

Consolidated Financial Statements

**Toronto Hydro Corporation**

MARCH 31, 2006

# Toronto Hydro Corporation

<b>INTERIM CONSOLIDATED BALANCE SHEET</b>		
<b>[in thousands of dollars, unaudited]</b>		
	<b>As at March 31, 2006 \$</b>	<b>As at December 31, 2005 \$</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	335,094	448,370
Accounts receivable, net of allowance for doubtful accounts	249,582	174,499
Unbilled revenue	220,715	271,367
Inventories	19,509	18,189
Prepaid expenses	4,060	2,168
Electricity mark-to-market assets <i>[note 8]</i>	44,627	113,297
Future income tax assets	24,789	33,195
<b>Total current assets</b>	<b>898,376</b>	<b>1,061,085</b>
Property, plant and equipment, net	1,632,636	1,624,741
Intangible assets, net	44,392	41,926
Regulatory assets <i>[note 3]</i>	60,211	63,752
Other assets	5,245	5,490
Future income tax assets, long-term	25,039	22,264
<b>Total assets</b>	<b>2,665,899</b>	<b>2,819,258</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	350,015	423,780
Current portion of other long-term liabilities	19,546	39,210
Deferred revenue	20,609	20,423
Current portion of promissory note payable <i>[note 5]</i>	-	330,000
Electricity mark-to-market liabilities <i>[note 8]</i>	26,406	86,875
Future income tax liabilities	32,452	40,923
<b>Total current liabilities</b>	<b>449,028</b>	<b>941,211</b>
<b>Long-term liabilities</b>		
Long-term debentures <i>[note 5]</i>	225,000	225,000
Promissory note payable <i>[note 5]</i>	980,231	650,231
Post-employment benefits <i>[note 6]</i>	127,875	125,415
Regulatory liabilities <i>[note 3]</i>	2,880	13,297
Other long-term liabilities	6,837	7,497
Asset retirement obligations	5,763	5,691
Customers' advance deposits and other deposits	17,495	2,900
Long-term deferred revenue	9,004	1,580
Future income tax liabilities, long-term	560	569
<b>Total long-term liabilities</b>	<b>1,375,645</b>	<b>1,032,180</b>
<b>Total liabilities</b>	<b>1,824,673</b>	<b>1,973,391</b>
Commitments and contingencies <i>[notes 6, 8, 9 and 10]</i>		
<b>Shareholder's equity</b>		
Share capital <i>[note 7]</i>	567,817	567,817
Retained earnings	273,409	278,050
<b>Total shareholder's equity</b>	<b>841,226</b>	<b>845,867</b>
<b>Total liabilities and shareholder's equity</b>	<b>2,665,899</b>	<b>2,819,258</b>

# Toronto Hydro Corporation

<b>INTERIM CONSOLIDATED STATEMENT OF INCOME</b>		
<b>Three months ended March 31</b>		
<b>[in thousands of dollars, except for per share amounts, unaudited]</b>		
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues</b> <i>[note 8]</i>	<b>565,660</b>	612,826
<b>Costs</b>		
Purchased power and other	432,106	478,171
Operating expenses	43,336	45,919
Depreciation and amortization	34,679	34,510
	<b>510,121</b>	558,600
<b>Income before interest and provision for payments in lieu of corporate taxes</b>	<b>55,539</b>	54,226
Interest income	4,412	3,404
Interest expense		
Long-term debt <i>[note 5]</i>	(20,101)	(20,101)
Other interest	(945)	(636)
<b>Income before provision for payments in lieu of corporate taxes</b>	<b>38,905</b>	36,893
Provision for payments in lieu of corporate taxes	16,346	16,057
<b>Net income for the period</b>	<b>22,559</b>	20,836
<b>Basic and diluted net income per share</b>	<b>22,559</b>	20,836

<b>INTERIM CONSOLIDATED STATEMENT OF RETAINED EARNINGS</b>		
<b>Three months ended March 31</b>		
<b>[in thousands of dollars, unaudited]</b>		
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>Retained earnings, beginning of period</b>	<b>278,050</b>	253,605
Net income for the period	22,559	20,836
Dividends <i>[notes 7 and 13]</i>	(27,200)	(49,000)
<b>Retained earnings, end of period</b>	<b>273,409</b>	225,441

# Toronto Hydro Corporation

<b>INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS</b>		
<b>Three months ended March 31</b>		
<b>[in thousands of dollars, unaudited]</b>		
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>OPERATING ACTIVITIES</b>		
Net income for the period	22,559	20,836
Adjustments for non-cash items		
Depreciation and amortization	34,679	34,510
Net change in other assets and liabilities	6,975	(204)
Electricity mark-to-market assets and liabilities <i>[note 8]</i>	8,201	(1,288)
Post-employment benefits <i>[note 6]</i>	2,460	1,676
Future income taxes	(2,849)	676
Gain on disposal of property, plant and equipment	(260)	(5)
Changes in non-cash working capital balances		
Increase in accounts receivable	(75,083)	(53,783)
Decrease in unbilled revenue	50,652	19,218
Increase in inventories	(1,320)	(1,260)
Decrease (increase) in prepaid expenses	(1,892)	542
Increase (decrease) in accounts payable and accrued liabilities	(73,765)	25,692
Increase in deferred revenue	186	441
Increase in current portion of other long-term liabilities	137	-
<b>Net cash provided by (used in) operating activities</b>	<b>(29,320)</b>	<b>47,051</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(39,930)	(21,033)
Purchase of intangible assets	(5,100)	(617)
Net change in regulatory assets and liabilities <i>[note 3]</i>	(6,876)	(76)
Proceeds on disposal of property, plant and equipment	356	5
<b>Net cash used in investing activities</b>	<b>(51,550)</b>	<b>(21,721)</b>
<b>FINANCING ACTIVITIES</b>		
Decrease in customers' advance deposits	(4,827)	(25,731)
Repayment of capital lease liability	(379)	(507)
Dividends paid <i>[note 7]</i>	(27,200)	(49,000)
<b>Net cash used in financing activities</b>	<b>(32,406)</b>	<b>(75,238)</b>
<b>Net decrease in cash and cash equivalents during the period</b>	<b>(113,276)</b>	<b>(49,908)</b>
Cash and cash equivalents, beginning of period	448,370	386,625
<b>Cash and cash equivalents, end of period</b>	<b>335,094</b>	<b>336,717</b>
<b>Supplementary cash flow information</b>		
Total interest paid	17,258	17,130
Payments in lieu of corporate taxes	51,275	33,791

## Toronto Hydro Corporation

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### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2006

#### 1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of Toronto Hydro Corporation [the “Corporation”] have been prepared in accordance with Canadian generally accepted accounting principles [“GAAP”] with respect to the preparation of interim financial information. Accordingly, the disclosures in these statements do not conform in all respects to the requirements of Canadian GAAP or annual consolidated financial statements. These statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2005, except as disclosed in note 2, and should be read in conjunction with those statements.

#### 2. ACCOUNTING POLICIES

##### *a) Cash and cash equivalents*

The Corporation changed the terms to maturity in the definition of cash equivalents from five months or less to 90 days or less from their date of acquisition. This change resulted in no impact on the unaudited interim consolidated financial statements for the three-month period ended March 31, 2006 and the audited consolidated financial statements as at and for the year ended December 31, 2005.

##### *b) Use of estimates*

The preparation of the Corporation’s unaudited interim consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the period. Actual results could differ from those estimates, including changes as a result of future decisions made by the Ontario Energy Board [the “OEB”], the Minister of Energy or Minister of Finance.

#### 3. REGULATORY ASSETS AND LIABILITIES

For the three months ended March 31, 2006, Toronto Hydro-Electric System Limited [“LDC”] recovered approved regulatory assets amounts of \$6,287,000 through permitted distribution rate adjustments [three months ended March 31, 2005 - \$5,995,000]. In the absence of rate regulation, revenue for the three months ended March 31, 2006 would have been \$6,287,000 higher [three months ended March 31, 2005 - \$5,995,000].

Settlement variances, representing a credit balance of \$3,872,000, relating to the period from January 1, 2004 to December 31, 2004, were approved for disposition by the OEB on April 12, 2006. In the absence of rate regulation, revenues for the three months ended March 31, 2006 would have been \$10,764,000 lower [three months ended March 31, 2005 - \$5,044,000].

## Toronto Hydro Corporation

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2006

#### 4. CREDIT FACILITIES

At March 31, 2006, \$85,640,000 [December 31, 2005 - \$90,174,000] had been utilized under the Corporation's revolving credit facility in the form of letters of credit to support the prudential requirements of LDC, Toronto Hydro Energy Services Inc. ["TH Energy"] and Toronto Hydro Telecom Inc. At March 31, 2006, no amount had been drawn for working capital purposes [December 31, 2005 - \$nil].

At March 31, 2006, no amount had been drawn on the bilateral demand line of credit [December 31, 2005 - \$nil].

#### 5. LONG-TERM DEBT

	March 31 2006 \$	December 31 2005 \$
6.11% senior unsecured debentures due 2013	225,000	225,000
6.80% promissory note payable to the City	980,231	980,231
	1,205,231	1,205,231
Less: Current portion of promissory note payable to the City	—	330,000
Long-term debt	1,205,231	875,231
<b>Comprising:</b>		
Long-term debentures	225,000	225,000
Promissory note payable to the City	980,231	650,231

All debt of the Corporation is ranked equal in preference and priority.

##### *a) Senior unsecured debentures*

The Corporation's 10-year senior unsecured debentures in the amount of \$225,000,000 [December 31, 2005 - \$225,000,000] bear interest at a rate of 6.11% per annum, payable semi-annually in arrears in equal instalments on May 7 and November 7 of each year. The debentures mature on May 7, 2013.

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

## Toronto Hydro Corporation

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### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2006

#### ***b) Promissory note payable to the City of Toronto***

The Corporation's promissory note in the principal amount of \$980,231,000 [December 31, 2005 – \$980,231,000] [the "City Note"] is payable to the City of Toronto [the "City"]. On February 6, 2006, the City exercised its option under the terms of the City Note to extend the maturity date from May 7, 2008 to May 7, 2013. Accordingly, the principal amount outstanding under the City Note is classified as long-term liability. The maximum term of the City Note is ten years.

The rate of interest payable on the City Note is the Debt Cost Rate ["DCR"], which is 6.8% per annum. The DCR is a rate of interest per annum equal to the debt cost rate prescribed by the OEB in the Electricity Distribution Rate Handbook for utilities in the same rate class as LDC. Interest is calculated and payable quarterly in arrears on the last business day of March, June, September and December of each year [see *note 13 c*].

### **6. EMPLOYEE FUTURE BENEFITS**

#### ***a) Pension***

For the three months ended March 31, 2006, the Corporation's current service pension costs payable to Ontario Municipal Employees Retirement System were \$2,585,000 [three month ended March 31, 2005 - \$2,263,000].

#### ***b) Employee future benefits other than pension***

For the three months ended March 31, 2006, the Corporation recognized periodic benefit costs of \$3,656,000 [three months ended March 31, 2005 – \$2,861,000] of which \$1,733,000 [three months ended March 31, 2005 – \$772,000] was capitalized as part of property, plant and equipment, resulting in \$1,923,000 [three months ended March 31, 2005 – \$2,089,000] charged to operations.

### **7. SHARE CAPITAL**

At March 31, 2006, the Corporation had 1,000 [December 31, 2005 – 1,000] common shares issued and outstanding at a stated value of \$567,817,000 [December 31, 2005 – \$567,817,000]. The Corporation is authorized to issue an unlimited number of common shares.

#### ***Dividends***

On March 2, 2006, the board of directors of the Corporation declared dividends in the amount of \$27,200,000. The dividends are comprised of a \$21,200,000 payment for 2005 net income, which was paid on March 10, 2006 and a \$6,000,000 payment in connection with the first quarter of 2006, which was paid on March 31, 2006.

## Toronto Hydro Corporation

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### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2006

#### 8. RETAIL COMMITMENTS AND FINANCIAL INSTRUMENTS

##### *a) Electricity retailing*

At March 31, 2006, TH Energy has floating-for-fixed electricity contracts that have an aggregate contract volume and value of 2,446,000 MWh and \$135,927,000 [December 31, 2005 – 3,124,000 MWh and \$171,270,000].

At March 31, 2006, TH Energy has fixed-for-floating electricity contracts that have an aggregate contract volume and value of 2,750,000 MWh and \$116,012,000 [December 31, 2005 – 3,614,000 MWh and \$154,396,000].

On April 30, 2004, TH Energy extended an existing retail electricity contract with the City from May 1, 2005 to December 31, 2006. Under the remaining term, TH Energy will sell a fixed notional volume of electricity of 1,419,000 MWh for a total expected settlement of \$75,049,000 to the City.

For the three months ended March 31, 2006, “Revenues” include \$7,065,000 of TH Energy electricity mark-to-market revenues [three months ended March 31, 2005 - \$7,230,000].

##### *b) Credit risk*

Financial instruments result in exposure to credit risk stemming from the risk of the counter-party defaulting on its obligations. TH Energy monitors and limits its exposure to counter-parties with lower credit ratings and evaluates its credit exposure on a continuous basis. TH Energy had five counter-parties as at March 31, 2006 for its electricity portfolio. The largest single credit exposure at March 31, 2006 is estimated at \$62,601,000 [December 31, 2005 - \$137,170,000], which is the estimated replacement cost of an electricity purchase contract.

For retail customers, credit losses are generally low across the sector. LDC and TH Energy provide for an allowance for doubtful accounts to absorb credit losses. At March 31, 2006, there was no significant concentration of credit risk with respect to any class of financial assets other than the electricity portfolio risk mentioned above.

##### *c) Interest rate risk*

The Corporation is exposed to interest rate risk for certain of its financial assets and liabilities. Under the Corporation’s Revolving Credit Facility [note 4], the Corporation may have short-term borrowings for working capital purposes. These borrowings could expose the Corporation to fluctuations in short-term interest rates [borrowings in the form of prime rate loans in Canadian dollars and bankers’ acceptances and letters of credit]. The fee payable for bankers’ acceptances and letters of credit is based on a margin determined by reference to the Corporation's credit rating.

Certain cash balances of the Corporation are invested in Canadian money market instruments, with terms of one day to 90 days, exposing the Corporation to fluctuations in short-term interest rates. These fluctuations could impact the level of interest income earned by the Corporation.

## Toronto Hydro Corporation

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2006

#### *d) Fair value of financial instruments*

The fair value of hedging derivative financial instruments is the estimated amount the Corporation would receive or pay to terminate the contracts. The value is based on market prices or management's best estimates if there is no organized market and/or if the market is illiquid.

#### *Mark-to-market energy assets and liabilities*

All electricity contracts included in the electricity portfolio of TH Energy are accounted for using the mark-to-market method of accounting. The following are the primary sources of the change in the net mark-to-market assets:

	2006 \$	2005 \$
Fair value, January 1	26,422	27,696
Unrealized change in fair value during the period	(2,483)	1,895
Realization of contracts for the period	(5,718)	(607)
Fair value of net mark-to-market assets at March 31	18,221	28,984
Unrealized change in fair value during the period		14,447
Realization of contracts for the period		(17,009)
Fair value of net mark-to-market assets at December 31		26,422

#### *Other assets and liabilities*

The carrying value of cash and cash equivalents, accounts receivable, unbilled revenue, and accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity.

At March 31, 2006, the fair values of the City Note [\$980,231,000] and the senior unsecured debentures [\$225,000,000] were \$1,096,343,000 and \$246,303,000, respectively [December 31, 2005 - \$1,120,405,000 and \$251,415,000, respectively]. These fair values have been calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments [note 5].

## 9. FINANCIAL GUARANTEES

At March 31, 2006, the Corporation's board of directors had approved \$386,000,000 in parental guarantees on behalf of TH Energy, of which \$56,500,000 has been issued to unrelated parties [December 31, 2005 - \$86,500,000].

The Corporation has issued a parental guarantee to the City as part of an agreement to purchase electricity at a fixed price from TH Energy. The fair value of the parental guarantee was \$18,395,000 at March 31, 2006 [December 31, 2005 - \$56,417,000].

## Toronto Hydro Corporation

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### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2006

#### 10. CONTINGENCIES

##### *a) Ministry of Finance Tax Audit*

Certain filing positions for payments in lieu of corporate taxes ["PILs"] were taken by the Corporation and its subsidiaries that may be challenged on audit. This may result in a material increase in the Corporation's reported tax obligations upon reassessment. As the current PILs audit has not yet been completed, management is not able to determine the impact of this uncertainty on the consolidated financial statements or the Corporation's tax reserves. The range and level of the Corporation's tax reserves are adjusted when there is sufficient information available, or when an event occurs requiring a change to the reserves.

##### *b) 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 [the "Supreme Court"] ruled that The Consumers' Gas Company ["Consumers' Gas"] was required to repay the portion of certain late payment charges collected by it from its customers that were in excess of the interest limit stipulated in section 347 of the Criminal Code. Although the claim related to charges collected by 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. 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 \$500,000,000 in restitution for late payment charges collected by them from their customers that were in excess of the interest limit stipulated in section 347 of the Criminal Code. This action is at a preliminary stage. Pleadings have closed but examinations for discovery have not been conducted and the classes have not been certified as the parties were awaiting the outcome of the Consumers' Gas class action.

The second is an action commenced against a predecessor of LDC under the Class Proceedings Act, 1992 seeking \$64,000,000 in restitution for late payment charges collected by it from its customers that were in excess of the interest limit stipulated in section 347 of the Criminal Code. This action is also at the 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.

## Toronto Hydro Corporation

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### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2006

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 quantify the effect, if any, of the Consumers' Gas decision on these actions or of these actions on the financial performance of the Corporation.

### 11. SEGMENT REPORTING

The Corporation has two reportable segments:

- [a] Electricity Distribution:  
the regulated business which consists of the electricity distribution business; and
- [b] Non-regulated:  
the non-regulated businesses which consist primarily of the management of an existing portfolio of electricity contracts, the sale of energy management services, the provision of data communications services and the provision of street and expressway lighting services.

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

## Toronto Hydro Corporation

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2006

Segment information on the above basis is as follows:

<b>Three months ended March 31, 2006</b>				
	<b>Electricity Distribution \$</b>	<b>Non- Regulated \$</b>	<b>Intersegment Eliminations \$</b>	<b>Total \$</b>
Revenues	570,044	20,405	(24,789)	565,660
Purchased power and other	453,216	3,679	(24,789)	432,106
Operating expenses	39,488	3,848	—	43,336
Depreciation and amortization	30,754	3,925	—	34,679
Income before interest and provision for PILs	46,586	8,953	—	55,539
Interest income	3,272	20,660	(19,520)	4,412
Interest expense	20,356	20,210	(19,520)	21,046
Income before provision for PILs	29,502	9,403	—	38,905
Provision for PILs	12,567	3,779	—	16,346
Net income for the period	16,935	5,624	—	22,559
Purchase of property, plant and equipment and intangible assets	42,747	2,283	—	45,030

## Toronto Hydro Corporation

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2006

<b>Three months ended March 31, 2005</b>				
	<b>Electricity Distribution</b>	<b>Non- Regulated</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
	\$	\$	\$	\$
Revenues	635,503	43,832	(66,509)	612,826
Purchased power and other	519,390	24,943	(66,162)	478,171
Operating expenses	41,571	4,695	(347)	45,919
Depreciation and amortization	31,407	3,103	—	34,510
Income before interest and provision for PILs	43,135	11,091	—	54,226
Interest income	2,700	20,224	(19,520)	3,404
Interest expense	20,123	20,134	(19,520)	20,737
Income before provision for PILs	25,712	11,181	—	36,893
Provision for PILs	13,154	2,903	—	16,057
Net income for the period	12,558	8,278	—	20,836
Purchase of property, plant and equipment and intangible assets	19,709	1,941	—	21,650

<b>Assets</b>		
	<b>March 31 2006</b>	<b>December 31 2005</b>
	\$	\$
Electricity Distribution	<b>2,293,525</b>	2,393,533
Non-regulated	<b>1,576,480</b>	1,619,790
Intersegment eliminations	<b>(1,204,106)</b>	(1,194,065)
<b>Total</b>	<b>2,665,899</b>	2,819,258

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

## Toronto Hydro Corporation

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### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2006

#### 12. SEASONAL OPERATIONS

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

#### 13. SUBSEQUENT EVENTS

##### *a) Dividends*

On May 29, 2006, the board of directors of the Corporation declared a dividend in the amount of \$6,000,000 in respect of the second quarter of 2006, payable on June 30, 2006.

##### *b) 2006 Rate Application*

On April 12, 2006, the OEB approved a decrease in LDC's distribution rates for the period May 1, 2006 to April 30, 2007 representing a revenue reduction of approximately \$53,544,000. The methodology used by the OEB to establish the distribution rates was based on, among other things, a rate base of \$1.861 billion, a deemed debt equity structure of 65:35 and an allowed return on equity of 9%. The OEB also allowed for the recovery of regulatory assets related to prior years' pension costs and OEB fees and reduced the allowable interest rate on the existing related party debt instrument from 6.8% to 5% per annum. LDC currently has a promissory note in the principal amount of \$980,231,000 payable to the Corporation.

##### *c) City Promissory Note*

The Corporation currently has a promissory note in the principal amount of \$980,231,000 payable to the City under the terms of the City Note. A copy of the City Note is available at [www.sedar.com](http://www.sedar.com). The Corporation is currently evaluating the impact on the City Note of the decrease in the allowable affiliate debt rate included in the 2006 distribution rate decision received from the OEB for LDC [see *note 13 b)*]. The Corporation is currently in discussions with the City with respect to possible amendments to the City Note.