

**TORONTO HYDRO CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED**  
**DECEMBER 31, 2007**

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of Toronto Hydro Corporation (the "Corporation") as at and for the year ended December 31, 2007 (the "Consolidated Financial Statements"). The Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles, including accounting principles prescribed by the Ontario Energy Board (the "OEB"), and are presented in Canadian dollars.

**Business of Toronto Hydro**

The Corporation is a holding company, which wholly-owns the following subsidiaries:

- *Toronto Hydro-Electric System Limited* ("LDC") - which distributes electricity and engages in Conservation and Demand Management ("CDM") activities;
- *Toronto Hydro Energy Services Inc.* ("TH Energy") - which provides street lighting services and develops energy efficiency products and services. In 2006, TH Energy also managed a portfolio of electricity contracts (the last of which expired on December 31, 2006) and operated a water heater rental business (the assets comprising the water heater rental business were sold on February 8, 2007). See note 24 to the Consolidated Financial Statements.
- *Toronto Hydro Telecom Inc.* ("Telecom") - which provides fibre optic cable capacity and manages data communications services.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system which delivers electricity to approximately 680,000 customers located in the City of Toronto (the "City"). LDC is the largest municipal electricity distribution company in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB which has broad powers relating to licensing, standards of conduct and service and the regulation of rates charged by LDC and other electricity distributors in Ontario.

TH Energy owns and operates street lighting and expressway lighting systems located in the City of Toronto and is engaged in the sale of energy efficiency products and services to commercial and industrial customers.

Telecom is a provider of "dark" fibre optic capacity and data communications services to telecommunications carriers, business customers and large institutions in the City of Toronto. Telecom owns a network of fibre optic cable mainly located in ducts, on poles and in other parts of the electricity distribution system of LDC. The network is currently connected to over 514 buildings located in the City of Toronto.

The sole shareholder of the Corporation is the City of Toronto (the "City").

## Electricity Distribution – Industry Overview

On May 1, 2002, the Province opened Ontario's wholesale and retail markets to competition by providing generators, retailers and consumers with open access to Ontario's transmission and distribution network ("Open Access").

Since the commencement of Open Access, LDC and other electricity distributors have been purchasing their electricity from the wholesale market administered by the Independent Electricity System Operator ("IESO") and recovering the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the OEB.

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The *Ontario Energy Board Act, 1998* sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing process requirements for rate-setting purposes.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that electricity distribution companies fulfil obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than the distribution rate, represent a pass through of amounts payable to third parties):

- *Electricity Price and Related Rebates* – The electricity price and related rebates represent a pass through of the commodity cost of electricity.
- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers and the OEB-allowed rate of return. Distribution rates are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.

The volume of electricity consumed by LDC's customers during any period is governed by events largely outside LDC's control (principally, sustained periods of hot or cold weather which increase the consumption of electricity and sustained periods of moderate weather which decrease the consumption of electricity).

- *Retail Transmission Rate* – The retail transmission rate represents a pass through of wholesale costs incurred by distributors in respect of the transmission of electricity from generating stations to local areas. Retail transmission rates are regulated by the OEB.
- *Wholesale Market Service Charge* – The wholesale market service charge represents a pass through of various wholesale market support costs. Retail rates for the recovery of wholesale market service charges are regulated by the OEB.

Market participants (including distributors and retailers) are required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings.

The Corporation and its subsidiaries are exempt from tax under the *Income Tax Act (Canada)* and the *Corporations Tax Act (Ontario)*, if not less than 90% of the capital of the Corporation is owned by the City and not more than 10% of the income of the Corporation and each of its subsidiaries is derived from activities carried on outside the municipal geographical boundaries of the City.

The Corporation and each of its subsidiaries is a Municipal Electricity Utility ("MEU") for purposes of the Payment In Lieu of Corporate Taxes ("PILs") regime contained in the *Electricity Act, 1998*. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act (Canada)* and the *Corporations Tax Act (Ontario)* is required to make, for each taxation year, a PILs to the Ontario Electricity Financial Corporation in

an amount equal to the tax that it would be liable to pay under the *Income Tax Act (Canada)* and the *Corporations Tax Act (Ontario)* if it were not exempt from tax.

### Selected Consolidated Financial Data

The selected consolidated financial data presented below should be read in conjunction with the Consolidated Financial Statements.

<b>As at December 31, (in thousands of dollars except for per share amounts)</b>					
	<b>2007</b>	<b>2006<sup>(1)(3)</sup></b>	<b>Change</b>	<b>Change</b>	<b>2005<sup>(1)(3)</sup></b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>	<b>\$</b>
Revenues .....	2,389,178	2,246,989	142,189	6.3	2,606,252
Costs					
Purchased power and other .....	1,860,500	1,705,845	154,655	9.1	2,059,789
Operating expenses .....	206,260	194,197	12,063	6.2	191,165
Depreciation and amortization .....	151,635	137,344	14,291	10.4	131,595
	<u>2,218,395</u>	<u>2,037,386</u>	<u>181,009</u>	<u>8.9</u>	<u>2,382,549</u>
Income before interest, impairment, other and provision for PILs .....	170,783	209,603	(38,820)	(18.5)	223,703
Interest income .....	14,068	17,726	(3,658)	(20.6)	14,116
Interest expense					
Long-term debt .....	(75,312)	(75,894)	582	0.8	(80,403)
Other interest .....	1,389	(2,902)	4,291	147.9	(2,700)
Impairment of investments held to maturity ..	(13,059)	-	(13,059)	(100.0)	-
Other .....	1,739	89	1,650	1,853.9	5,040
Income before provision for PILs .....	<u>99,608</u>	<u>148,622</u>	<u>(49,014)</u>	<u>(33.0)</u>	<u>159,756</u>
Provision for PILs .....	40,975	58,403	(17,428)	(29.8)	68,839
Income from continuing operations .....	58,633	90,219	(31,586)	(35.0)	90,917
Income from discontinued operations – net of tax <sup>(2)</sup> .....	24,198	2,178	22,020	1,011.0	1,528
Net income .....	<u>82,831</u>	<u>92,397</u>	<u>(9,566)</u>	<u>(10.4)</u>	<u>92,445</u>
Basic and fully diluted net income per share from continuing operations .....	58,633	90,219	(31,586)	(35.0)	90,917
Basic and fully diluted net income per share from discontinued operations .....	24,198	2,178	22,020	1,011.0	1,528
Basic and fully diluted net income per share .....	<u>82,831</u>	<u>92,397</u>	<u>(9,566)</u>	<u>(10.4)</u>	<u>92,445</u>

Notes:

- (1) Amounts reflect reclassification for discontinued operations. See note 24 to the Consolidated Financial Statements.
- (2) Consists of discontinued operations for the water heater business. See note 24 to the Consolidated Financial Statements.
- (3) Net income was \$92.4 million in 2006 and 2005. Unfavourable variances were noted in net revenues (\$5.3 million), operating expenses (\$3.0 million), depreciation and amortization expense (\$5.7 million) and other (\$5.0 million). These unfavourable variances were offset by decreased net interest expense (\$7.9 million), decreased provision for PILs (\$10.4 million) and increased income from discontinued operations (\$0.7 million). For further details, see the Corporation's 2006 Management's Discussion and Analysis as filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com).

**As at December 31,  
(in thousands of dollars)**

<b>Consolidated Balance Sheet Data</b>	<b>2007 \$</b>	<b>2006 \$</b>
Total assets .....	2,672,525	2,591,706
Current liabilities .....	296,791	555,105
Long-term liabilities .....	1,447,039	1,144,537
Total liabilities .....	1,743,830	1,699,642
Shareholder's equity .....	928,695	892,064
Total liabilities and shareholder's equity .....	2,672,525	2,591,706

**Results of Operations**

*Net Income*

Net income was \$82.8 million in 2007 compared to \$92.4 million in 2006. The decrease was primarily due to increased depreciation expense (\$14.3 million), an impairment provision recorded on investments held to maturity in 2007 (\$13.1 million), decreased net revenues (\$12.5 million), increased operating expenses (\$12.1 million), partially offset by the gain on the sale of water heater assets included in income from discontinued operations in 2007 (\$22.0 million), decreased provision for PILs (\$17.4 million), increased gain on disposition of property, plant and equipment ("PP&E") (\$1.7 million) and decreased net interest expense (\$1.2 million).

*Net Revenues*

Net revenues (revenues minus the cost of purchased power and other) were \$528.7 million in 2007 compared to \$541.1 million in 2006. The decrease was primarily due to decreased net revenues at TH Energy (\$17.9 million) and at LDC (\$0.3 million), partially offset by increased net revenues at Telecom (\$5.6 million).

At TH Energy, the decrease in net revenues was primarily due to lower contributions from the remaining business of TH Energy which concluded its electricity retail business on December 31, 2006 (\$20.7 million), partially offset by higher revenues from energy management services (\$2.8 million).

At LDC, the decrease in net revenues was primarily due to decreased distribution revenue (\$16.4 million), partially offset by higher non-distribution related revenue (\$16.1 million) from demand billable work (\$8.4 million), revenue recognition of Shared Savings Mechanism ("SSM") (\$4.5 million) associated with CDM activities and higher customer related service charges (\$2.1 million). The decrease in distribution revenue was primarily due to lower revenue recognition from lower CDM activities in 2007 compared to 2006 (\$24.7 million) and lower distribution rates arising from the OEB's decision on LDC's 2006 rate application and the OEB's annual distribution rate adjustment for 2007 (\$11.8 million). LDC's decrease in distribution revenue was partially offset by smart meter related revenue recognition adjustment (\$10.6 million), increased consumption (26,679 GWh in 2007 compared to 26,437 GWh in 2006) (\$5.5 million) and Lost Revenue Adjustment Mechanism ("LRAM") revenue recognition adjustment for CDM activities (\$4.0 million).

At Telecom, the increase in net revenues was primarily due to increased sales of data services.

*Expenses*

Operating expenses were \$206.3 million in 2007 compared to \$194.2 million in 2006. The increase in operating expenses was primarily due to higher compensation costs mainly attributable to annual wage increases, increased headcount from the hiring of new apprentices and changes in the regulatory treatment of OMERS contribution in May 2006 (\$7.2 million), higher costs for operations and maintenance programs at LDC mainly attributable to aging infrastructure and unfavorable weather (\$4.6 million), higher costs for facilities at LDC from

new leased facilities and lower property taxes due to revised assessment recorded in 2006 (\$6.0 million), higher operating costs at Telecom from increased business activities (\$4.9 million) and higher operating costs at TH Energy from ongoing business activities related to energy efficiency products and services (\$1.7 million). These variances were partially offset by lower CDM expenditures at LDC consistent with lower revenue recognition for such activities as discussed above (\$11.9 million).

Depreciation and amortization expense was \$151.6 million in 2007 compared to \$137.3 million in 2006. The increase in depreciation and amortization expense was primarily due to a higher net book value for fixed assets and intangible assets in service. The increase in net book value is mainly due to increased investment in electricity distribution assets at LDC over the past two years and the transfer of smart meters depreciation and amortization costs from regulatory assets following the OEB decision in August 2007 (see “Corporate Developments – Smart Meters” below). See note 7 to the Consolidated Financial Statements.

#### ***Net Interest Expense***

Net interest expense was \$59.9 million in 2007 compared to \$61.1 million in 2006. The decrease in net interest expense was primarily due to lower long-term interest expense following an amendment to the City Promissory Note that reduced long-term interest rate payable on the note from 6.8% to 6.11%, commencing May 1, 2006. See note 11 to the Consolidated Financial Statements. The reduction on the interest paid to the City was partially offset by lower carrying charges on regulatory assets.

#### ***Impairment of Investments Held to Maturity***

Impairment of investments held to maturity was \$13.1 million in 2007 compared to \$nil in 2006. The impairment on investments held to maturity was due to the reduction in the estimated fair value of the Corporation’s third-party Asset-Backed Commercial Paper (“ABCP”) notes (See “Investments Held to Maturity” below).

#### ***Other***

Included in Other are amounts primarily relating to gains on disposals of property, plant and equipment. Other was \$1.7 million in 2007 compared to \$nil in 2006. The increase was due to disposals of excess properties at LDC (\$1.1 million).

#### ***Provision for PILs***

Provision for PILs was \$41.0 million in 2007 compared to \$58.4 million in 2006. The decrease in the provision for PILs was primarily due to higher earnings before tax in 2006 compared to 2007.

#### ***Discontinued Operations***

On February 8, 2007, TH Energy sold its water heater business to Consumers’ Waterheater Income Fund for cash consideration of \$40.8 million subject to post closing adjustments and transaction costs. The results of operations and financial position of the water heater business have been segregated and presented as discontinued operations in the accompanying financial statements. See note 24 to the Consolidated Financial Statements.

The water heater sale agreement included a six-month purchase price adjustment period commencing April 2, 2007. At the end of the adjustment period, the purchase price has been adjusted to reflect a decrease in the number of active customers used in the purchase price calculation. As at December 31, 2007, TH Energy incurred a \$0.3 million purchase price adjustment as the number of active water heater customers fell below the amount specified in the sale agreement. The adjustment has been accounted for in the current period as a charge to income from discontinued operations.

Income from discontinued operations, net of tax, was \$24.2 million in 2007 compared to \$2.2 million in 2006. The increase in income from discontinued operations, net of tax, was primarily due to the sale of the water heater business.

## Summary of Quarterly Results

The tables below present unaudited quarterly consolidated financial information of the Corporation for 2006 and 2007 and reflect discontinued operations relating to the water heater business. See note 24 to the Consolidated Financial Statements.

<b>2007 quarter ended, (in thousands of dollars)</b>				
	<b>December 31</b>	<b>September 30</b>	<b>June 30</b>	<b>March 31</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenues .....	591,907	629,090	560,854	607,327
Costs .....	545,840	574,452	526,616	571,487
Income from continuing operations .....	19,550	11,134	14,892	13,057
Net income.....	19,223	11,045	14,909	37,654

  

<b>2006 quarter ended, (in thousands of dollars)</b>				
	<b>December 31</b>	<b>September 30</b>	<b>June 30</b>	<b>March 31</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenues .....	547,912	599,647	535,421	564,009
Costs .....	498,402	542,326	487,756	508,902
Income from continuing operations .....	22,054	28,197	17,721	22,247
Net income.....	22,783	28,894	18,161	22,559

## Liquidity and Capital Resources

### *Sources of Liquidity and Capital Resources*

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, bank financing, interest income and borrowings from debt capital markets. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, cost of power, interest expense and prudential requirements and third party credit support.

The Corporation does not believe that equity contributions from the City, its sole shareholder, will constitute a source of capital. In addition, the Corporation is not aware of any plans or decision by the City to permit the Corporation to sell equity to the public or to other investors.

**Liquidity and Capital Resources**  
**Year Ended December 31,**  
**(in thousands of dollars)**

	2007 \$	2006 \$
Cash and cash equivalents, beginning of year .....	327,524	448,370
Net cash provided by operating activities .....	216,857	112,728
Net cash used in investing activities .....	(322,628)	(188,602)
Net cash used in financing activities .....	(44,015)	(45,547)
Net cash provided by discontinued operations <sup>(1)</sup> .....	38,264	575
Cash and cash equivalents, end of year .....	<u>216,002</u>	<u>327,524</u>

Note:

- (1) Consists of discontinued operations for the water heater business. See note 24 to the Consolidated Financial Statements.

***Cash Provided By Operating Activities***

Cash provided by operating activities was \$216.9 million in 2007 compared to \$112.7 million in 2006. The increase in cash provided by operating activities was primarily due to the payment of electricity rebates and PILs liabilities in 2006 at LDC (\$115.8 million), an impairment provision recorded in 2007 in connection with the liquidity issues on the Corporation's investments in ABCP notes (\$13.1 million), a variance in depreciation and amortization at LDC (\$12.5 million) and a variance in deferred revenue (\$10.6 million) due to greater revenue recognition for CDM in 2006 at LDC. This increase was partially offset by a variance in the aggregate of accounts receivable and unbilled revenue due to the timing of billing and collection activities at LDC (\$16.1 million) and a variance at TH Energy (\$33.9 million) primarily due to the assets and liabilities related to the electricity retail activities that concluded in 2006.

***Cash Used in Investing Activities***

Cash used in investing activities was \$322.6 million in 2007 compared to \$188.6 million in 2006. The increase in cash used in investing activities was primarily due to increased purchase of property, plant and equipment and intangible assets at LDC (\$107.9 million) and at Telecom (\$4.0 million), and the reclassification of ABCP notes from cash and cash equivalents to long-term investments held to maturity (\$88.0 million) (see "Investments Held to Maturity" below and note 22 to the Consolidated Financial Statements). These increases were partially offset by the net change in regulatory assets and liabilities primarily due to a decrease in retail settlement variances and smart meters (\$68.3 million).

The increase in property, plant and equipment at LDC for 2007 was primarily due to the increased investment in infrastructure and the deployment of smart meters. The increase in infrastructure is primarily related to core electricity distribution assets along with improvement in facilities and technology assets.

The increase in property, plant and equipment at TH Energy for 2007 was primarily due to higher investment in street lighting assets and increased costs related to a new facility.

The increase in property, plant and equipment at Telecom for 2007 was primarily due to increased investment in revenue generating assets.

The following table summarizes the Corporation's capital expenditures for the years indicated.

<b>Year Ended December 31,</b> <b>(in thousands of dollars)</b>		
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>Capital Expenditures from Continuing Operations</b>		
LDC		
Distribution system .....	213,562	131,389
Technology assets .....	28,279	21,880
Other <sup>(1)</sup> .....	33,745	14,416
	<u>275,586</u>	<u>167,685</u>
Other <sup>(2)</sup> .....	25,064	17,622
Total capital expenditures .....	<u>300,650</u>	<u>185,307</u>
<b>Capital Expenditures from Discontinued Operations</b>		
Water heaters .....	286	3,865

Notes:

- (1) Consists of vehicles, other work-related equipment, furniture, office equipment and leasehold improvements.
- (2) Includes capital expenditures relating to TH Energy and Telecom.

#### ***Cash Used In Financing Activities***

Cash used in financing activities was \$44.0 million in 2007 compared to \$45.5 million in 2006. The decrease in cash used in financing activities was primarily due to the difference between the net proceeds received in connection with the issuance of Series 2 debentures on November 14, 2007 (\$248.7 million) and the payment of the first instalment due on the City Note on December 31, 2007 (\$245.1 million) (See "Corporate Developments – Issuance of \$250 million Debentures" below and note 11(a) to the Consolidated Financial Statements). This variance was partially offset by decreased customers' advance deposits (\$2.6 million).

#### ***Revolving Credit Facility***

The Corporation is party to a revolving credit facility agreement dated May 5, 2005, pursuant to which the Corporation may borrow up to \$500.0 million, of which up to \$175.0 million is available in the form of letters of credit. On December 17, 2007, the Corporation amended and extended the credit agreement to May 3, 2010. As at December 31, 2007, no borrowings for working capital were outstanding and letters of credit in the amount of \$45.1 million had been issued. See note 9 to the Consolidated Financial Statements.

#### ***Prudential Requirements and Third Party Credit Support***

In order to mitigate the risk of payment default, wholesale market participants are required to provide credit support for their obligations to the IESO in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings. A market participant's prudential requirements are determined by the IESO based on the participant's "maximum net exposure", subject to permitted reductions resulting from, among other things, good payment history, credit rating or, in the case of distributors, prudential support collected from retailers.

In addition to prudential requirements, counterparties under bilateral contracts for the purchase and sale of electricity contracts may require parental guarantees or other forms of credit support. Also, electricity distributors may require retailers to maintain security arrangements (including letters of credit, surety bonds, cash deposits, or lock-box arrangements) under terms prescribed by the OEB to protect against credit risk.

The City has authorized the Corporation to provide financial assistance to its subsidiaries, and LDC to provide financial assistance to other subsidiaries of the Corporation, in the form of letters of credit and guarantees, for the purpose of enabling them to carry on their businesses up to an aggregate amount of \$500.0 million.

In recognition that the last of TH Energy's retail electricity contracts expired in December 2006, the board of directors of the Corporation determined in August 2007 to rescind a prior approval authorizing the Corporation to issue parental guarantees (not to exceed \$386.0 million) on behalf of TH Energy which had been used to enable TH Energy to meet its collateral credit requirements relating to its retailing activities. See note 16 to the Consolidated Financial Statements.

### **Investments Held to Maturity**

At December 31, 2007, the Corporation held third-party ABCP notes issued by a number of trusts with an aggregate principal amount of \$88.0 million. On the dates the Corporation purchased these notes, they were rated R1(High), by DBRS Limited ("DBRS"), the highest credit rating issued for commercial paper. The notes matured during the third quarter of 2007 but were not repaid at that time due to liquidity issues in the ABCP market. The Corporation's ABCP notes last traded in the active market on or about August 13, 2007 and there are currently no market quotations available. As a result, the Corporation has classified its ABCP notes as Investments Held to Maturity and presented them as long-term assets, after initially classifying them as Cash and cash equivalents.

On August 16, 2007, a group representing banks, asset providers and major investors (the "Montreal Committee") agreed in principle to a long-term proposal and interim arrangements regarding the restructuring of the affected ABCP notes (the "Montreal Proposal") into long-term Floating Rate Notes ("FRNs") maturing no earlier than the scheduled maturity of the underlying assets. The restructuring proposal is expected to be completed by the end of March 2008. During the restructuring period, no payments of principal or accrued interest are being made on the ABCP notes. Following the announcement of the Montreal Proposal, DBRS maintained its R1(High) rating on the Corporation's ABCP notes but qualified its rating by adding "under review with developing implications".

On December 23, 2007, the Montreal Committee released certain details about the proposed restructuring. It is expected that under the Montreal Proposal, the ABCP notes will be grouped into three large asset pools that reflect the credit quality and similarities of the underlying assets. Upon completion of the restructuring, separate FRNs will be issued from each of the generic asset pools. Based on this and other public information, it is estimated that of the Corporation's \$88.0 million of ABCP notes:

- \$81.3 million will be represented by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets which, upon completion of the restructuring, will be replaced by senior and subordinated long-term FRNs. Current indications are that the senior notes will receive a AAA rating from two rating agencies, while the subordinated notes are likely to be unrated. The senior notes will pay quarterly interest in cash, reflecting money market rates, and the subordinated notes will begin paying principal and interest upon maturity of the senior notes; and
- \$6.7 million will be represented by assets that have exposures to U.S. sub-prime or home equity loans and mortgages. Separate "tracking notes" will be issued for these assets based on maturities of the underlying assets. These notes are expected to amortize and be repaid in part from time-to-time as the underlying assets mature or as value can be realized via asset sales.

The valuation technique used by the Corporation to estimate the fair value of its investments in ABCP notes incorporates probability-weighted discounted cash flows 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, as at December 31, 2007. The assumptions used in determining the estimated fair value reflect the public statements made by the Montreal Committee that it expects the ABCP notes will be converted into various long-term FRNs, as discussed above, with maturities reflecting the maturities of the underlying assets and bearing market interest rates commensurate with the nature of the underlying assets and their associated cash flows and the credit rating and risk associated with the long-term FRNs. The interest rates and maturities of the various long-term FRNs, discount rates and credit losses modelled are:

Weighted average interest rate	4.5 per cent
Weighted average long-term discount rate	5.6 per cent
Maturity of long-term floating rate notes	7 years

Credit losses

2 to 40 per cent on a going concern basis  
30 per cent on a liquidation basis

Interest rates and credit losses vary by each of the different replacement long-term FRNs to be issued as each is expected to have different credit ratings and risk. Interest rates and credit losses also vary by the different probable cash flow scenarios that have been modelled.

Discount rates vary depending upon the credit rating of the replacement long-term FRNs. Maturities vary by different replacement long-term floating rate notes as a result of the expected maturity of the underlying assets. In addition, assumptions have also been made as to the amount of the restructuring costs that the Corporation will incur.

Based on the assumptions described above, the probability weighted cash flows resulted in an estimated fair value of the Corporation's investment in ABCP of \$74.9 million at December 31, 2007. This was unchanged from the estimated fair value at September 30, 2007. The reduction in the fair value of \$13.1 million compared to the maturity value of the ABCP notes was recorded as a charge to income in the Consolidated Financial Statements.

The estimation by the Corporation of the fair value of its ABCP notes, as at December 31, 2007, is subject to significant risks and uncertainties, including the timing and amount of future cash flows, the outcome of the Montreal Proposal and any other restructuring process, 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 its ABCP notes will not change materially in subsequent periods.

Despite the issue mentioned above, 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.

See note 22 to the Consolidated Financial Statements.

## **Dividends**

The shareholder direction adopted by the City with respect to the Corporation provides that the board of directors of the Corporation will use its best efforts to ensure the Corporation meets certain financial performance standards, including those relating to the credit rating and dividends. Subject to applicable law, the shareholder direction provides that the Corporation will pay dividends to the City each year equal to the greater of \$25 million or 50% of the Corporation's net income for the year. The dividends are not cumulative and are payable as follows:

- \$6 million on the last business day of each of the first three fiscal quarters during the year;
- \$7 million on the last business day of the fiscal year; and
- the amount, if any, by which 50% of the Corporation's net income for the year exceeds \$25 million, within ten calendar days after the board of directors of the Corporation approved the Corporation's Consolidated Financial Statements for the year.

The board of directors of the Corporation declared and paid dividends totalling \$46.2 million in 2007 and in 2006.

On March 5, 2008, the board of directors of the Corporation declared dividends in the amount of \$22.4 million. The dividends are comprised of a \$16.4 million payment for 2007 net income, payable to the City on March 14, 2008 and a \$6.0 million payment in connection with the first quarter of 2008, payable to the City on March 31, 2008.

## **Credit Rating**

As at December 31, 2007, the Corporation and the Corporation's Debentures were rated "A" by DBRS and "A-" by Standard & Poor's.

## **Corporate Developments**

### ***Toronto Hydro Telecom Inc.***

On January 22, 2008, THC announced that it intends to solicit expressions of interest from third parties with respect to a possible sale of Telecom. There can be no assurance that this process will result in the completion of a transaction.

### ***Payment of City Note***

On December 31, 2007, the Corporation made the first scheduled payment of \$245.1 million to the City. Accordingly, the remainder of the principal amount outstanding under the City Note is classified as a long-term liability.

### ***Issuance of \$250 million Debentures***

On November 14, 2007, the Corporation issued \$250.0 million 10-year senior unsecured debentures ("Series 2") which bear interest at the rate of 5.15% per annum and are payable semi-annually in arrears in equal instalments on May 14 and November 14 of each year. The Series 2 debentures mature on May 14, 2017 and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The net proceeds of the offering were used to repay \$245.1 million of indebtedness outstanding to the City of Toronto, as scheduled, on December 31, 2007, under the terms of the City Promissory Note.

### ***Distribution Rates for LDC***

On April 12, 2007, the OEB approved an increase in LDC's distribution rates for the period May 1, 2007 to April 30, 2008 representing an estimated revenue increase of approximately \$1.9 million.

On August 2, 2007, LDC filed a rate application with the OEB seeking approval of separate and successive revenue requirements and corresponding rates for the rate years commencing May 1, 2008, 2009, and 2010. The rate application was amended by LDC on December 21, 2007. The requested base distribution revenue requirements for these rate years are \$490.5 million, \$532.5 million and \$564.3 million, respectively. A decision on LDC's application is expected in April 2008.

### ***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 had installed approximately 416,000 meters at December 31, 2007.

On August 8, 2007, the OEB issued its decision approving costs associated with smart metering activities incurred by LDC for minimum smart meter infrastructure functionality. In its decision, the OEB approved the disposition of the balance relating to 2006 in the smart meter deferral account and the addition of the 2006 smart meter assets to the rate base.

Following this decision, LDC ceased to defer capital expenditures, operating and depreciation expenses and revenue related to the deployment of 2006 and 2007 smart meters, resulting in decreased regulatory assets (\$58.6 million), increased property, plant and equipment (\$61.9 million), increased revenue (\$10.8 million), increased operating expenses (\$2.4 million), increased depreciation and amortization (\$3.2 million) and decreased interest income (\$1.8 million).

### ***Lost Revenue Adjustment Mechanism and Shared Savings Mechanism***

On September 11, 2007, the LDC received approval from the OEB to recover \$2.9 million for LRAM which represents the loss revenue from CDM programs and \$4.3 million for SSM which represents its share of provincial savings related to these programs delivered in 2005 and 2006. Following this decision, the Corporation also recognized the LRAM and SSM balances relating to CDM programs delivered in 2007, which amounted to \$1.3 million and \$0.2 million respectively. The impact of this decision resulted in an increase in revenue amounting to \$8.7 million and an increase in regulatory assets amounting to \$8.7 million.

### ***OEB Proposals for Multi-Year Electricity Rate Setting Plan***

In June 2006, the OEB began a generic licence amendment proceeding that was intended to effect changes to the allowable cost of capital and was intended to effect a multi-year electricity distribution rate setting plan via incentive regulation mechanisms for distributors. LDC responded to the OEB's proposals and participated in technical conferences.

In December 2006, in the interests of implementing distribution rate changes for 2007 in a timely manner, the OEB maintained its current methodology for determining LDC's allowable cost of capital but proceeded with its multi-year Incentive Regulation Mechanism ("IRM") which incorporates changes to LDC's capital structure as well as an incentive mechanism that adjusts distribution rates by inflation less a productivity factor between rebasing periods. The capital structure change will see LDC's current deemed debt-to-equity structure of 65% debt-to-35% equity change to 60% debt-to-40% equity over a two-year period beginning on May 1, 2008. The capital structure change is estimated to increase LDC's return on rate base by about 20 basis points by 2009 representing an estimated revenue increase of approximately \$4.0 million.

### ***CDM Agreements***

In May 2007, LDC entered into agreements with the Ontario Power Authority ("OPA") to deliver OPA-funded CDM programs in the amount of approximately \$60.0 million during the years from 2007 to 2010. All programs are fully funded by the OPA with any advance payments recorded on the Consolidated Balance Sheet as a deferred liability.

As at December 31, 2007, LDC has spent a total of \$20.7 million on OPA programs.

### ***Ministry of Finance Tax Audit***

In June 2007, the Ministry of Finance completed its tax audit for tax years 2001 and 2002 on the Corporation and its subsidiaries except for LDC. The impact of the completed audits was not material to the Corporation and has been recorded in the Consolidated Financial Statements. The Ministry of Finance is continuing its audit of LDC for those tax years. Certain filing positions for PILs taken by LDC may be challenged on the audit. This may result in a material increase in the Corporation's reported tax obligations upon reassessment. As the audit has not yet been completed, management is not able to determine the impact, if any, of the audit on the consolidated financial statements or the Corporation's tax reserves. The Corporation adjusts its tax reserves when there is sufficient information available, or when an event occurs requiring a change to the reserves.

### ***Changes in Business***

TH Energy operated a water heater rental business until February 8, 2007, at which time the business was sold to The Consumers' Waterheater Income Fund. See note 24 to the Consolidated Financial Statements.

### **Legal Proceeding**

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 that 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, however the representative plaintiff, Mr. Garland, is appealing the settlement approval order in an attempt to increase the fees to which he is entitled for having acted as representative plaintiff, and to receive lawyer's fees in connection with that effort. Mr. Garland's appeal is pending.

On February 4, 2008, the OEB, in response to an application filed by Enbridge, ruled that all of Enbridge's costs related to settlement of the class action lawsuit, including legal costs, settlement costs and interest, are recoverable from ratepayers.

The 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 million 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 \$64.0 million 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 necessary 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.

### **Share Capital**

The authorized capital of the Corporation consists of an unlimited number of common shares of which 1,000 common shares are issued and outstanding as at the date hereof.

### **Transactions with Related Parties**

The City of Toronto is the sole shareholder of the Corporation. Subsidiaries of the Corporation provide certain services to the City of Toronto at commercial and regulated rates, including electricity, street lighting and maintenance services. In addition, the City and its agencies have entered into energy management contracts with TH Energy. All transactions with the City are conducted at prevailing market prices and normal trade terms. Additional information with respect to related party transactions between the Corporation and its subsidiaries, as applicable, and the City of Toronto is set out below.

LDC provided electricity to the City in the amount of \$96.2 million at prevailing market prices and normal trade terms in 2007, compared to \$102.8 million in 2006. Included in LDC's unbilled revenue, as at December 31, 2007, is a balance amounting to \$8.3 million receivable from the City related to the provision of electricity for the month of December, compared to \$8.8 million as at December 31, 2006.

LDC provided services related to the distribution of electricity to the City in the amount of \$10.8 million in 2007, compared to \$9.3 million in 2006. Included in LDC's "Accounts receivable, net of allowance for doubtful accounts", as at December 31, 2007, is \$2.6 million receivable from the City related to these services compared to \$2.3 million as at December 31, 2006.

TH Energy provided energy efficiency products and services, street lighting services and consolidated billing services to the City amounting to \$19.5 million in 2007, compared to \$17.3 million in 2006. Included in TH Energy's "Accounts receivable, net of allowance for doubtful accounts", as at December 31, 2007, is \$6.0 million receivable from the City related to these services compared to \$5.9 million as at December 31, 2006.

LDC purchased services of \$6.9 million from the City in 2007, compared to \$4.9 million in 2006. Included in LDC's "Accounts payable and Accrued liabilities", as at December 31, 2007, is \$3.4 million payable to the City related to services received from the City compared to \$0.5 million as at December 31, 2006.

LDC paid property tax expenses to the City of \$6.3 million in 2007, compared to \$7.3 million in 2006.

Telecom incurred municipal access fees to the City totalling \$0.9 million in 2007, compared to \$0.2 million in 2006. Included in Telecom's "Accounts payable and Accrued liabilities", as at December 31, 2007, is \$nil payable to the City related to these fees compared to \$5.0 million as at December 31, 2006.

At December 31, 2007, the outstanding principal in respect of the City Promissory Note was \$735.2 million compared to \$980.2 million as at December 31, 2006 (see "Corporate Developments – Issuance of \$250 million Debentures"). On December 31, 2007, the Corporation made the first scheduled payment of \$245.1 million to the City in accordance with the terms of the City Note. Interest of \$59.9 million on the City Promissory Note was paid by the Corporation to the City in 2007, compared to \$62.1 million in 2006.

See note 11 and note 19 to the Consolidated Financial Statements.

## **Risks and Uncertainties**

The financial performance of the Corporation is subject to a variety of risks and uncertainties including those described below:

### ***Regulatory Uncertainty***

The OEB regularly conducts consultations with interested stakeholders with respect to a number of areas which may affect electricity distributors.

The continuing restructuring of Ontario's electricity industry and other regulatory developments may affect the distribution rates charged by LDC and the costs LDC is permitted to recover. This may in turn have a material adverse effect on the financial performance of the Corporation. In particular, there can be no assurance that:

- the OEB may not set a lower recovery for LDC's cost of capital;
- the full cost of providing service to distribution customers will be permitted to be recovered through distribution rates;
- the OEB will not permit competitors to provide distribution services in a distributor's licensed area;
- the OEB will allow recovery for revenue lost as a consequence of the emergence and adoption of new technologies such as distributed generation, or unanticipated effects of conservation and demand management;

- parts of the LDC's services will not be separated from LDC and opened to competition; or
- regulatory or other changes will not be made to the PILs regime.

Changes to any of the laws, rules, regulations or policies applicable to the businesses carried on by the Corporation could have a significant impact on the Corporation. There can be no assurance that the Corporation will be able to comply with applicable future laws, rules, regulations and policies. Failure by the Corporation to comply with applicable laws, rules, regulations and policies may subject the Corporation to civil or regulatory proceedings which may have a material adverse effect on the Corporation.

#### ***Condition of Distribution Assets***

The Corporation's ability to continue to maintain and operate the distribution system reliably and safely in the future will depend on, among other things, the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

#### ***Additional Debt Financing***

The Corporation expects to borrow to repay the City Promissory Note when required to do so under the terms of the City Note. See note 11 to the Consolidated Financial Statements. The Corporation's ability to arrange sufficient and cost-effective debt financing to repay the City Promissory Note and for general corporate purposes could be adversely affected by a number of factors, including the regulatory environment in Ontario, the Corporation's results of operations and financial condition, financial market conditions, the ratings assigned to the Corporation and its debt securities by credit rating agencies, the current timing of debt maturities, and general economic conditions.

#### ***Credit Rating***

Should the Corporation's credit rating from both credit rating agencies fall to below A – (S&P) and A-low (DBRS), the Corporation and its subsidiary companies may be required to post additional collateral with counterparties as part of its normal course of operations in the Ontario electricity market.

#### ***Electricity Consumption***

LDC's distribution rates typically comprise a fixed charge and a usage-based (consumption) charge. The volume of electricity consumed by LDC's customers during any period is governed by events largely outside LDC's control (principally sustained periods of hot or cold weather which increase the consumption of electricity, and sustained periods of moderate weather which decrease the consumption of electricity).

#### ***Credit Risk***

LDC is subject to credit risk with respect to customer non-payment. LDC is permitted to mitigate the risk of customer non-payment using any means permitted by law, including security deposits (including letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB) under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection.

In the event of an actual payment default and attendant bad debt expense incurred by LDC, roughly 80% of the expense would be related to commodity and transmission costs, and the remainder to LDC's distribution revenue. Accordingly, while LDC will be liable for the full amount of the default, there can be no assurance that the OEB will allow recovery of the bad debt expense from remaining customers. Rather, it is expected that the OEB will examine LDC's application for claiming bad debt expenses on a case-by-case basis. See note 15 to the Consolidated Financial Statements.

Refer to the Corporation's annual information form for more details on risks and uncertainties.

## Significant Accounting Policies

The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles, including accounting principles prescribed by the OEB, and are presented in Canadian dollars. In preparing the Consolidated Financial Statements, management of the Corporation makes estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the Consolidated Financial Statements and the reported amounts of revenues and expenses for the periods covered thereby. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or the Minister of Finance. The significant accounting policies of the Corporation are summarized in note 4 to the Consolidated Financial Statements.

In December 2006, the Accounting Standards Board (“AcSB”) released the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535 – “Capital Disclosures” effective for fiscal years beginning on or after October 1, 2007. This section establishes new accounting standards regarding capital disclosures. Under Section 1535, an entity is required to disclose information regarding its objectives, policies and processes for managing capital as well as its compliance with any external capital requirements. The Corporation is currently in the process of evaluating the potential impact of this standard on its financial statements.

The AcSB issued two new accounting standards surrounding financial instrument disclosure and presentation. CICA Handbook Sections 3862 – “Financial Instruments – Disclosure” and 3863 – “Financial Instruments – Presentation” are effective for fiscal years beginning on or after October 1, 2007. Handbook Section 3862 requires increased disclosure about the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Handbook Section 3863 carries forward unchanged the presentation requirements of Handbook Section 3861. The Corporation is currently in the process of evaluating the potential impact of these standards on its financial statements.

Effective January 1, 2007, the Corporation adopted the CICA Handbook Sections 3855 - “Financial Instruments – Recognition and Measurement”, 3861 - “Financial Instruments – Disclosure and Presentation”, 1530 – “Comprehensive Income”, 3865 – “Hedges” and the revised CICA Handbook Section 3251 – “Equity” (the “Handbook Sections”). These Handbook Sections require that all financial instruments, which meet the definition of an asset or liability, be recognized in the financial statements at their fair value, unless fair value cannot be reliably determined. Although the Corporation has identified financial instruments to be reported at fair value, no amounts have been recorded as the fair value of the related financial instruments has been determined to not be material to the Corporation’s results of operations and financial position. See note 4 (k) and 15 to the Consolidated Financial Statements.

Commencing January 1, 2007, LDC prospectively adopted Article 410 of the Accounting Procedures (“AP”) Handbook, which provides for the inclusion of an allowance for funds used during construction (“AFUDC”) when capitalizing construction in progress assets, until such time as the asset is substantially complete. A concurrent credit of the same amount is made to the interest expense account when the allowance is capitalized. For the year ended December 31, 2007, \$3.4 million was capitalized to property, plant and equipment and was credited to interest expense. See note 4(b) and 5 to the Consolidated Financial Statements.

In March 2007, the AcSB approved CICA Handbook Section 3031 – “Inventories”, which will replace the existing CICA Handbook Section 3030. The new Handbook Section will be effective for fiscal periods beginning on or after January 1, 2008. Under the new section, inventories are required to be measured at the lower of cost and net realizable value. The section also provides updated guidance on the appropriate methods of determining cost and the impact of any write-downs to net realizable value. The Corporation is currently in the process of evaluating the potential impact of this standard on its financial statements.

During 2007, the AcSB issued an exposure draft proposing to remove all specific references to rate regulated accounting from the CICA Handbook. In August 2007, the AcSB decided to remove a temporary exemption in CICA Handbook Section 1100, retain existing references to rate regulated accounting in the CICA Handbook, require the recognition of future income tax liabilities and assets as well as a separate regulatory asset or liability for the amount of future income taxes, and retain existing requirements to disclose the effects of rate regulation. The new rules will apply prospectively to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009 and will result in accrual accounting being followed for payments in lieu of corporate taxes. Such amounts are currently accounted for on a cash basis, consistent with specific OEB rate-setting

direction. Commencing the first quarter of 2009, the regulatory impact of the OEB's direction will be reflected through the recognition of regulatory assets and/or liabilities. At this point, the Corporation does not believe this will have a material impact on the results of operations.

In January 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", and amended Handbook Section 1000, "Financial Statement Concepts", and Accounting Guideline 11 "Enterprises in the Development Stage" and withdrew Handbook Section 3450, "Research and Development Costs". Handbook Section 3064 clarifies that costs may only be deferred when they relate to an item that meets the definition of an asset. The concept of matching revenues and expenses remains appropriately for allocating the cost of an asset that is consumed in general revenue over multiple reporting periods. Handbook Sections 3064 replaces Handbook Section 3062 and provides extensive guidance on when expenditures qualify for recognition as intangible assets. These changes are effective for fiscal years beginning on or after October 1, 2008.

On February 13, 2008, the AcSB announced that publicly accountable enterprises will be required to change over to International Financial Reporting Standards ("IFRS") effective January 1, 2011. At this time, the AcSB anticipates a five-year transition period ending around 2011. Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change over date. The Corporation is currently in the process of evaluating the potential impact of the conversion from Canadian GAAP to IFRS on its financial statements.

### **Forward-Looking Information**

Certain information included herein constitutes "forward-looking information". Forward-looking information means disclosure regarding possible events, conditions or results that is based on assumptions about future economic conditions and courses of action. In some cases, forward looking information can be identified by terminology such as "may", "will", "should", "expect", "anticipate", "believe", "estimate", "predict", "potential", "budget", "continue" or the negative of these terms or other comparable terminology. In addition, certain information included herein may contain forward-looking information attributable to third parties. Although the Corporation believes that it has a reasonable basis for the forward-looking information included herein, such information is subject to a number of risks and uncertainties that may cause actual events, conditions or results to differ materially from those contemplated by the forward-looking information. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, the ratings assigned to the Corporation and its debt securities by rating agencies, general economic conditions and weather. The Corporation does not undertake any obligation to update publicly or to revise any of the forward-looking information included herein after the date hereof, whether as a result of new information, future events or otherwise.

### **Additional Information**

The information included herein reflects material events up to March 1, 2007, the date on which Consolidated Financial Statements of the Corporation were approved by the Corporation's board of directors.

Additional information with respect to the Corporation (including its annual information form) is available at [www.sedar.com](http://www.sedar.com).

Toronto, Canada

March 5, 2008