Consolidated Financial Statements

Toronto Hydro Corporation

MARCH 31, 2009

Toronto Hydro Corporation

INTERIM CONSOLIDATED BALANCE SHEETS

[in thousands of dollars, unaudited]

	As at March 31, 2009 $	As at December 31, 2008 $
ASSETS		
Current		
Cash and cash equivalents	**305,920**	340,492
Accounts receivable, net of allowance for doubtful accounts *[note 10[b]]*	**158,678**	131,582
Unbilled revenue	**226,715**	266,061
Payments in lieu of corporate taxes receivable	**22,912**	23,977
Inventories	**5,821**	5,069
Prepaid expenses	**5,464**	2,503
Total current assets	**725,510**	769,684
Property, plant and equipment, net	**1,859,336**	1,853,606
Intangible assets, net	**65,910**	66,701
Investments *[note 4]*	**51,437**	52,908
Regulatory assets *[note 5]*	**35,975**	26,213
Other assets	**7,681**	7,862
Future income tax assets *[notes 3 and 5]*	**299,047**	2,809
Total assets	**3,044,896**	2,779,783
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	**290,748**	294,810
Current portion of other liabilities	**17,991**	17,382
Deferred revenue	**5,297**	3,274
Current portion of promissory note payable *[note 7]*	**245,058**	245,058
Liabilities from discontinued operations *[note 14]*	**1,000**	890
Total current liabilities	**560,094**	561,414
Long-term liabilities		
Debentures *[note 7]*	**471,653**	471,521
Promissory note payable *[note 7]*	**490,115**	490,115
Post-employment benefits *[note 8]*	**154,266**	152,771
Regulatory liabilities *[note 5]*	**356,820**	83,516
Other liabilities	**1,989**	2,230
Asset retirement obligations	**7,111**	6,528
Customers' advance deposits	**20,741**	30,283
Future income tax liabilities	**-**	114
Total long-term liabilities	**1,502,695**	1,237,078
Total liabilities	**2,062,789**	1,798,492
Contingencies *[note 13]*		
Shareholder's equity		
Share capital *[note 11]*	**567,817**	567,817
Retained earnings	**414,290**	413,474
Total shareholder's equity	**982,107**	981,291
Total liabilities and shareholder's equity	**3,044,896**	2,779,783

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 March 31, 2009 $	2008 $
Revenues	**612,781**	592,511
Costs		
Purchased power and other	**487,636**	476,654
Operating expenses	**59,351**	50,746
Depreciation and amortization	**40,802**	39,026
	587,789	566,426
Income before interest, change in fair value of investments and provision for (recovery of) payments in lieu of corporate taxes	**24,992**	26,085
Interest income	**944**	2,966
Interest expense		
Long-term debt	**(17,885)**	(17,885)
Other interest	**(482)**	(1,192)
Change in fair value of investments *[note 4]*	**2,145**	(9,427)
Income before provision for (recovery of) payments in lieu of corporate taxes	**9,714**	547
Provision for (recovery of) payments in lieu of corporate taxes	**2,728**	(20,135)
Income from continuing operations	**6,986**	20,682
Income from discontinued operations - net of tax *[note 14]*	**-**	1,810
Net income for the period	**6,986**	22,492
Basic and fully diluted net income per share from continuing operations	6,986	20,682
Basic and fully diluted net income per share from discontinued operations	-	1,810
Basic and fully diluted net income per share	**6,986**	22,492

INTERIM CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

[in thousands of dollars, unaudited]

	Three months ended March 31, 2009 $	2008 $
Retained earnings, beginning of period	**413,474**	360,878
Net income for the period	**6,986**	22,492
Dividends *[note 11]*	**(6,170)**	(22,416)
Retained earnings, end of period	**414,290**	360,954

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 March 31, 2009 $	Three months ended March 31, 2008 $
OPERATING ACTIVITIES		
Income from continuing operations	**6,986**	20,682
Adjustments for non-cash items		
Depreciation and amortization	**40,802**	39,026
Change in fair value of investments *[note 4]*	**(2,145)**	9,427
Net change in other assets and liabilities	**2,127**	(21,875)
Post-employment benefits	**1,495**	1,993
Future income taxes	**177**	(69)
Changes in non-cash working capital balances		
Increase in accounts receivable	**(27,096)**	(18,546)
Decrease in unbilled revenue	**39,346**	7,923
Increase in inventories	**(752)**	(609)
Increase in prepaid expenses	**(2,961)**	(1,320)
Decrease in accounts payable and accrued liabilities	**(4,062)**	(11,997)
Increase in deferred revenue	**2,023**	1,381
Net cash provided by operating activities	**55,940**	26,016
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(41,935)**	(36,144)
Purchase of intangible assets	**(5,783)**	(5,703)
Accumulated cash in conduit trusts *[note 4]*	**2,712**	-
Net change in regulatory assets and liabilities	**(30,513)**	31,599
Net cash used in investing activities	**(75,519)**	(10,248)
FINANCING ACTIVITIES		
Dividends paid *[note 11]*	**(6,170)**	(22,416)
Decrease in customers' advance deposits	**(8,933)**	(5,812)
Net cash used in financing activities	**(15,103)**	(28,228)
Net cash used in continuing operations	**(34,682)**	(12,460)
Net cash provided by (used in) discontinued operations	**110**	(2,199)
Net decrease in cash and cash equivalents during the period	**(34,572)**	(14,659)
Cash and cash equivalents, beginning of period	**340,492**	216,002
Cash and cash equivalents, end of period	**305,920**	201,343
Supplementary cash flow information		
Total interest paid	**11,330**	11,555
Payments in lieu of corporate income taxes	**2,882**	7,727

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]

March 31, 2009

1. BASIS OF PRESENTATION

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

2. REGULATION

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

Electricity Distribution Rates

On May 15, 2008, the OEB issued its decision regarding Toronto Hydro-Electric System Limited's ["LDC"] electricity distribution rates application for 2008 and 2009. In its decision, the OEB provided final approval for 2008 base distribution revenue requirement and rate base of $473,000,000 and $1,968,900,000, respectively. It should be noted that the deemed debt to equity structure of LDC was modified to 62.5% debt and 37.5% equity for 2008 and to 60% debt and 40% equity for 2009 thereafter.

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

On December 15, 2008, LDC applied to the OEB to recover Lost Revenue Adjustment Mechanism ["LRAM"] and Shared Savings Mechanism ["SSM"] amounts related to Conservation and Demand Management ["CDM"] programs undertaken in 2007. The total of the recovery sought is $3,700,000.

On December 15, 2008, LDC applied to the OEB to refund to customers amounts related to the unanticipated extension for three months of rate riders that were to have expired April 30, 2008. The rate riders were extended by the OEB at LDC's request to avoid rate instability prior to the implementation of 2008 rates as of August 1, 2008. In total, the extension produced excess collection of $7,700,000, which together with interest is proposed to be refunded to customers commencing May 1, 2009.

On February 24, 2009, the OEB issued the allowed return on equity for LDC. The 2009 percentage was set at 8.01%. Using approved 2009 distribution expenses and capital expenditures, LDC has estimated the 2009 base distribution revenue requirement and rate base at $483,816,000 and $2,034,970,000, respectively.

Smart Meters

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010, LDC launched its smart meter project in 2006. The project objective is to install 711,000 smart meters and the supporting infrastructure by the end of 2010. LDC has installed approximately 596,300 smart meters as at March 31, 2009.

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

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 revenue and expenses for the period. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or Minister of Finance.

b) Changes in Accounting Policies

Rate Regulated Operations

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

Following the removal of the temporary exemption for rate regulated operations included in Section 1100, the Corporation developed accounting policies for its assets and liabilities arising from rate regulation using professional judgment and other sources issued by bodies authorized to issue accounting standards in other jurisdictions. Upon final assessment and in accordance with Section 1100, the Corporation has determined that its assets and liabilities arising from rate regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Statement of Financial Accounting Standards No. 71 – "Accounting for the Effects of Certain Types of Regulation". Accordingly, the removal of the temporary exemption had no effect on the Corporation's results of operations as of March 31, 2009.

The impact of the amendment to Section 3465 requires the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates, applied on a retroactive basis without prior period restatement. The implementation of these standards did not impact the Corporation's earnings or cash flows. As at March 31, 2009, the Corporation has recorded a future income tax asset of $296,529,000, and a corresponding regulatory liability of $296,529,000 *[note 5]*.

Goodwill and Intangible Assets

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

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

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
[all tabular amounts in thousands of dollars, unaudited]

March 31, 2009

c) Future Accounting Pronouncements

International Financial Reporting Standards [“IFRS”]

On February 13, 2008, the Accounting Standards Board of Canada [“AcSB”] confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP prior to 2011, with the remaining standards to be adopted at the change over date. The Corporation has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its consolidated financial statements. At this time, the impact on the Corporation’s future financial position and results of operations is not reasonably determinable or estimable.

Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued Handbook Section 1601 – “Consolidated Financial Statements”. This section, together with new Handbook Section 1602 – “Non-controlling Interests”, replaces Handbook Section 1600 – “Consolidated Financial Statements” and establishes standards for the preparation of consolidated financial statements. This section applies 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 is currently in the process of evaluating the potential impact of these standards on its consolidated financial statements.

4. INVESTMENTS

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

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

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

DBRS Limited assigned an "A" credit rating to the Class A-1 and A-2 notes; the Class B, C and Ineligible Tracking notes are unrated.

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

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

On January 23, 2009, the Corporation received $2,712,000 representing the first installment of its share of the accumulated cash in the conduit trusts up to August 31, 2008. Based on the information included in the twentieth and twenty-third reports from the Monitor, the Corporation expects to receive $904,000 in the second quarter of 2009, representing the second installment of its share of the accumulated cash in the conduit trusts up to the restructuring date. These balances have been considered in the valuation of the investments as of March 31, 2009.

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

There is currently no active reliable market for the notes received by the Corporation. Accordingly, the Corporation has developed a valuation technique that incorporates available information and market data. The valuation technique used by the Corporation to estimate the fair value of its investments in the restructured notes as at March 31, 2009, incorporates a discounted cash flow model considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments and a mark-to-model valuation of the notes.

A weighted average interest rate of 2.29% was used to determine the expected interest income on the restructured notes, except for the Ineligible Tracking notes, for which a weighted average interest rate of 2.99% was used. These rates were based on a forecast of 90-day Bankers' Acceptance ["BA"] rates less 50 basis points from 2009 through 2017; except for the Ineligible Tracking notes for which a discount rate based on forecast 90-day BA rate plus 20 basis points was used. To derive a net present value of the principal and future cash flows, the restructured notes were discounted using an interest rate spread over forecast BA rates ranging from 400 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 6.79% to 18.79%.

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

Based on the assumptions described above, the discounted cash flows resulted in an estimated fair value of the Corporation's investment in the restructured notes of $51,437,000 at March 31, 2009 as compared to $56,524,000 as at January 20, 2009. The variance was mainly related to the cash received in connection with the Corporation's share of cash accumulated in the conduit trusts and changes in market conditions.

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 $4,300,000.

The estimation by the Corporation of the fair value of the restructured notes, as at March 31, 2009, is subject to significant risks and uncertainties, including the timing and amount of future cash flows, market liquidity and the quality of the underlying assets and financial instruments. Accordingly, there can be no assurance that the Corporation's assessment of the estimated fair value of the restructured notes will not change materially in subsequent periods.

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

5. REGULATORY ASSETS AND LIABILITIES

For the three months ended March 31, 2009, LDC recovered approved regulatory assets amounts of $nil through permitted distribution rate adjustments [three months ended March 31, 2008 - $7,299,000]. These recovery amounts are for the recovery of approved regulatory assets recorded in reporting periods prior to January 1, 2005. In its decision regarding the electricity distribution rates of LDC issued on May 15, 2008, the OEB approved the disposition of regulatory liabilities of $18,622,000, consisting of settlement variances of $14,590,000 and pre-market opening line loss variance of $4,032,000. For the three months ended March 31, 2009, LDC disposed of approved regulatory liability amounts of $6,540,000 through permitted distribution rate adjustments [three months ended March 31, 2008 - $nil].

As at March 31, 2009, LDC has accumulated a Payments in Lieu of Corporate Taxes ["PILs"] variance amount representing differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in the rate adjustment model totaling an over-recovery of $12,645,000 [December 31, 2008 – $11,712,000].

For the three months ended March 31, 2009, LDC has incurred $4,184,000 [three months ended March 31, 2008 - $nil] of unexpected costs for the remediation of safety issues on its electricity distribution plan. These costs have been recorded to regulatory assets as LDC expects to obtain full recovery of these costs in the near future. Under Canadian GAAP for unregulated businesses, these costs would have been recorded to operating expenses. In the absence of rate regulation, for the three months ended March 31, 2009, operating expenses would have been $4,184,000 higher [three months ended March 31, 2008 - $nil].

In connection with its smart meter initiatives, LDC has incurred costs amounting to $4,461,000, for the three months ended March 31, 2009 [three months ended March 31, 2008 - $8,836,000]. As at March 31, 2009, smart meter capital expenditures, net of accumulated depreciation, totalling $31,521,000 have been recorded to regulatory assets [December 31, 2008 - $27,559,000]. These expenditures would otherwise have been recorded as property, plant and equipment under Canadian GAAP for unregulated businesses. In the absence of rate regulation, property, plant and equipment would have been $31,521,000 higher at March 31, 2009 [December 31, 2008 - $27,559,000]. For the three months ended March 31, 2009, smart meter customer revenues of $1,399,000 were deferred [three months ended March 31, 2008 - $nil]. In the absence of rate regulation, revenue for the three months ended March 31, 2009 would have been $1,399,000 higher [three months ended March 31, 2008 - $nil].

As at March 31, 2009, the net book value of stranded meters related to the deployment of smart meters amounting to $26,159,000 [December 31, 2008 - $25,866,000] is included in property, plant and equipment. In the absence of rate regulation, property, plant and equipment would have been $26,159,000 lower at March 31, 2009 [December 31, 2008 - $25,866,000].

On January 1, 2009, LDC began to account for the differences between its financial statement carrying value and tax basis of assets and liabilities following the liability method in accordance with CICA Handbook Section 3465 *[note 3]*. As at March 31, 2009, the Corporation has recorded a future income tax asset of $296,529,000, and a corresponding regulatory liability of $296,529,000.

6. CREDIT FACILITIES

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

At March 31, 2009, no amounts had been drawn on the bilateral demand line of credit [December 31, 2008 - $nil].

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
[all tabular amounts in thousands of dollars, unaudited]

March 31, 2009

7. LONG-TERM DEBT

Long-term debt consists of the following:

	March 31 2009 $	December 31 2008 $
Senior unsecured debentures		
Series 1 – 6.11% due May 7, 2013	**223,100**	223,001
Series 2 – 5.15% due November 14, 2017	**248,553**	248,520
Promissory note payable to the City	**735,173**	735,173
	1,206,826	1,206,694
Less: Current portion of promissory note payable to the City	**245,058**	245,058
Long-term debt	**961,768**	961,636
Comprising:		
Debentures	**471,653**	471,521
Promissory note payable to the City	**490,115**	490,115

All long-term debt of the Corporation ranks equally.

a) Senior unsecured debentures

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

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

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

b) Promissory note payable to the City of Toronto

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

8. EMPLOYEE FUTURE BENEFITS

a) Pension

For the three months ended March 31, 2009, the Corporation's current service pension costs payable to Ontario Municipal Employees Retirement System were $2,987,000 [three months ended March 31, 2008 - $2,897,000].

b) Employee future benefits other than pension

For the three months ended March 31, 2009, the Corporation recognized periodic benefit costs of $3,025,000 [three months ended March 31, 2008 – $3,443,000] of which $910,000 [three months ended March 31, 2008 – $1,430,000] were capitalized as part of property, plant and equipment, resulting in $2,115,000 [three months ended March 31, 2008 – $2,013,000] charged to operations.

9. CAPITAL DISCLOSURES

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

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

As at March 31, 2009, the Corporation's definition of capital includes shareholder's equity and long-term debt which includes the current portion of the promissory note payable to the City, and has remained unchanged from December 31, 2008. As at March 31, 2009, shareholder's equity amounts to $982,107,000 [December 31, 2008 – $981,291,000] and long-term debt, including the current portion of the promissory note payable to the City, amounts to $1,206,826,000 [December 31, 2008 – $1,206,694,000]. The Corporation's capital structure as at March 31, 2009 is 55% debt and 45% equity [December 31, 2008 - 55% debt and 45% equity]. There have been no changes in the Corporation's approach to capital management during the period.

[all tabular amounts in thousands of dollars, unaudited]

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

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

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

10. FINANCIAL INSTRUMENTS

a) Recognition and measurement

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

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

	March 31 2009 $		**December 31 2008 $**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	**305,920**	**305,920**	340,492	340,492
Accounts receivable, net of allowance for doubtful accounts	**158,678**	**158,678**	131,582	131,582
Investments	**51,437**	**51,437**	52,908	52,908
Accounts payable and accrued liabilities	**290,748**	**290,748**	294,810	294,810
Senior unsecured debentures				
Series 1 – 6.11% due May 7, 2013	**223,100**	**250,185**	223,001	242,522
Series 2 – 5.15% due November 14, 2017	**248,553**	**259,536**	248,520	247,872
Promissory note payable	**735,173**	**781,538**	735,173	770,224

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March 31, 2009

b) Risk Factors

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

Credit risk

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

The Corporation's credit risk associated with accounts receivable is primarily related to payments from LDC customers. LDC has approximately 687,000 customers, the majority of which are residential. LDC collects security deposits from customers in accordance with directions provided by the OEB. As at March 31, 2009, LDC held security deposits in the amount of $37,752,000 [December 31, 2008 - $46,685,000].

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

Credit risk associated with accounts receivable is as follows:

	March 31 2009 $	December 31 2008 $
Total accounts receivable	**170,225**	141,692
Less: Allowance for doubtful accounts	**(11,547)**	(10,110)
Total accounts receivable, net	**158,678**	131,582
Of which:		
Outstanding for not more than 30 days	**127,031**	104,869
Outstanding for more than 30 days but not more than 120 days	**25,998**	21,668
Outstanding for more than 120 days	**17,196**	15,155
Less: Allowance for doubtful accounts	**(11,547)**	(10,110)
Total accounts receivable, net	**158,678**	131,582

At March 31, 2009, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties with the exception of investments in long-term restructured notes *[note 4]*. The Corporation's maximum exposure to credit risk is equal to the carrying value of its financial assets.

[all tabular amounts in thousands of dollars, unaudited]

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:

March 31, 2009			
	Due within 1 year $	**Due between 1 year and 5 years $**	**Due after 5 years $**
Financial liabilities			
Accounts payable and accrued liabilities	**290,748**	—	—
City Note	**245,058**	**490,115**	—
Senior unsecured debentures			
Series 1 – 6.11% due May 7, 2013	—	**223,100**	—
Series 2 – 5.15% due November 14, 2017	—	—	**248,553**
	535,806	**713,215**	**248,553**

11. SHARE CAPITAL

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

Dividends

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

12. RELATED PARTIES

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

For the three months ended March 31, 2009, LDC provided electricity to the City in the amount of $26,982,000 [three months ended March 31, 2008 - $26,327,000]. At March 31, 2009, included in "Unbilled revenue" is a balance amounting to $8,852,000 [December 31, 2008 - $9,090,000] receivable from the City related to the provision of electricity for the previous months.

At March 31, 2009, included in LDC's "Accounts receivable, net of allowance for doubtful accounts" is $1,947,000 [December 31, 2008 - $4,098,000] receivable from the City related to relocation services and other construction activities.

For the three months ended March 31, 2009, Toronto Hydro Energy Services Inc. ["TH Energy"] provided energy management services, street lighting services and consolidated billing services to the City amounting to $5,977,000 [three months ended March 31, 2008 - $5,363,000]. At March 31, 2009, included in "Accounts receivable, net of allowance for doubtful accounts" is $4,805,000 [December 31, 2008 - $4,884,000] receivable from the City related to these services.

For the three months ended March 31, 2009, LDC purchased road cut and other services of $774,000 [three months ended March 31, 2008 - $1,074,000] from the City. At March 31, 2009, included in "Accounts payable and accrued liabilities" is $3,145,000 [December 31, 2008 - $4,514,000] payable to the City related to services received from the City.

For the three months ended March 31, 2009, LDC and TH Energy paid property tax expenses to the City of $1,019,000 [three months ended March 31, 2008 - $1,056,000]. At March 31, 2009, taxes payable to the City is $656,000 [December 31, 2008 - $nil].

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

13. CONTINGENCIES

Legal Proceedings

Late Payment Charges Class Action

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

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

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

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

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

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

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

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

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

2 Secord Avenue

An action was commenced against LDC in October, 2008 under the *Class Proceedings Act, 1992* seeking damages in the amount of $30,000,000 as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, and a statement of defence has been filed but no examinations for discovery have taken place. Accordingly, given the preliminary status of this action, it is not possible at this time to reasonably quantify the effect, if any, of this class action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover damages which may become payable by LDC in connection with the action.

Another action was commenced against LDC in February 2009 seeking damages in the amount of $20,000,000 as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, and a statement of defence has been filed but no examinations for discovery have taken place. Accordingly, given the preliminary status of this action, it is not possible at this time to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

3650 Kingston Road

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

14. DISCONTINUED OPERATIONS

On July 31, 2008, the Corporation sold the shares of Toronto Hydro Telecom Inc. [“Telecom”] to Cogeco Cable Canada Inc. [“Cogeco”] for cash consideration of $200,000,000. Accordingly, the results of operations and financial position of Telecom have been segregated and presented as discontinued operations.

Current liabilities from discontinued operations are $1,000,000 as at March 31, 2009 [December 31, 2008 - $890,000]. Income from discontinued operations, net of tax, was $nil for the three months ended March 31, 2009 [three months ended March 31, 2008 - $1,810,000].

[all tabular amounts in thousands of dollars, unaudited]

15. SEGMENT REPORTING

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

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

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

Segment information is as follows:

Three months ended March 31, 2009				
	Electricity Distribution $	**Non-Regulated $**	**Intersegment Eliminations $**	**Total $**
Revenues	**606,240**	**6,561**	**(20)**	**612,781**
Purchased power and other	**485,633**	**2,003**	**—**	**487,636**
Operating expenses	**54,287**	**5,084**	**(20)**	**59,351**
Depreciation and amortization	**38,883**	**1,919**	**—**	**40,802**
Income (loss) before interest, change in fair value and provision for (recovery of) PILs	**27,437**	**(2,445)**	**—**	**24,992**
Interest income	**545**	**399**	**—**	**944**
Interest expense	**17,744**	**623**	**—**	**18,367**
Change in fair value of investments	**—**	**(2,145)**	**—**	**(2,145)**
Provision for (recovery of) PILs	**2,730**	**(2)**	**—**	**2,728**
Income (loss) from continuing operations	**7,508**	**(522)**	**—**	**6,986**
Expenditures on property, plant and equipment and intangible assets	**46,310**	**1,408**	**—**	**47,718**

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Three months ended March 31, 2008	Electricity Distribution $	Non-Regulated $	Intersegment Eliminations $	Total $
Revenues	584,618	8,548	(655)	592,511
Purchased power and other	473,332	3,344	(22)	476,654
Operating expenses	45,251	5,523	(28)	50,746
Depreciation and amortization	37,236	1,790	—	39,026
Income (loss) before interest, change in fair value and recovery of PILs	28,799	(2,109)	(605)	26,085
Interest income	2,269	697	—	2,966
Interest expense	18,428	649	—	19,077
Change in fair value of investments	—	9,427	—	9,427
Recovery of PILs	(18,407)	(1,728)	—	(20,135)
Income (loss) from continuing operations	31,047	(9,760)	(605)	20,682
Expenditures on property, plant and equipment and intangible assets	39,698	2,149	—	41,847

Assets	March 31 2009 $	December 31 2008 $
Electricity Distribution	**2,780,201**	2,506,141
Non-Regulated	**296,712**	300,042
Intersegment Eliminations	**(32,017)**	(26,400)
Total	**3,044,896**	2,779,783

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

16. SEASONAL OPERATIONS

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

17. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the March 31, 2009 interim consolidated financial statements.

18. SUBSEQUENT EVENTS

a) Electricity Distribution Rates of LDC

On April 16, 2009, the OEB authorized LDC to implement revised distribution rates for the rate year commencing May 1, 2009. The approved rates give effect on a combined basis to rate adjustments requested by LDC in three separate applications. These applications relate to the finalization of previously approved 2009 base distribution rates after an update to reflect the current allowed cost of capital; the disposition of amounts arising from the extended effectiveness of certain rate riders into the 2008 rate year; and the disposition of the balance of the 2007 Smart Meter Deferral Account.

b) Court Decision on Disposition of Properties

On April 30, 2009, the Divisional Court denied the appeal by LDC regarding the deduction from revenue requirement ordered by the OEB of the net gain after taxes on the sale of certain properties. LDC has filed a motion with the Court of Appeal for leave to appeal that decision of the Divisional Court.

c) Sale of SPI

On April 30, 2009, EBT Express, an equal partnership between the Corporation's wholly owned subsidiary 1455948 Ontario Inc. and OPG EBT Holdco Inc., sold its interest in the SPI Group Inc. for cash consideration of approximately $5,200,000 subject to post-closing adjustment and transaction costs. The Corporation's share on this transaction as it relates to 1455948 Ontario Inc. is estimated at $2,600,000.

d) Dividends

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