TORONTO HYDRO CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE
THREE MONTHS AND NINE MONTHS ENDED
SEPTEMBER 30, 2007

The following discussion and analysis should be read in conjunction with:

- the unaudited interim consolidated financial statements and accompanying notes of Toronto Hydro Corporation (the "Corporation") as at and for the three-month period and the nine-month period ended September 30, 2007 (the "Interim Consolidated Financial Statements");

- the audited consolidated financial statements and accompanying notes of the Corporation as at and for the year ended December 31, 2006 (the "Annual Consolidated Financial Statements"); and

- management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2006 (including the sections entitled "Electricity Distribution – Industry Overview", "Liquidity and Capital Resources", "Corporate Developments", "Share Capital", "Services Provided to the City", "Risks and Uncertainties", "Disclosure and Internal Controls" and "Significant Accounting Policies" which remain substantially unchanged as at the date hereof except as noted below or as updated by the Interim Consolidated Financial Statements).

Copies of these documents are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") web site at www.sedar.com.

The Interim Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars. In preparing the Interim Consolidated Financial Statements, management 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 Interim 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 Ontario Energy Board (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 Annual Consolidated Financial Statements and in note 3 to the Interim Consolidated Financial Statements.

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;

- *Toronto Hydro Energy Services Inc.* ("TH Energy") - which provides street lighting and expressway 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 notes 1, 4 and 23 to the Annual Consolidated Financial Statements and note 14 to the Interim Consolidated Financial Statements; and

- *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 678,000 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. See note 2 to the Annual Consolidated Financial Statements.

Selected Interim Consolidated Financial Data

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

Interim Consolidated Statement of Income
Three months ended September 30
(in thousands of dollars, except for per share amounts, unaudited)

	2007 $	2006 [1] $	Change $	Change %
Revenues	629,090	599,647	29,443	4.91%
Costs				
Purchased power and other	486,790	458,413	28,377	6.19%
Operating expenses	48,907	49,793	(886)	(1.78)%
Depreciation and amortization	38,755	34,120	4,635	13.58%
	574,452	542,326	32,126	5.92%
Income before interest and provision for PILs	54,638	57,321	(2,683)	(4.68)%
Interest income	1,387	4,440	(3,053)	(68.76)%
Interest expense				
Long-term debt	(18,410)	(18,410)	-	0.00%
Other interest	(12,879)	(645)	(12,234)	(1896.74)%
Income before provision for PILs	24,736	42,706	(17,970)	(42.08)%
Provision for PILs	13,602	14,509	(907)	(6.25)%
Income from continuing operations	11,134	28,197	(17,063)	(60.51)%
Income (loss) from discontinued operations – net of tax [2]	(89)	697	(786)	(112.77)%
Net income	11,045	28,894	(17,849)	(61.77)%
Basic and fully diluted net income per share from continuing operations	11,134	28,197	(17,063)	(60.51)%
Basic and fully diluted net income (loss) per share from discontinued operations	(89)	697	(786)	(112.77)%
Basic and fully diluted net income per share	11,045	28,894	(17,849)	(61.77)%

Notes:

(1) Amounts reflect reclassification for discontinued operations. See note 23 to the Annual Consolidated Financial Statements.
(2) Consists of discontinued operations for the water heater business. See note 14 to the Interim Consolidated Financial Statements.

Interim Consolidated Statement of Income
Nine months ended September 30
(in thousands of dollars, except for per share amounts, unaudited)

	2007 $	2006 [1] $	Change $	Change %
Revenues	1,797,271	1,699,077	98,194	5.78%
Costs				
Purchased power and other	1,404,369	1,293,109	111,260	8.60%
Operating expenses	156,954	143,710	13,244	9.22%
Depreciation and amortization	111,232	102,165	9,067	8.87%
	1,672,555	1,538,984	133,571	8.68%
Income before interest and provision for PILs	124,716	160,093	(35,377)	(22.10)%
Interest income	10,292	13,304	(3,012)	(22.64)%
Interest expense				
Long-term debt	(55,230)	(57,484)	2,254	3.92%
Other interest	(12,644)	(2,242)	(10,402)	(463.96)%
Income before provision for PILs	67,134	113,671	(46,537)	(40.94)%
Provision for PILs	28,051	45,506	(17,455)	(38.36)%
Income from continuing operations	39,083	68,165	(29,082)	(42.66)%
Income from discontinued operations – net of tax [2]	24,525	1,449	23,076	1592.55%
Net income	63,608	69,614	(6,006)	(8.63)%
Basic and fully diluted net income per share from continuing operations	39,083	68,165	(29,082)	(42.66)%
Basic and fully diluted net income per share from discontinued operations	24,525	1,449	23,076	1,592.55%
Basic and fully diluted net income per share	63,608	69,614	(6,006)	(8.63)%

Notes:

(1) Amounts reflect reclassification for discontinued operations. See note 23 to the Annual Consolidated Financial Statements.
(2) Consists of discontinued operations for the water heater business. See note 14 to the Interim Consolidated Financial Statements.

Interim Consolidated Balance Sheet
(in thousands of dollars, unaudited)

	As at September 30, 2007 $	As at December 31, 2006 $
Total assets	2,616,064	2,591,706
Current liabilities	526,146	555,105
Long-term liabilities	1,173,446	1,144,537
Total liabilities	1,699,592	1,699,642
Shareholder's equity	916,472	892,064
Total liabilities and shareholder's equity	2,616,064	2,591,706

Results of Operations

Net Income

Net income for the three months and the nine months ended September 30, 2007 was $11.0 million and $63.6 million compared to $28.9 million and $69.6 million for the comparable periods in 2006.

The decrease in net income for the three months ended September 30, 2007 was primarily due to increased net interest expense ($15.3 million), increased depreciation and amortization expense ($4.6 million), decreased income from discontinued operations ($0.8 million), partially offset by increased net revenues ($1.1 million), decreased operating expenses ($0.9 million) and decreased provision for payments in lieu of corporate taxes ("PILs") ($0.9 million).

The decrease in net income for the nine months ended September 30, 2007 was primarily due to increased operating expenses ($13.2 million), decreased net revenues ($13.1 million), increased net interest expense ($11.2 million) and increased depreciation and amortization expense ($9.1 million), partially offset by the gain on the sale of the water heater assets included in income from discontinued operations in 2007 ($23.1 million) and decreased PILs ($17.5 million).

Net Revenues

Net revenues (revenues minus the cost of purchased power and other) for the three months and the nine months ended September 30, 2007 were $142.3 million and $392.9 million compared to $141.2 million and $406.0 million for the comparable periods in 2006.

The increase in net revenues for the three months ended September 30, 2007 was primarily due to increased net revenues at LDC ($2.6 million), increased net revenues at Telecom ($2.0 million), partially offset by decreased net revenues at TH Energy ($3.6 million).

At LDC, the increase in net revenues for the three months ended September 30, 2007 was primarily due to higher non-distribution income ($4.3 million) mainly from revenue recognition of Shared Savings Mechanism ("SSM") associated with prior period Conservation and Demand Management ("CDM") activities (see "Corporate Developments" below), partially offset by decreased distribution revenue ($1.7 million). The decrease in distribution revenue was mainly related to lower revenue recognition from lower CDM activities in 2007 ($8.7 million) and lower consumption in the third quarter of 2007 compared to 2006 (6,845 GWh compared to 6,935 GWh) ($0.7 million). LDC's decrease in distribution revenue was partially offset by revenue recognition adjustment related to Lost Revenue Adjustment Mechanism ("LRAM") for conservation activities ($2.9 million) and 2006 smart meter related revenue recognition adjustment ($5.2 million) (see "Corporate Developments" below).

The decrease in net revenues for the nine months ended September 30, 2007 was primarily due to decreased net revenues at TH Energy ($12.3 million) and at LDC ($6.0 million), partially offset by increased net revenues at Telecom ($5.0 million).

At TH Energy, the decrease in net revenues for the three months and nine months ended September 30, 2007 was primarily due to the conclusion of the electricity retail business on December 31, 2006.

At LDC, the decrease in net revenues for the nine months ended September 30, 2007 was primarily due to decreased distribution revenue ($15.2 million), partially offset by higher non-distribution related income ($9.2 million) from revenue recognition of SSM ($4.3 million) associated with prior period CDM activities and higher customer related service charges ($1.7 million). The decrease in distribution revenue was mainly related to lower revenue recognition from lower CDM activities in 2007 compared to 2006 ($14.4 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 ($12.0 million). LDC's decrease in distribution revenue was partially offset by smart meter revenue recognition adjustment ($5.2 million), increased consumption (20,127 GWh in 2007 compared to 19,981 GWh in 2006) ($3.5 million) and LRAM revenue recognition adjustment for conservation activities ($2.9 million).

At Telecom, the increase in net revenues for the three months and nine months ended September 30, 2007 was primarily due to increased sales of data services.

Expenses

Operating expenses for the three months and the nine months ended September 30, 2007 were $48.9 million and $157.0 million compared to $49.8 million and $143.7 million for the comparable periods in 2006.

The decrease in operating expenses for the three months ended September 30, 2007 was primarily due to lower CDM operating expenditures at LDC consistent with lower revenue recognition for such activities as discussed above ($4.6 million), partially offset by increased business activities at Telecom ($1.2 million).

The increase in operating expenses for the nine months ended September 30, 2007 was primarily due to higher compensation costs mainly attributable to annual wage increase, increased headcount from the hiring of new apprentices and changes in the regulatory treatment of OMERS contribution in May 2006 ($6.3 million), higher costs for operations and maintenance programs at LDC mainly attributable to aging infrastructure and unfavorable weather ($5.1 million), higher costs for facilities at LDC from new leased facilities ($2.0 million), higher operating costs at Telecom from increased business activities ($3.8 million) and higher operating costs at TH Energy from ongoing business activities ($1.1 million). These variances were partially offset by lower CDM expenditures at LDC consistent with lower revenue recognition for such activities as discussed above ($8.3 million).

Depreciation and amortization expense for the three months and the nine months ended September 30, 2007 was $38.8 million and $111.2 million compared to $34.1 million and $102.2 million for the comparable periods in 2006. The increase in depreciation expense for the three months and nine months ended September 30, 2007 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 4 to the Interim Consolidated Financial Statements.

Net interest expense for the three months and the nine months ended September 30, 2007 was $29.9 million and $57.6 million compared to $14.6 million and $46.4 million for the comparable periods in 2006. The increase in net interest expense for the three months and the nine months ended September 30, 2007 was primarily due to a reduction in the estimated fair value of the Corporation's non-bank sponsored Asset-Backed Commercial Paper ("ABCP") notes ($13.1 million) (see "Investments Held to Maturity" below). For the three month period ended September 30, 2007, net interest expense also increased as a result of lower short term interest income partially offset by lower interest expense from the inclusion of allowance for funds used during construction. For the nine month period ended September 30, 2007, the reduction in the estimated fair value of the Corporation's non-bank sponsored ABCP notes was partially offset by 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 6 to the Interim Consolidated Financial Statements.

Provision for PILs

Provision for PILs for the three months and the nine months ended September 30, 2007 was $13.6 million and $28.1 million compared to $14.5 million and $45.5 million for the comparable periods in 2006. The decrease in the provision for PILs for the nine months ended September 30, 2007 was primarily due to a decrease in taxable income.

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 14 to the Interim Consolidated Financial Statements.

The water heater sale agreement includes a six-month purchase price adjustment period commencing April 2, 2007. At the end of the adjustment period, the purchase price will be adjusted to reflect an increase or decrease in the number of active customers used in the purchase price calculation. During the period ended September 30, 2007, TH Energy incurred a $0.3 million purchase price adjustment reflecting a decrease in the number of active customers used in the purchase price calculation. The adjustment has been accounted for in the current period as a charge to income from discontinued operations.

Income (loss) from discontinued operations for the three months and nine months ended September 30, 2007 was ($0.1) million and $24.5 million compared to $0.7 million and $1.4 million for the comparable periods in

2006. The increase for the nine months ended September 30, 2007 was primarily due to the sale of the water heater business.

Quarterly Results of Operations

The tables below present unaudited quarterly consolidated financial information of the Corporation for the eight quarters from December 31, 2005 to September 30, 2007 and reflect discontinued operations relating to the water heater business. See note 23 to the Annual Consolidated Financial Statements.

Quarterly Results
(in thousands of dollars, unaudited)

	Sep. 30, 2007 $	Jun. 30, 2007 $	Mar.31, 2007 $	Dec. 31, 2006 $
Revenues	629,090	560,854	607,327	548,001
Costs	574,452	526,616	571,487	498,402
Income from continuing operations	11,134	14,892	13,057	22,054
Net income	11,045	14,909	37,654	22,783

Quarterly Results
(in thousands of dollars, unaudited)

	Sep. 30, 2006 $	Jun. 30, 2006 $	Mar.31, 2006 $	Dec. 31, 2005 $
Revenues	599,647	535,421	564,009	637,649
Costs	542,326	487,756	508,902	590,126
Income from continuing operations	28,197	17,721	22,247	22,153
Net income	28,894	18,161	22,559	22,501

Liquidity and Capital Resources

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, short-term 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.

Capital Resources and Liquidity
(in thousands of dollars, unaudited)

	Three months Ended September 30		Nine months Ended September 30	
	2007 $	2006 $	2007 $	2006 $
Cash and cash equivalents, beginning of period	352,749	316,796	327,524	448,370
Net cash provided by (used in) operating activities	(1,926)	59,320	119,029	59,133
Net cash used in investing activities	(154,780)	(47,822)	(253,277)	(143,238)
Net cash used in financing activities	(4,286)	(4,268)	(40,710)	(40,140)
Net cash provided by (used in) discontinued operations [1]	(66)	451	39,125	352
Cash and cash equivalents, end of period	191,691	324,477	191,691	324,477

Note:

(1) Consists of discontinued operations for the water heater business. See note 14 to the Interim Consolidated Financial Statements.

Cash Provided by (Used In) Operating Activities

Cash provided by (used in) operating activities for the three months and the nine months ended September 30, 2007 was ($1.9) million and $119.0 million compared to $59.3 million and $59.1 million for the comparable periods in 2006.

The decrease in cash provided by operating activities for the three months ended September 30, 2007 was primarily due to an unfavourable variance in the aggregate of accounts receivable and unbilled revenue due to the timing of billing and collection activities at LDC ($31.3 million), decreased electricity payable at LDC ($21.5 million), an unfavourable variance in net income ($17.1 million) and a variance at TH Energy attributable to the assets and liabilities related to the electricity retail activities that concluded in 2006 ($15.6 million). This was partially offset by a variance related to an impairment loss provision recorded in 2007 in connection with the liquidity issues on the Corporation's investments in ABCP notes ($13.1 million) (see "Investments Held to Maturity" below and note 13 to the Interim Consolidated Financial Statements), a variance in depreciation and amortization at LDC ($4.1 million) and a variance in deferred revenue ($4.0 million) due to greater revenue recognition for CDM in 2006.

The increase in cash provided by operating activities for the nine months ended September 30, 2007 was primarily due to the payment of electricity rebates and PILs liabilities in 2006 at LDC ($110.0 million), variances in other assets and liabilities ($10.2 million), a variance in depreciation and amortization at LDC ($7.6 million), an impairment loss provision recorded in 2007 in connection with the liquidity issues on the Corporation's investments in ABCP notes ($13.1 million) and a variance in deferred revenue ($2.2 million) due to greater revenue recognition for CDM in 2006. This 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 ($46.4 million) and a variance at TH Energy ($38.4 million) principally attributed 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 for the three months and the nine months ended September 30, 2007 was $154.8 million and $253.3 million compared to $47.8 million and $143.2 million for the comparable periods in 2006.

The increase in cash used in investing activities for the three months ended September 30, 2007 was primarily due to 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 13 to the Interim Consolidated Financial Statements), an increase in the purchase of property, plant and equipment and intangible assets at LDC ($17.6 million), Telecom ($3.1 million) and TH Energy ($1.2 million). This was partially offset by a decrease in regulatory assets at LDC ($2.7 million) primarily due to a decrease in retail settlement variances.

The increase in cash used in investing activities for the nine months ended September 30, 2007 was primarily due to 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 13 to the Interim Consolidated Financial Statements), an increase in the purchase of property, plant and equipment and intangible assets at LDC ($47.2 million), Telecom ($5.2 million) and TH Energy ($3.9 million), partially offset by a decrease in regulatory assets ($32.5 million) primarily due to a decrease in retail settlement variances.

The increase in property, plant and equipment at LDC for the three months and nine months ended September 30, 2007 was related to the increased investment in infrastructure. The increase is mainly 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 the three months and nine months ended September 30, 2007 was related 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 the three months and nine months ended September 30, 2007 was due to increased investment in revenue generating assets.

The following table summarizes the Corporation's capital expenditures for the periods indicated:

Capital Expenditures (in thousands of dollars, unaudited)	Three months Ended September 30		Nine months Ended September 30	
	2007 $	2006 $	2007 $	2006 $
Capital Expenditures from Continuing Operations				
LDC				
Distribution System	41,137	32,276	127,274	97,215
Technology assets	7,384	3,437	17,978	13,575
Other [(1)]	7,073	2,302	19,987	7,283
	55,594	38,015	165,239	118,073
Other [(2)]	8,113	4,271	17,040	9,070
Total Capital Expenditures	63,707	42,286	182,279	127,143
Capital Expenditures from Discontinued Operations				
Water Heaters	-	902	286	2,689

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 for the three months and the nine months ended September 30, 2007 was $4.3 million and $40.7 million compared to $4.3 million and $40.1 million for the comparable periods in 2006.

The variances in cash used in financing activities for the nine months ended September 30, 2007 were primarily due to variances in customer deposits.

Revolving Credit Facility

The Corporation is a party to a credit agreement with respect to a revolving credit facility 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. As at September 30, 2007, no borrowings for working capital were outstanding and letters of credit in the amount of $45.1 million had been issued. See note 5 to the Interim Consolidated Financial Statements.

Financial Guarantees

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.

Investments Held to Maturity

At September 30, 2007, the Corporation held $88.0 million in non-bank sponsored ABCP notes which matured in August 2007 and remain unpaid. All the ABCP notes held by the Corporation were rated R1 High by Dominion Bond Rating Services Limited ("DBRS") at the time of purchase. This rating is the highest quality rating for commercial paper. These notes are directly impacted by the current liquidity issues affecting the non-bank sponsored ABCP notes.

On August 16, 2007, a group representing banks, asset providers and major investors agreed in principle to a long-term proposal and interim arrangements regarding the restructuring of the affected ABCP notes (the "Montreal Proposal"). Under this proposal, the affected ABCP notes would be converted into floating rate notes

("FRN") maturing no earlier than the maturing dates of the underlying assets. During the restructuring period (currently scheduled to end on December 14, 2007), 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 development implications".

The Corporation's ABCP notes are financial instruments and have been classified as Investments Held to Maturity. These investments are classified as long term investments on the balance sheet. Under this classification, the Corporation should recognize any impairment loss to net income. The impairment loss is the difference between the estimated fair value and the carrying amount of the investments. The Corporation's ABCP notes have not traded in the market since August 2007 and there is currently no market quote available. The Corporation's estimate of the fair value of its investments in ABCP notes was based on valuation techniques which incorporate a probability-weighted approach for recovery applied to the cash flows considering the best available data for such investments and a mark-to-model valuation of the notes.

During the third quarter of 2007, the Corporation recognized an impairment loss amounting to $13.1 million, representing the difference between the original purchase price of $88.0 million and the estimated fair value of $74.9 million.

The estimation by the Corporation at September 30, 2007 of the fair value of its ABCP notes is subject to significant risks and uncertainties, including with respect to 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.

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 13 to the Interim Consolidated Financial Statements.

Dividends

On March 1, 2007, the board of directors of the Corporation declared dividends in the amount of $27.2 million. The dividends are comprised of a $21.2 million payment for 2006 net income, which was paid on March 9, 2007 and a $6.0 million payment in respect of the first quarter of 2007, which was paid on March 30, 2007.

On May 28, 2007, the board of directors of the Corporation declared a dividend in the amount of $6.0 million in respect of the second quarter of 2007, which was paid on June 29, 2007.

On August 23, 2007, the board of directors of the Corporation declared a dividend in the amount of $6.0 million in respect of the third quarter of 2007, which was paid on September 28**,** 2007.

On November 28, 2007, the board of directors of the Corporation declared a dividend in the amount of $7.0 million in respect of the fourth quarter of 2007. The dividend is payable on December 31, 2007.

Corporate Developments

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 14 to the Interim Consolidated Financial Statements.

In December 2002, TH Energy ceased electricity retailing activities in respect of new customers following the implementation of price protection under the *Electricity Pricing, Conservation and Supply Act,* 2002. Remaining contracts and portfolio obligations were managed to expiration on December 31, 2006. See note 15 to the Annual Consolidated Financial Statements.

Medium-Term Note Program

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 November 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 will be used to repay $245.1 million of indebtedness outstanding to the City of Toronto 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 requested base distribution revenue requirements for these rate years are $498.4 million, $534.0 million and $562.4 million, respectively.

Smart Meters

On June 13, 2006, the Province issued draft regulations clarifying the technical details of advanced metering infrastructure and data management. In support of the Province'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 over 369,000 meters at September 30, 2007.

Consistent with the OEB's direction, LDC continues to defer capital expenditures, operating and depreciation expenses and revenues relating to smart meters in regulatory asset accounts. On May 1, 2006, LDC implemented new distribution rates which included charges for smart meters of $0.47 per 30 days for each residential customer and $1.04 per 30 days for all other customers. Effective May 1, 2007, the OEB-approved charges for smart meters were changed to $0.68 per 30 days for all metered customers.

On March 23, 2007, LDC submitted an application to the OEB for disposition of the 2006 balance in the smart meter deferral account and an adjustment to rate base to reflect smart meter assets. Hearings related to the recovery of the smart meter expenditures were held from May 30, 2007 to July 12, 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. This resulted in decreased Regulatory Assets ($23.0 million), increased Property, Plant and Equipment ($23.9 million), increased Revenue ($5.2 million), increased Depreciation and Amortization ($1.9 million) and decreased Interest Income ($1.8 million). The revenue requirement related to the 2006 smart meters will be recovered through a rate rider for the period November 1, 2007 to April 30, 2008. The financial impact of this decision is included in the Interim Consolidated Financial Statements.

Lost Revenue Adjustment Mechanism and Shared Savings Mechanism

On March 23, 2007, LDC submitted an application to the OEB for recovery of costs and benefits associated with LDC's CDM programs for 2005 and 2006. Authorization to apply for recovery of these amounts was granted by the OEB in its decision on CDM programs funding on May 11, 2005.

On September 11, 2007, the LDC received approval from the OEB to recover $2.9 million as 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. In approving the SSM recovery balance, the OEB rejected the LDC claim for recovery of related PILs for $3.0 million. LDC expects to recover the approved amounts in rates over a 6-month period commencing on November 1, 2007. The impact of this decision resulted in an increase in revenue amounting to $7.2 million and an increase in regulatory assets of $7.2 million in the Interim Consolidated Financial Statements.

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 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 balance sheet as a deferred liability.

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 interim 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 LDC'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 interim consolidated financial statements or LDC'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.

Consumers' Gas Decision

On April 22, 2004, in a decision in a class action commenced against The Consumers' Gas Company Limited (now Enbridge Gas Distribution Inc.), the Supreme Court of Canada ruled that The Consumers' Gas Company ("Consumers' Gas") 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 Consumers' Gas 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.

The LDC is not a party to the Consumers' Gas 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 Consumers' Gas 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 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 Consumers' Gas 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 Consumers' Gas class action.

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

Also, 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. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of the Consumers' Gas decision on these actions or of these actions on the financial performance of the Corporation.

Disclosure and Internal Controls

During the quarter ended September 30, 2007, the Corporation evaluated the effectiveness of the Corporation's disclosure controls and procedures as defined in Multilateral Instrument 52-109 pursuant to Canadian regulatory requirements. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

During the quarter ended September 30, 2007, the Corporation evaluated the design of internal controls over financial reporting as required under Multilateral Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the design of those controls is effective to provide such reasonable assurance that the Corporation's consolidated financial statements for external purposes in accordance with Canadian GAAP are reliable.

During the quarter ended September 30, 2007 there were no changes to the Corporation's internal controls over financial reporting that would have materially affected these controls.

Significant Accounting Policies

Effective January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants ("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 3 to the Interim 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 nine months ended September 30, 2007, $1.7 million was capitalized to property, plant and equipment and was credited to interest expense. See note 3 to the Interim Consolidated Financial Statements.

In December 2006, the Canadian Accounting Standards Board ("AcSB") announced that as of March 31, 2008, they will be making a final decision on the date in which publicly accountable enterprises will be required to change over to International Financial Reporting Standards ("IFRS"). 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. Until the change over is finalized, companies will continue to describe their basis of reporting using Canadian GAAP. Management is currently in the

process of evaluating the potential impact of the conversion from Canadian GAAP to IFRS on the Corporation's financial statements.

In December 2006, the AcSB released 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 presentation and disclosure. CICA Handbook Sections 3862 – "Financial Instruments – Disclosure" and 3863 – "Financial Instruments – Presentation" are effective for fiscal years beginning on or after October 1, 2007. Both sections improve upon the financial instrument disclosure requirements existing under CICA Handbook Section 3861 – "Financial Instruments – Disclosure and Presentation". The Corporation is currently in the process of evaluating the potential impact of these standards on its 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.

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

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

Toronto, Canada

November 28, 2007