has deferred its estimated share of the settlement in the amount of $7,750,000, as at June 30, 2010. In the absence of rate regulation, operating expenses for the three months and the six months ended June 30, 2010, would have been $nil and $7,750,000 higher.

[e] Lost Revenue Adjustment Mechanism and Shared Savings Mechanism

Under certain specific rules, the OEB has allowed LDC to receive compensation for the lost revenue and the benefits associated to Conservation and Demand Management ["CDM"] programs delivered. The Lost Revenue Adjustment Mechanism ["LRAM"] represents the lost revenue from CDM programs and the Shared Savings Mechanism ["SSM"] represents LDC's share of provincial savings related to these programs.

On December 15, 2008, LDC applied to the OEB to recover LRAM and SSM amounts related to CDM programs undertaken in 2007. On September 22, 2009, the OEB approved the recovery by LDC of $2,904,000 for LRAM and $586,000 for SSM programs through rate riders commencing on May 1, 2010 and ending April 30, 2011. Accordingly, the balances were transferred to the Regulatory Assets Recovery Account in April 2010.

[f] Future income taxes

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

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 – "Income Taxes". As at June 30, 2010, LDC has recorded a future income tax asset of $248,196,000 [December 31, 2009 - $250,948,000], and a corresponding regulatory liability of $248,196,000 [December 31, 2009 - $250,948,000].

[g] Regulatory assets recovery account ["RARA"]

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 May 15, 2008, the OEB approved the disposition of net regulatory liabilities of $18,622,000 over a one-year period commencing May 1, 2008 and ending April 30, 2009.

On April 16, 2009, the OEB approved disposition of net regulatory liabilities of $7,582,000 over a one-year period commencing May 1, 2009 and ending April 30, 2010.

On April 9, 2010, the OEB approved the disposition of net regulatory liabilities of $68,140,000. The disposition is over a two-year period commencing May 1, 2010 and ending April 30, 2012.

[h] Payments in Lieu of Corporate Taxes ["PILs"] variances

As at June 30, 2010, 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 totalling an over-recovery of $5,646,000 [December 31, 2009 – $15,197,000].

[i] 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 after May 1, 2002. 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 handbook "Accounting Procedures Handbook for Electric Distribution Utilities" ["AP Handbook"].

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 six months ended June 30, 2010, settlement variances of $4,904,000 and $4,904,000 were disposed through rate adjustments [three months and six months ended June 30, 2009 - $1,504,000 and $6,628,000].

7. CREDIT FACILITIES

On May 3, 2010, the Corporation renewed its revolving credit facility ["Revolving Credit Facility"], for a two-year term, expiring on May 3, 2012, 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 also negotiated 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 ["IESO"].

As at June 30, 2010, no amounts have been utilized under the Corporation's Revolving Credit Facility [December 31, 2009 - $45,176,000].

As at June 30, 2010, $45,077,000 had been drawn on the $50,000,000 bilateral demand line of credit in the form of letters of credit primarily to support LDC's prudential requirements with the IESO.

[all tabular amounts in thousands of dollars, unaudited]

8. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30 2010 $	December 31 2009 $
Senior unsecured debentures		
Series 1 – 6.11% due May 7, 2013	**223,619**	223,406
Series 2 – 5.15% due November 14, 2017	**248,722**	248,653
Series 3 – 4.49% due November 12, 2019	**248,480**	248,416
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	**198,495**	—
Promissory note payable to the City	**—**	490,115
Long-term debt	**1,409,430**	1,210,590
Comprising:		
Debentures	**1,409,430**	720,475
Promissory note payable to the City	**—**	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 the 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.

On November 12, 2009, the Corporation issued $250,000,000 10-year senior unsecured debentures [“Series 3”]. The Series 3 debentures bear interest at the rate of 4.49% per annum, 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.

On April 1, 2010, the Corporation issued $245,057,000 senior unsecured debentures [“Series 4”]. The Series 4 debentures bear interest at the rate of 6.11% per annum, payable semi-annually in arrears in equal instalments on June 30 and December 30 of each year and on the maturity date. The Series 4 debentures mature on December 30, 2011.

On April 1, 2010, the Corporation issued $245,057,000 senior unsecured debentures [“Series 5”]. The Series 5 debentures bear interest at the rate of 6.11% per annum, payable semi-annually in arrears in equal instalments on May 6 and November 6 of each year and on the maturity date. The Series 5 debentures mature on May 6, 2013.

On May 20, 2010, the Corporation issued $200,000,000 30-year senior unsecured debentures [“Series 6”]. The Series 6 debentures bear interest at the rate of 5.54% per annum, payable semi-annually in arrears in equal instalments on May 21 and November 21 of each year. The Series 6 debentures mature on May 21, 2040.

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 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.

b) Promissory note payable to the City of Toronto

During the first quarter of 2010, the City of Toronto [the “City”] made the determination to monetize its interest in the amended and restated promissory note dated May 1, 2006 [the “City Note”] under which the Corporation had $490,115,000 of indebtedness outstanding to the City. Concurrent with the closing of the transaction on April 1, 2010, the City Note was converted, in accordance with its terms, into Series 4 and Series 5 debentures of the Corporation which were sold by a syndicate of underwriters as part of a secondary offering by the City and issued by the Corporation under the terms of an existing trust indenture as supplemented to effect the offering. The Corporation did not receive any proceeds from the transaction. Following the completion of the transaction, the Corporation has no further indebtedness outstanding to the City under the terms of the City Note and the City Note has been cancelled.

9. EMPLOYEE FUTURE BENEFITS

a) Pension

For the three months and the six months ended June 30, 2010, the Corporation’s Ontario Municipal Employees Retirement System current service pension costs were $3,069,000 and $6,272,000 [three months and six months ended June 30, 2009 - $2,898,000 and $5,885,000].

b) Employee future benefits other than pension

For the three months and the six months ended June 30, 2010, the Corporation recognized periodic benefit costs of $4,061,000 and $7,831,000 [three months and six months ended June 30, 2009 – $3,025,000 and $6,050,000] of which $1,809,000 and $3,405,000 [three months and six months ended June 30, 2009 – $1,616,000 and $2,526,000] were capitalized as part of property, plant and equipment, resulting in $2,252,000 and $4,426,000 [three months and six months ended June 30, 2009 – $1,409,000 and $3,524,000] charged to operations.

10. CAPITAL DISCLOSURES

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

- ensure ongoing access to funding to maintain and improve the regulated electricity distribution system of LDC, and to meet any capital needs of its unregulated activities should such needs arise;
- ensure compliance with covenants related to its credit facilities and senior unsecured debentures;
- 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 June 30, 2010, the Corporation's definition of capital includes shareholder's equity and long-term debt, and has remained unchanged from December 31, 2009. As at June 30, 2010, shareholder's equity amounts to $1,014,644,000 [December 31, 2009 – $998,254,000] and long-term debt amounts to $1,409,430,000 [December 31, 2009 – $1,210,590,000]. The Corporation's capital structure as at June 30, 2010 is 58% debt and 42% equity [December 31, 2009 - 55% debt and 45% equity]. There have been no changes in the Corporation's approach to capital management during the period.

As at June 30, 2010, 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 June 30, 2010, the consolidated funded indebtedness to consolidated capitalization ratio was 58% [December 31, 2009 – 55%].

The Corporation's Revolving Credit Facility limits the debt to capitalization ratio to a maximum of 75%. As at June 30, 2010, the debt to capitalization ratio was 59% [December 31, 2009 – 56%].

The Corporation's long-term debt agreements also include negative covenants such as limitations on funded indebtedness, limitations on designated subsidiary indebtedness, and restrictions on mergers and dispositions of designated subsidiaries. As at June 30, 2010, and as at December 31, 2009, the Corporation was in compliance with all covenants included in its long-term debt agreements and short-term Revolving Credit Facility.

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.

[all tabular amounts in thousands of dollars, unaudited]

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

	June 30 2010 $		December 31 2009 $	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	**405,450**	**405,450**	211,370	211,370
Accounts receivable, net of allowance for doubtful accounts	**157,953**	**157,953**	150,281	150,281
Unbilled revenue	**276,383**	**276,383**	295,647	295,647
Investments	**47,930**	**47,930**	47,930	47,930
Accounts payable and accrued liabilities	**343,479**	**343,479**	316,768	316,768
Customers' advance deposits	**59,997**	**59,997**	51,698	51,698
Senior unsecured debentures				
Series 1 – 6.11% due May 7, 2013	**223,619**	**247,466**	223,406	247,967
Series 2 – 5.15% due November 14, 2017	**248,722**	**271,032**	248,653	265,874
Series 3 – 4.49% due November 12, 2019	**248,480**	**254,591**	248,416	249,581
Series 4 – 6.11% due December 30, 2011	**245,057**	**260,732**	—	—
Series 5 – 6.11% due May 6, 2013	**245,057**	**269,526**	—	—
Series 6 – 5.54% due May 21, 2040	**198,495**	**208,838**	—	—
Promissory note payable to the City	—	—	490,115	529,886

The Corporation's fair value measurements of financial instruments within the fair value hierarchy, as at June 30, 2010 consists of $47,930,000 of investments valued using unobservable inputs that are supported by little or no market activity also known as Level 3 [December 31, 2009 - $47,930,000].

The following table reconciles the Corporation's Level 3 fair value measurements, which includes its investments from January 1, 2009 to June 30, 2010:

Fair value measurements using Level 3 inputs	June 30 2010 $	December 31 2009 $
Balance, beginning of period	**47,930**	52,908
Loss included in net income	—	(1,049)
Settlements[1]	—	(3,929)
Balance, end of period	**47,930**	47,930

[1] Settlements relate to share of accumulated cash received from the conduit trusts on the investments.

b) Risk Factors

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

June 30, 2010

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 electricity bill payments from LDC customers. LDC has approximately 696,000 customers, the majority of which are residential. LDC collects security deposits from customers in accordance with direction provided by the OEB. As at June 30, 2010, LDC held security deposits in the amount of $59,997,000 [December 31, 2009 - $51,698,000].

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 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:

	June 30 2010 $	December 31 2009 $
Total accounts receivable	**170,178**	162,861
Less: Allowance for doubtful accounts	**(12,225)**	(12,580)
Total accounts receivable, net	**157,953**	150,281
Of which:		
Outstanding for not more than 30 days	**134,380**	128,729
Outstanding for more than 30 days but not more than 120 days	**24,119**	20,796
Outstanding for more than 120 days	**11,679**	13,336
Less: Allowance for doubtful accounts	**(12,225)**	(12,580)
Total accounts receivable, net	**157,953**	150,281

Unbilled revenue represents amounts to which the Corporation has a contractual right to receive cash through future billings but are unbilled at period-end. As at June 30, 2010, total unbilled revenue was $276,383,000 [December 31, 2009 - $295,647,000]. Unbilled revenue outstanding is considered current.

As at June 30, 2010, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties with the exception of investments *[note 5]*. 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:

[all tabular amounts in thousands of dollars, unaudited]

June 30, 2010	Due within 1 year $	Due between 1 year and 5 years $	Due after 5 years $
Financial liabilities			
Accounts payable and accrued liabilities	**343,479**	—	—
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**
	343,479	**715,114**	**700,000**

12. SHARE CAPITAL

As at June 30, 2010, the Corporation had 1,000 [December 31, 2009 - 1,000] common shares issued and outstanding at a stated value of $567,817,000 [December 31, 2009 - $567,817,000]. The Corporation is authorized to issue an unlimited number of common shares.

Dividends

On March 5, 2010, the board of directors of the Corporation declared a dividend in the amount of $6,000,000 with respect to the first quarter of 2010, which was paid on March 31, 2010.

On May 26, 2010, the board of directors of the Corporation declared a dividend in the amount of $6,000,000 with respect to the second quarter of 2010, which was paid on June 30, 2010.

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.

For the three months and the six months ended June 30, 2010, LDC provided electricity to the City in the amount of $31,149,000 and $64,837,000 [three months and six months ended June 30, 2009 - $24,433,000 and $52,237,000]. As at June 30, 2010, included in "Unbilled revenue" is a balance amounting to $8,900,000 [December 31, 2009 - $9,679,000] receivable from the City related to the provision of electricity for the previous months.

[all tabular amounts in thousands of dollars, unaudited]

For the three months and the six months ended June 30, 2010, LDC and TH Energy provided relocation services, energy management services, street lighting services and consolidated billing services to the City amounting to $5,040,000 and $9,996,000 [three months and six months ended June 30, 2009 - $4,425,000 and $10,496,000]. As at June 30, 2010, included in "Accounts receivable, net of allowance for doubtful accounts" is $4,119,000 [December 31, 2009 - $6,228,000] receivable from the City related to these services.

For the three months and the six months ended June 30, 2010, LDC purchased road cut and other services of $1,195,000 and $2,472,000 [three months and six months ended June 30, 2009 - $505,000 and $1,279,000] from the City. As at June 30, 2010, included in "Accounts payable and accrued liabilities" is $6,989,000 [December 31, 2009 - $5,492,000] payable to the City related to services received from the City.

For the three months and the six months ended June 30, 2010, LDC and TH Energy paid property tax expenses to the City of $2,056,000 and $3,085,000 [three months and six months ended June 30, 2009 - $2,032,000 and $3,051,000].

As at June 30, 2010, a promissory note in the amount of $nil [December 31, 2009 - $490,115,000] was payable to the City *[note 8]*. For the three months and the six months ended June 30, 2010, interest of $nil and $7,487,000 [three months and six months ended June 30, 2009 - $11,230,000 and $22,460,000] on the City Note was paid to the City.

14. LEASE COMMITMENTS

Operating lease obligations

During the first quarter of 2010, the Corporation extended the term of two of its leases for office and warehouse space.

As at June 30, 2010, the future minimum annual lease payments under property operating leases with remaining lease terms from one to five years and thereafter are as follows:

	$
2010	**2,293**
2011	**4,501**
2012	**4,372**
2013	**4,265**
2014	**4,267**
Thereafter	**11,008**
Total minimum lease payments	**30,706**

15. CONTINGENCIES

a) 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.

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 in April 1994 against a predecessor of LDC and other Ontario MEUs under the *Class Proceedings Act, 1992* (Ontario) 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 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.

The second is an action commenced in November 1998 against a predecessor of LDC under the *Class Proceedings Act, 1992* (Ontario) 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 but, as in the first action, the classes have not been certified.

The claims made against LDC and the definition 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. 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.

On January 15, 2010, a conditional settlement was reached for both actions against LDC pursuant to which the defendant MEUs would pay the amount of $17,000,000 plus costs and taxes in settlement of all claims. The amount allocated to each MEU will be its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the *Criminal Code*. It is anticipated that LDC's share of the settlement amount will be approximately $7,750,000. The settlement is conditional upon court approval. The court application to obtain approval for the settlement is scheduled for July 16, 2010. If the settlement is approved, all the MEUs involved in the settlement, including LDC, will request an order from the OEB allowing for the future recovery from customers of all costs related to the proposed settlement. LDC has accrued a liability and a corresponding regulatory asset in the amount of $7,750,000. Based on the decision of the OEB in respect of Enbridge's application for recovery of costs related to its settlement, LDC believes that the OEB will allow such future recovery. However, there is no guarantee that the OEB will allow for total or partial recovery of such costs in the future. If the OEB denies such recovery, it may have an adverse material impact on the consolidated results of operations and financial position of the Corporation in the future.

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 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 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. 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 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.

By order of the court, these two actions, together with a third smaller non-class action commenced in April 2009 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 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 the electrical room at 3650 Kingston Road on March 19, 2009. A statement of claim was served on LDC. The proceedings of other parties to the action revealed that the damages are likely to have been caused by a party other than LDC. As a result, LDC brought a successful motion to have LDC dismissed from the action. LDC awaits the issued and entered dismissal order. Accordingly, this action will not have a material effect on the financial performance of the Corporation.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 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 in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action also added LDC as a defendant. The main action seeks damages in the amount of $10,000,000 from LDC. Both actions are at a preliminary stage. A third party claim and now the Statement of Claim in the main action have been served on LDC and statements of defence to the main action and the third party claim have not been filed. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions 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 these actions.

Another third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice 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. Subsequently, in March 2010, the plaintiff in the main action also added LDC as a defendant. The main action seeks damages in the amount of $400,000 from LDC. Both actions are at a preliminary stage. Although a third party claim and the Statement of Claim in the main action have been served on LDC, statements of defence to the main action and the third party claim have not been filed. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions 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 these actions.

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. This action is at an intermediate stage. The plaintiff's motion increasing its claim for damages to $23,790,000 was granted on July 7, 2010. 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.

b) OEB PILs Proceeding

The OEB is conducting a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for all MEUs. The current proceeding is expected to provide direction regarding the interpretation of the rules issued by the OEB. The outcome of this proceeding could have a material impact on the financial position of the Corporation.

c) Payments in Lieu of Additional Municipal and School Taxes

The Ministry of Revenue has issued assessments in respect of payments in lieu of additional municipal and school taxes under s.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, correction of which has been requested by LDC.

The balance assessed by the Ministry of Revenue above the balance accrued by the Corporation amounts to $8,863,000 as at June 30, 2010. The Corporation has been working with the Ministry of Revenue and the Ministry of Finance to resolve this issue. However, 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 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 June 30, 2010 interim consolidated financial statements.

18. SUBSEQUENT EVENTS

a) Late Payment Charges Class Action

By Order dated July 22, 2010, the Ontario Superior Court of Justice consolidated and approved the settlement of two class actions against LDC, one commenced in 1994 and the other, against all Ontario MEUs, in 1998. The actions sought $500,000,000 and $64,000,000, respectively, 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*. The claims made against LDC and the definition of the plaintiff classes were identical in both actions such that any damages payable by LDC in the first action would reduce the damages payable by LDC in the second action, and vice versa.

The July 22, 2010 court order formalized a settlement pursuant to which the defendant MEUs will pay the amount of $17,000,000 plus costs and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the *Criminal Code*. It is anticipated that LDC's share of the settlement amount will be approximately $7,750,000, payable on June 30, 2011. Under the settlement, all the MEUs involved in the settlement, including LDC, will request an order from the OEB allowing for the future recovery from customers of all costs related to the settlement. LDC has accrued a liability and a corresponding regulatory asset in the amount of $7,750,000. Based on the decision of the OEB in respect of a similar application for recovery made by Enbridge in 2008, LDC believes that the OEB will allow such future recovery. However, there is no guarantee that the OEB will allow for total or partial recovery of such costs. If the OEB denies such recovery, it may have an adverse material impact on the consolidated results of operations and financial position of the Corporation in the future.

b) Electricity Distribution Rates

On August 23, 2010, LDC filed a rate application with the OEB seeking approval of revenue requirements and corresponding rates for the rate year commencing on May 1, 2011. The requested distribution revenue requirement and rate base for this rate year are $578,400,000 and $2,346,300,000 respectively.

c) Dividends

On August 23, 2010, the board of directors of the Corporation declared a dividend in the amount of $6,000,000 with respect to the third quarter of 2010. The dividend is payable on September 30, 2010.