

Consolidated Financial Statements

Toronto Hydro Corporation

SEPTEMBER 30, 2006

Toronto Hydro Corporation

INTERIM CONSOLIDATED BALANCE SHEET		
[in thousands of dollars, unaudited]		
	As at September 30, 2006 \$	As at December 31, 2005 \$
ASSETS		
Current		
Cash and cash equivalents	324,477	448,370
Accounts receivable, net of allowance for doubtful accounts	215,044	174,499
Unbilled revenue	197,000	271,367
Inventories	20,177	18,189
Prepaid expenses	4,208	2,168
Electricity mark-to-market assets <i>[note 9]</i>	4,829	113,297
Future income tax assets	3,770	33,195
Total current assets	769,505	1,061,085
Property, plant and equipment, net	1,648,718	1,624,741
Intangible assets, net	45,985	41,926
Regulatory assets <i>[notes 4]</i>	70,224	63,752
Other assets	3,226	5,490
Future income tax assets	14,707	22,264
Total assets	2,552,365	2,819,258
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	263,630	423,780
Current portion of other liabilities	18,143	39,210
Current portion of deferred revenue	13,129	20,423
Current portion of promissory note payable <i>[note 6]</i>	-	330,000
Electricity mark-to-market liabilities <i>[note 9]</i>	836	86,875
Future income tax liabilities	1,855	40,923
Total current liabilities	297,593	941,211
Long-term liabilities		
Debentures <i>[note 6]</i>	225,000	225,000
Promissory note payable <i>[note 6]</i>	980,231	650,231
Post-employment benefits <i>[note 7]</i>	132,368	125,415
Regulatory liabilities <i>[note 4]</i>	2,880	13,297
Other liabilities	6,391	9,077
Asset retirement obligations	7,978	5,691
Customers' advance deposits	23,191	2,900
Future income tax liabilities	452	569
Total long-term liabilities	1,378,491	1,032,180
Total liabilities	1,676,084	1,973,391
Commitments and contingencies <i>[notes 7, 9, 10, and 11]</i>		
Shareholder's equity		
Share capital <i>[note 8]</i>	567,817	567,817
Retained earnings	308,464	278,050
Total shareholder's equity	876,281	845,867
Total liabilities and shareholder's equity	2,552,365	2,819,258

Toronto Hydro Corporation

INTERIM CONSOLIDATED STATEMENT OF INCOME

[in thousands of dollars, except for per share amounts, unaudited]

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenues [note 9]	600,549	774,295	1,703,151	1,976,122
Costs				
Purchased power and other	458,872	634,080	1,294,456	1,560,074
Operating expenses	49,544	47,471	143,107	133,134
Depreciation and amortization	34,456	32,799	104,096	101,998
	542,872	714,350	1,541,659	1,795,206
Income before interest, other and provision for payments in lieu of corporate taxes	57,677	59,945	161,492	180,916
Interest income	4,433	3,108	13,283	9,755
Interest expense				
Long-term debt [note 6]	(18,410)	(20,100)	(57,484)	(60,302)
Other interest	(645)	(294)	(2,242)	(1,667)
Other	606	2,154	606	2,154
Income before provision for payments in lieu of corporate taxes	43,661	44,813	115,655	130,856
Provision for payments in lieu of corporate taxes	14,767	25,459	46,041	60,912
Net income	28,894	19,354	69,614	69,944
Basic and fully diluted net income per share	28,894	19,354	69,614	69,944

INTERIM CONSOLIDATED STATEMENT OF RETAINED EARNINGS

[in thousands of dollars, unaudited]

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Retained earnings, beginning of period	285,570	249,195	278,050	253,605
Net income	28,894	19,354	69,614	69,944
Dividends [notes 8 and 14]	(6,000)	(6,000)	(39,200)	(61,000)
Retained earnings, end of period	308,464	262,549	308,464	262,549

Toronto Hydro Corporation

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS				
<i>[in thousands of dollars, unaudited]</i>				
	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income	28,894	19,354	69,614	69,944
Adjustments for non-cash items				
Depreciation and amortization	34,456	32,799	104,096	101,998
Net change in other assets and liabilities	(2,530)	(347)	(585)	1,367
Electricity mark-to-market assets and liabilities <i>[note 9]</i>	7,072	(4,722)	22,429	(9,388)
Post-employment benefits <i>[note 7]</i>	2,268	1,676	6,953	5,028
Future income taxes	1,886	1,992	(2,203)	3,949
Gain on disposals of property, plant and equipment	(339)	(2,082)	(606)	(2,154)
Changes in non-cash working capital balances	-			
Increase in accounts receivable	(24,564)	(19,077)	(40,545)	(51,918)
Decrease (increase) in unbilled revenue	26,179	(1,958)	74,367	(3,014)
Decrease (increase) in inventories	735	649	(1,988)	682
Increase in prepaid expenses	(1,659)	(1,182)	(2,040)	(1,478)
Increase (decrease) in accounts payable and accrued liabilities	(6,720)	12,126	(160,150)	16,307
Increase (decrease) in deferred revenue	(5,040)	11,925	(7,294)	18,014
Net cash provided by operating activities	60,638	51,153	62,048	149,337
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(40,081)	(36,184)	(117,283)	(95,003)
Purchase of intangible assets	(3,072)	(2,704)	(12,423)	(6,735)
Net change in regulatory assets and liabilities <i>[note 4]</i>	(5,916)	1,196	(16,889)	21,873
Proceeds on disposal of property, plant and equipment	380	2,091	794	2,181
Net cash used in investing activities	(48,689)	(35,601)	(145,801)	(77,684)
FINANCING ACTIVITIES				
Increase (decrease) in customers' advance deposits	2,004	207	49	(21,403)
Repayment of capital lease liability	(272)	(447)	(989)	(1,468)
Dividends paid <i>[note 8]</i>	(6,000)	(6,000)	(39,200)	(61,000)
Net cash used in financing activities	(4,268)	(6,240)	(40,140)	(83,871)
Net increase (decrease) in cash and cash equivalents	7,681	9,312	(123,893)	(12,218)
Cash and cash equivalents, beginning of period	316,796	365,095	448,370	386,625
Cash and cash equivalents, end of period	324,477	374,407	324,477	374,407
Supplementary cash flow information				
Total interest paid	17,091	16,889	55,277	57,895
Payments in lieu of corporate income taxes	17,994	13,231	88,777	61,550

Toronto Hydro Corporation

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 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 of the Corporation for the year ended December 31, 2005, except as disclosed in note 3, and should be read in conjunction with those statements.

2. REGULATION

Electricity Distribution Rates

On April 12, 2006, the Ontario Energy Board [“OEB”] approved a decrease in the distribution rates of Toronto Hydro-Electric System Limited [“LDC”] for the period May 1, 2006 to April 30, 2007 representing a revenue reduction of approximately \$57,956,000. 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 to 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 recoverable on related party debt including the outstanding \$980,231,000 promissory note between LDC and the Corporation from 6.8% to 5% per annum.

3. ACCOUNTING POLICIES

a) Cash and cash equivalents

Effective January 1, 2006, the Corporation changed the terms to maturity in the definition of cash equivalents from five months or less to 90 days or less from the date of acquisition. This change resulted in no impact on the unaudited interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2006 and the audited consolidated financial statements as at and for the year ended December 31, 2005.

b) Asset Retirement Obligations

Effective June 30, 2006, the Corporation adopted Emerging Issues Committee Abstract EIC-159 “Conditional Asset Retirement Obligations” [“EIC-159”]. EIC-159 requires an entity to recognize a liability for the fair value of an asset retirement obligation [“ARO”] even though the timing or method of settlement is conditional on future events. The Corporation has identified conditional AROs and recognized a liability amounting to \$1,642,000 in this quarter. The change has been accounted for prospectively as information is not available to allow it to be accounted for retrospectively.

Toronto Hydro Corporation

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2006

c) Use of estimates

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

4. REGULATORY ASSETS AND LIABILITIES

For the three months and nine months ended September 30, 2006, LDC recovered approved regulatory assets balances of \$7,730,000 and \$20,114,000 through permitted distribution rate adjustments [three months and nine months ended September 30, 2005 - \$6,865,000 and \$18,712,000]. In the absence of rate regulation, revenue for the three months and nine months ended September 30, 2006 would have been \$7,730,000 and \$20,114,000 higher [three months and nine months ended September 30, 2005 - \$6,865,000 and \$18,712,000 higher].

Settlement variances were approved for disposition by the OEB on April 12, 2006. In the absence of rate regulation, revenues for the three months and nine months ended September 30, 2006 would have been \$4,677,000 and \$14,141,000 lower [three months and nine months ended September 30, 2005 - \$3,288,000 lower and \$10,869,000 higher].

Effective May 1, 2006, the OEB has allowed the Corporation to defer capital expenditures, operating expenditures, and revenues relating to smart meters. Accordingly, the Corporation has deferred these items in accordance with the criteria set out in the Accounting Procedures Handbook for Electric Distribution Utilities. For the three months and nine months ended September 30, 2006, smart meter capital expenditures of \$8,464,000 and \$19,520,000 [three months and nine months ended September 30, 2005 - \$nil and \$nil] were deferred. These expenditures would otherwise have been recorded as property, plant and equipment under Canadian GAAP for unregulated businesses. In the absence of rate regulation, property, plant and equipment would have been \$19,520,000 higher as at September 30, 2006 [September 30, 2005 - \$nil]. The manner and timing of disposition of the variance for smart meters has not been determined by the OEB at this time.

Toronto Hydro Corporation

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2006

5. CREDIT FACILITIES

At September 30, 2006, \$82,510,000 [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 ["Telecom"]. At September 30, 2006, no amount had been drawn for working capital purposes [December 31, 2005 - \$nil].

At September 30, 2006, no amount had been drawn on the bilateral demand line of credit [December 31, 2005 - \$nil].

6. LONG-TERM DEBT

	September 30 2006 \$	December 31 2005 \$
Senior unsecured debentures	225,000	225,000
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
Comprising:		
Debentures	225,000	225,000
Promissory note payable to the City	980,231	650,231

All debt of the Corporation ranks equally.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 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 September 5, 2006, the Corporation announced that it had amended and restated the City Note effective May 1, 2006 by fixing the interest rate at 6.11% and establishing an agreed repayment schedule. The Corporation is required to pay the principal amount of the note as follows: \$245,058,000 on the last business day before each of December 31, 2007, December 31, 2009, December 31, 2011 and on May 6, 2013. Accordingly, the principal amount outstanding under the City Note is classified as long-term liability. Interest is calculated and payable quarterly in arrears on the last business day of March, June, September and December of each year.

7. EMPLOYEE FUTURE BENEFITS

a) Pension

For the three months and the nine months ended September 30, 2006, the Corporation's current service pension costs payable to Ontario Municipal Employees Retirement System were \$2,321,000 and \$7,611,000 [three months and nine months ended September 30, 2005 - \$2,025,000 and \$6,626,000].

b) Employee future benefits other than pension

For the three months and the nine months ended September 30, 2006, the Corporation recognized periodic benefit costs of \$3,656,000 and \$10,970,000 [three months and nine months ended September 30, 2005 – \$2,899,000 and \$8,726,000] of which \$1,759,000 and \$5,346,000 [three months and nine months ended September 30, 2005 – \$928,000 and \$ 2,618,000] was capitalized as part of property, plant and equipment, resulting in \$1,897,000 and \$5,624,000 [three months and nine months ended September 30, 2005 – \$1,971,000 and \$6,108,000] charged to operations.

8. SHARE CAPITAL

At September 30, 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 aggregating \$27,200,000: \$21,200,000 in connection with 2005 net income, which was paid on March 10, 2006, and \$6,000,000 in connection with the first quarter of 2006, which was paid on March 31, 2006.

Toronto Hydro Corporation

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2006

On May 29, 2006, the board of directors of the Corporation declared a dividend in the amount of \$6,000,000 in connection with the second quarter of 2006, which was paid on June 30, 2006.

On August 24, 2006, the board of directors of the Corporation declared a dividend in the amount of \$6,000,000 in connection with the third quarter of 2006, which was paid on September 29, 2006.

9. RETAIL COMMITMENTS AND FINANCIAL INSTRUMENTS

a) Electricity retailing

At September 30, 2006, TH Energy had floating-for-fixed electricity contracts that have an aggregate contract volume and value of 852,000 MWh and \$47,258,000 [December 31, 2005 – 3,124,000 MWh and \$171,270,000].

At September 30, 2006, TH Energy had fixed-for-floating electricity contracts that have an aggregate contract volume and value of 883,000 MWh and \$37,253,000 [December 31, 2005 – 3,614,000 MWh and \$154,396,000].

On April 30, 2004, TH Energy extended the term of 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 480,000 MWh for a total expected settlement of \$25,383,000.

For the three months and nine months ended September 30, 2006, “Revenues” include \$4,238,000 and \$14,798,000 of TH Energy electricity mark-to-market revenues [three months and nine months ended September 30, 2005 - \$11,102,000 and \$30,797,000].

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 September 30, 2006 for its electricity portfolio. The largest single credit exposure at September 30, 2006 is estimated at \$7,550,000 [December 31, 2005 - \$137,170,000], which is the estimated replacement cost of one electricity purchase contract.

For retail customers, credit losses are generally low across the sector. LDC, TH Energy and Telecom provide for an allowance for doubtful accounts to absorb credit losses. At September 30, 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.

Toronto Hydro Corporation

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2006

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 5], 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.

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	(4,431)	19,116
Realization of contracts for the period	(17,998)	(9,728)
Fair value of net mark-to-market assets at September 30	3,993	37,084
Unrealized change in fair value during the period		(2,774)
Realization of contracts for the period		(7,888)
Fair value of net mark-to-market assets at December 31		26,422

Other assets and liabilities

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

Toronto Hydro Corporation

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2006

At September 30, 2006, the fair values of the City Note [\$980,231,000] and the senior unsecured debentures [\$225,000,000] were \$1,041,263,000 and \$249,312,000 [December 31, 2005 - \$1,120,405,000 and \$251,415,000]. 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 6].

10. FINANCIAL GUARANTEES

At September 30, 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 were 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 \$nil at September 30, 2006 [December 31, 2005 - \$56,417,000].

11. CONTINGENCIES

a) Ministry of Finance Tax Audit

The Ministry of Finance is currently carrying out a tax audit on the Corporation and its subsidiaries. Certain filing positions for payments in lieu of corporate taxes ["PILs"] taken by the Corporation and its subsidiaries 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.

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. The parties have reached a tentative settlement of this class action but the settlement is subject to approval by the Ontario Superior Court of Justice. The Court held a hearing in September 2006 to consider the settlement but has not yet issued a ruling. 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.

Toronto Hydro Corporation

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2006

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.

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.

12. 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]

September 30, 2006

Segment information on the above basis is as follows:

Three months ended September 30, 2006				
	Electricity Distribution	Non- Regulated	Intersegment Eliminations	Total
	\$	\$	\$	\$
Revenues	607,441	18,784	(25,676)	600,549
Purchased power and other	480,540	4,008	(25,676)	458,872
Operating expenses	45,467	4,077	—	49,544
Depreciation and amortization	30,917	3,539	—	34,456
Income before interest and provision for PILs	50,517	7,160	—	57,677
Interest income	2,615	19,708	(17,890)	4,433
Interest expense	18,520	18,425	(17,890)	19,055
Other	606	—	—	606
Income before provision for PILs	35,218	8,443	—	43,661
Provision for PILs	12,684	2,083	—	14,767
Net income	22,534	6,360	—	28,894
Purchase of property, plant and equipment and intangible assets	38,015	5,138	—	43,153

Three months ended September 30, 2005				
	Electricity Distribution	Non- Regulated	Intersegment Eliminations	Total
	\$	\$	\$	\$
Revenues	809,368	21,930	(57,003)	774,295
Purchased power and other	684,903	6,185	(57,008)	634,080
Operating expenses	42,141	5,325	5	47,471
Depreciation and amortization	30,761	2,038	—	32,799
Income before interest and provision for PILs	51,563	8,382	—	59,945
Interest income	2,249	20,440	(19,581)	3,108
Interest expense	19,877	20,098	(19,581)	20,394
Other	79	2,075	—	2,154
Income before provision for PILs	34,014	10,799	—	44,813
Provision for PILs	21,345	4,114	—	25,459
Net income	12,669	6,685	—	19,354
Purchase of property, plant and equipment and intangible assets	36,363	2,525	—	38,888

Toronto Hydro Corporation

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2006

Nine months ended September 30, 2006				
	Electricity Distribution \$	Non- Regulated \$	Intersegment Eliminations \$	Total \$
Revenues	1,718,193	57,307	(72,349)	1,703,151
Purchased power and other	1,355,720	11,085	(72,349)	1,294,456
Operating expenses	129,025	14,082	—	143,107
Depreciation and amortization	92,789	11,307	—	104,096
Income before interest and provision for PILs	140,659	20,833	—	161,492
Interest income	8,620	60,497	(55,834)	13,283
Interest expense	57,969	57,591	(55,834)	59,726
Other	606	—	—	606
Income before provision for PILs	91,916	23,739	—	115,655
Provision for PILs	35,897	10,144	—	46,041
Net income	56,019	13,595	—	69,614
Purchase of property, plant and equipment and intangible assets	118,073	11,633	—	129,706

Nine months ended September 30, 2005				
	Electricity Distribution \$	Non- Regulated \$	Intersegment Eliminations \$	Total \$
Revenues	2,052,567	95,610	(172,055)	1,976,122
Purchased power and other	1,689,712	42,004	(171,642)	1,560,074
Operating expenses	119,746	13,801	(413)	133,134
Depreciation and amortization	94,323	7,675	—	101,998
Income before interest and provision for PILs	148,786	32,130	—	180,916
Interest income	7,650	60,757	(58,652)	9,755
Interest expense	60,265	60,356	(58,652)	61,969
Other	79	2,075	—	2,154
Income before provision for PILs	96,250	34,606	—	130,856
Provision for PILs	49,990	10,922	—	60,912
Net income	46,260	23,684	—	69,944
Purchase of property, plant and equipment and intangible assets	93,772	7,966	—	101,738

Toronto Hydro Corporation

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

September 30, 2006

Assets		
	September 30 2006 \$	December 31 2005 \$
Electricity Distribution	2,241,957	2,393,533
Non-regulated	1,500,593	1,619,790
Intersegment eliminations	(1,190,185)	(1,194,065)
Total	2,552,365	2,819,258

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

13. 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.

14. SUBSEQUENT EVENTS

Dividends

On November 29, 2006, the board of directors of the Corporation declared a dividend in the amount of \$7,000,000 in connection with the fourth quarter of 2006. The dividend is payable on December 29, 2006.