TORONTO HYDRO Corporation

THIRD QUARTER REPORT
SEPTEMBER 30, 2013

TORONTO HYDRO CORPORATION

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GLOSSARY

AFUDC – Allowance for funds used during construction

ASU – Accounting Standards Update

CDM – Conservation and demand management

City – City of Toronto

Copeland Station – The Clare R. Copeland transformer station, formerly called “Bremner Station”

Corporation – Toronto Hydro Corporation

ERM – Enterprise risk management

FASB – Financial Accounting Standards Board

IASB – International Accounting Standards Board

ICM – Incremental Capital Module

IESO –Independent Electricity System Operator

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

KPIs – Key performance indicators

kW – Kilowatt

LDC – Toronto Hydro-Electric System Limited

MD&A – Management's Discussion and Analysis

MED – Refers to major event days as defined by the Institute of Electrical & Electronic Engineers Inc. specification 1366.

MEUs – Municipal electricity utilities

OEB – Ontario Energy Board

OMERS – The Ontario Municipal Employees Retirement System

OSC – Ontario Securities Commission

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

RARA – Regulatory assets recovery account

RFI – Request for Information

RRA – Rate-regulated accounting

TH Energy – Toronto Hydro Energy Services Inc.

US GAAP – United States Generally Accepted Accounting Principles

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE INTERIM PERIOD ENDED SEPTEMBER 30, 2013

Executive Summary

- Net income for the three months and nine months ended September 30, 2013 was $35.9 million and $92.0 million, compared to net income of $34.4 million and $63.1 million for the comparable periods in 2012;
- capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $109.7 million and $296.5 million for the three months and nine months ended September 30, 2013, compared to $67.3 million and $182.6 million for the comparable periods in 2012;
- on April 2, 2013, the OEB issued a partial decision and order for phase one of the proceeding comprising LDC's 2012 and 2013 capital work program proposals and Copeland Station project;
- on April 9, 2013, the Corporation issued $250.0 million of 2.91% senior unsecured debentures due April 10, 2023 ("Series 8") and $200.0 million of 3.96% senior unsecured debentures due April 9, 2063 ("Series 9");
- the net proceeds of the above debentures, together with borrowings under the Corporation's revolving credit facility, were used to repay the Corporation's $225.0 million of 6.11% senior unsecured debentures ("Series 1") and $245.1 million of 6.11% senior unsecured debentures ("Series 5") which matured on May 7, 2013 and May 6, 2013, respectively;
- on May 22, 2013, the Corporation celebrated the official groundbreaking at Copeland Station, and construction continued during the quarter;
- on August 1, 2013, LDC filed an application with the OEB requesting approval for the disposition of balances in its smart meter deferral account related to smart meter installations in 2008, 2009 and 2010; and
- on August 19, 2013, LDC submitted an update to its 2012-2014 electricity distribution rate application regarding its 2014 work program proposal.

Introduction

The following MD&A should be read in conjunction with:

- the unaudited interim consolidated financial statements and accompanying notes of the Corporation as at and for the three-month period and nine-month period ended September 30, 2013 (the "Interim Consolidated Financial Statements");

- the audited consolidated financial statements and accompanying notes of the Corporation as at and for the years ended December 31, 2012 and 2011; and

- the Corporation's MD&A for the year ended December 31, 2012 (including the sections entitled "Electricity Distribution – Industry Overview", "Liquidity and Capital Resources", "Corporate Developments", "Share Capital", "Transactions with Related Parties", "Risk Factors", "Critical Accounting Estimates", "Changes in Accounting Estimates", and "Future Accounting Pronouncements" 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 website at www.sedar.com.

The Corporation's Interim Consolidated Financial Statements have been prepared in accordance with US GAAP and are presented in Canadian dollars (see "Significant Accounting Policies" below). The OSC has granted the Corporation an exemption to allow the Corporation to file financial statements under US GAAP for the years commencing on or after January 1, 2012 but before January 1, 2015.

Business of Toronto Hydro Corporation

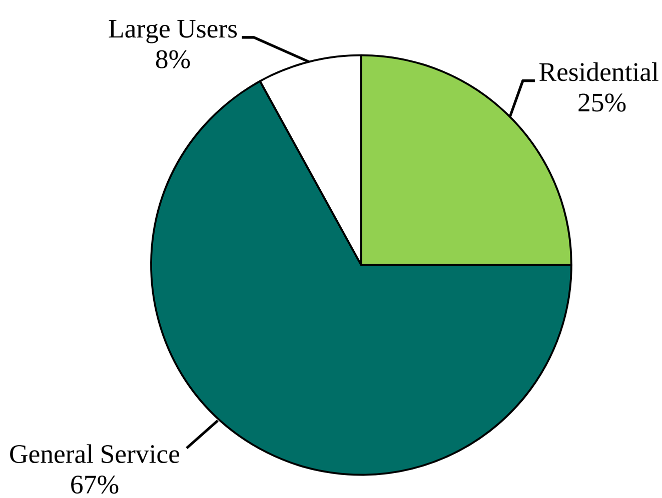
The Corporation is a holding company which wholly owns two subsidiaries:

- LDC - which distributes electricity and engages in CDM activities; and
- TH Energy - which provides street lighting 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 726,000 customers located in the City. The City is the sole shareholder of the Corporation. LDC is the largest municipal electricity distribution company in Canada and distributes approximately 19% 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 electricity distribution rates charged by LDC and other electricity distributors in Ontario. For the nine months ended September 30, 2013, LDC earned electricity revenues of $2,342.9 million. As illustrated in the accompanying chart, 67% of the revenues were earned from the general service users[1], 25% from residential service users[2], and 8% from large users[3].

LDC Electricity Revenues by Class %

Nine Months Ended September 30, 2013



[1] "General Service" means a service supplied to premises other than those receiving "Residential Service" and "Large Users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of 5,000 kW or less averaged over a twelve-month period.

[2] "Residential Service" means a service that is for domestic or household purposes, including single family or individually metered multi-family units and seasonal occupancy.

[3] "Large Users" means a service provided to a customer with a monthly peak demand of 5,000 kW or more averaged over a twelve-month period.

Corporate Strategy

The Corporation's vision is to "continuously maximize customer and stakeholders' satisfaction by being safe, reliable and environmentally responsible at optimal costs". The Corporation has an ERM framework that helps determine whether the Corporation is well positioned to achieve its strategic objectives. The ERM framework provides a consistent, disciplined methodology for controlling risk by identifying, assessing, managing, monitoring and reporting risks for the Corporation.

The Corporation is focused on the following four strategic pillars:

People – the Corporation aims to maintain an engaged, safe and healthy workforce to meet changing business requirements, as it strives to:

- Provide a healthy and safe workplace
- Develop a skilled and knowledgeable workforce
- Keep its workforce engaged

The Corporation will continue to strengthen its already strong safety culture through various internal initiatives in order to achieve world-class results. The Corporation is committed to employee safety and will remain persistent in its efforts to mitigate the risk of injury to its workforce. This will be accomplished through ongoing safety inspections, audits, annual policy review and the continuation of the safety programs and standards. The Corporation will continue to use the internal responsibility system to reinforce the importance of safety in the workplace.

***Financial* –** the Corporation aims to meet the financial objectives of its shareholder, as it strives to:

- Provide a fair return to the shareholder
- Continue to increase shareholder value

The Corporation has provided its shareholder with an annual increase in economic value over the last decade. To meet financial objectives of the shareholder, the Corporation seeks to increase shareholder value and is committed to provide a fair return to its shareholder in the future. Along with excellence in corporate financing and financial management, the Corporation will strive to maintain an investment grade credit rating.

***Operations* –** the Corporation aims to improve reliability through sustainable system management, as it strives to:

- Keep the lights on
- Keep the system safe
- Build a grid that supports a modern Toronto

The Corporation is engaging in resource and capital-intensive programs to improve capacity, reliability and quality. The capital program will replace aging assets and accommodate next generation technology to suit the regulatory trends that incent the increased use of distributed generation.

***Customer* –** the Corporation aims to provide value to customers, as it strives to:

- Make it easy to work with
- Help conserve energy
- Provide innovative tools and technology

The Corporation is looking at ways to improve the level of satisfaction that customers experience, whether it is through education and awareness programs, interaction with call centre representatives, their account managers or over the internet. The Corporation continues to undertake initiatives and invest in technology and processes to improve the customer experience. In turn, this focus on customer service will provide long-term value for money.

Performance Measurement

The Corporation measures its performance in relation to the achievement of its strategic objectives by using a balanced scorecard approach. KPIs are monitored throughout the year and appropriate actions are taken as required. The definitions of the 2013 KPIs associated with the previously mentioned four strategic pillars are as follows:

Strategic Pillars	Performance Measure	Definition
People	Safety	• Number of recordable injuries x 200,000 / exposure hours.
	Employee Engagement	• Average number of employee engagement sessions per employee per year, including corporate-wide, divisional and departmental.
Financial	Net Income	• Net income per the Corporation's consolidated financial statements.
Operations	System Average Interruption Duration Index	• Measure of the annual system average interruption duration per customers served, not including MED.
	System Average Interruption Frequency Index	• Measure of the frequency of service interruptions per customers served, not including MED.
	Worst Performing Feeders	• Total number of feeders experiencing seven or more sustained outages in a year, with outages defined as interruptions greater than one minute.
	LDC Regulated Capital	• Achievement of LDC capital work program as approved by the Board of Directors.
Customer	Conservation Demand Management	• Annual summer peak demand savings through year over year megawatt reduction.
	Enhanced Customer Engagement	• Increase in customer self-serve transactions / engagements using various self-serve options.
	Call Centre Service Response	• Average of call centre responses within thirty seconds.

Capability to Deliver Results

The Corporation strives to manage its performance and deliver results. In 2012, the Corporation exceeded all of its 2012 corporate and divisional objectives represented by its KPIs. The Corporation’s ability to deliver results in each of its strategic pillars in 2013 is limited by risks inherent in its regulatory environment, business, workforce and in the economic environment. These risks were discussed under the section “Risk Factors” in the Corporation’s MD&A for the year ended December 31, 2012.

Selected Interim Consolidated Financial Data

Interim Consolidated Statements of Net Income and Comprehensive Income
Three months ended September 30
(in thousands of Canadian dollars, except for per share amounts, unaudited)

	2013 $	2012 $	Change $
Revenues	833,340	751,270	82,070
Costs			
Purchased power	682,317	596,459	85,858
Operating expenses	59,821	62,238	(2,417)
Depreciation and amortization	36,103	35,112	991
	778,241	693,809	84,432
Income before the following:	55,099	57,461	(2,362)
Net financing charges	(15,288)	(18,517)	3,229
Gain on disposals of PP&E	1,118	-	1,118
Income before income taxes	40,929	38,944	1,985
Income tax expense	5,044	4,508	536
Net income and comprehensive income	35,885	34,436	1,449
Basic and fully diluted net income per share	35,885	34,436	1,449

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Interim Consolidated Statements of Net Income and Comprehensive Income
Nine months ended September 30
(in thousands of Canadian dollars, except for per share amounts, unaudited)

	2013 $	2012 $	Change $
Revenues	2,383,125	2,160,630	222,495
Costs			
Purchased power	1,940,497	1,723,942	216,555
Operating expenses	192,640	180,066	12,574
Depreciation and amortization	106,125	105,672	453
	2,239,262	2,009,680	229,582
Income before the following:	143,863	150,950	(7,087)
Net financing charges	(51,199)	(55,337)	4,138
Gain on disposals of PP&E	1,118	-	1,118
Restructuring costs	-	(27,796)	27,796
Income before income taxes	93,782	67,817	25,965
Income tax expense	1,761	4,669	(2,908)
Net income and comprehensive income	92,021	63,148	28,873
Basic and fully diluted net income per share	92,021	63,148	28,873

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

	As at September 30 2013 $	As at December 31 2012 $
Current assets	545,457	552,292
Non-current assets	3,166,046	2,987,062
Total assets	3,711,503	3,539,354
Current liabilities	623,214	937,514
Non-current liabilities	1,892,741	1,461,568
Total liabilities	2,515,955	2,399,082
Shareholder’s equity	1,195,548	1,140,272
Total liabilities and shareholder’s equity	3,711,503	3,539,354

Results of Operations

Net Income

Net income for the three months and nine months ended September 30, 2013 was $35.9 million and $92.0 million compared to $34.4 million and $63.1 million for the comparable periods in 2012.

The increase in net income for the three months ended September 30, 2013 was primarily due to lower net financing charges ($3.2 million), lower operating expenses ($2.4 million), and gains on disposals of surplus properties ($1.1 million). These favourable variances were partially offset by lower net revenues ($3.8 million), higher depreciation expense ($1.0 million), and higher income tax expense ($0.5 million).

The increase in net income for the nine months ended September 30, 2013 was primarily due to restructuring costs recognized in the first quarter of 2012 ($27.8 million) related to the cost reduction initiatives at LDC, higher net revenues ($5.9 million), lower net financing charges ($4.1 million), lower income tax expense ($2.9 million), and gains on disposals of surplus properties ($1.1 million). These favourable variances were partially offset by higher operating expenses ($12.6 million) and higher depreciation expense ($0.5 million).

Net Revenues

Net revenues for the three months and nine months ended September 30, 2013 were $151.0 million and $442.6 million compared to $154.8 million and $436.7 million for the comparable periods in 2012 (see "Non-GAAP Financial Measures" below).

The decrease in net revenues for the three months ended September 30, 2013 was primarily due to lower regulated distribution revenue at LDC ($3.4 million). The decrease in distribution revenue was primarily due to lower consumption in the third quarter of 2013 ($3.5 million) and a favourable revenue adjustment recorded in 2012 for PILs variances accumulated in regulatory variance accounts ($0.8 million). These variances were partially offset by revenue recognition related to the eligible in-service capital expenditures under the ICM approved by the OEB and commencing June 1, 2013 ($1.0 million).

The increase in net revenues for the nine months ended September 30, 2013 was primarily due to higher regulated distribution revenue at LDC ($5.9 million). The increase in distribution revenue was primarily due to revenue recognition related to the IRM adjustment and the eligible in-service capital expenditures under ICM ($4.3 million), an unfavourable revenue adjustment recorded in 2012 for PILs variances accumulated in regulatory variance accounts ($3.7 million), and an adjustment to the lost revenue adjustment mechanism receivable from the OEB ($1.2 million). These variances were partially offset by lower consumption in 2013 ($3.2 million).

Expenses

Operating expenses for the three months and nine months ended September 30, 2013 were $59.8 million and $192.6 million compared to $62.2 million and $180.1 million for the comparable periods in 2012.

The decrease in operating expenses for the three months ended September 30, 2013 was primarily due to lower costs associated with customer demand billable work.

The increase in operating expenses for the nine months ended September 30, 2013 was primarily due to a favourable reassessment for payments in lieu of property taxes to the Ministry of Finance of Ontario recorded in the second quarter of 2012 ($8.7 million) and higher operational and maintenance programs in 2013 ($4.3 million). These variances were partially offset by lower compensation costs resulting from a workforce restructuring program implemented in 2012 ($1.0 million).

Depreciation and amortization expense for the three months and nine months ended September 30, 2013 was $36.1 million and $106.1 million compared to $35.1 million and $105.7 million for the comparable periods in 2012.

Net Financing Charges

Net financing charges for the three months and the nine months ended September 30, 2013 were $15.3 million and $51.2 million compared to $18.5 million and $55.3 million for the comparable periods in 2012.

The decrease in net financing charges for the three months and the nine months ended September 30, 2013 was primarily due to the refinancing of maturing debentures at a lower interest rate in the second quarter of 2013.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and nine months ended September 30, 2013 was $1.1 million compared to $nil for the comparable periods in 2012.

The increase in gain on disposals of PP&E for the three months and the nine months ended September 30, 2013 was primarily due to gains realized in connection with the disposals of surplus properties at LDC in 2013.

Income Tax Expense

Income tax expense for the three months and nine months ended September 30, 2013 was $5.0 million and $1.8 million compared to $4.5 million and $4.7 million for the comparable periods in 2012.

The increase in income tax expense for the three months ended September 30, 2013 was due to higher income before taxes ($0.5 million).

The decrease in income tax expense for the nine months ended September 30, 2013 was due to higher deductions for permanent and temporary differences between accounting and tax treatments ($4.9 million) and favourable resolution of issues identified in prior periods and related reassessments by the Ministry of Finance of Ontario ($4.9 million). These variances were offset by higher income before taxes ($6.9 million).

Quarterly Results of Operations

The table below presents unaudited quarterly consolidated financial information of the Corporation for eight quarters including and immediately preceding September 30, 2013, which has been prepared in accordance with US GAAP.

Quarterly Results of Operations
(in thousands of Canadian dollars, unaudited)

	September 30 2013 $	June 30 2013 $	March 31 2013 $	December 31 2012 $
Revenues	833,340	792,905	756,880	691,847
Costs	778,241	743,934	717,087	652,274
Net income	35,885	37,555	18,581	22,842
	September 30 2012 $	**June 30 2012 $**	**March 31 2012 $**	**December 31 2011 $**
Revenues	751,270	709,700	699,660	694,284
Costs	693,809	649,831	666,040	653,374
Net income (loss)	34,436	41,538	(12,826)	17,228

The Corporation's quarterly results are impacted by changes in revenues resulting from variations in seasonal weather conditions, the fluctuations in electricity prices, and the timing and recognition of regulatory decisions. Consequently, the Corporation's revenues, all other things being equal, would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. A variation in the above trend was noted in 2013 and 2012, evidenced by higher revenue and cost of purchased power in the second quarter compared to the first quarter. This variation was primarily due to an increase in commodity costs in the second quarter of 2013 and 2012.

Financial Position

The following table outlines the significant changes in the consolidated balance sheets between September 30, 2013 and December 31, 2012.

Interim Consolidated Balance Sheet Data
As at September 30, 2013 compared to December 31, 2012
(in thousands of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Cash and cash equivalents	(76,592)	See "Liquidity and Capital Resources" below.
Accounts receivable, net of allowance for doubtful accounts	48,180	The increase was primarily due to higher pass-through electricity commodity costs and higher consumption in August 2013 compared to November 2012.
Unbilled revenue	24,950	The increase was primarily due to higher pass-through electricity commodity costs, partially offset by lower consumption in September 2013 compared to December 2012 and the timing of billing activities.
PP&E and intangible assets, net	126,150	The increase was primarily due to capital expenditures, partially offset by depreciation during the period and net eligible in-service capital expenditures under ICM reclassified to regulatory assets per the direction from the OEB.
Regulatory assets	74,943	The increase was primarily due to the reclassification of ICM-related net eligible in-service capital expenditures and higher retail settlement balances regulated by the OEB.
Deferred income tax assets	(25,413)	The decrease was due to lower net deductible temporary differences between tax and accounting values of PP&E.
Liabilities and Shareholder's Equity		
Revolving credit facility	110,000	The increase was due to funds drawn under the Corporation's revolving credit facility (see "Liquidity and Capital Resources" below).
Accounts payable and accrued liabilities	48,063	The increase was primarily due to higher electricity commodity costs payable to the IESO and higher interest payable due to the timing of semi-annual interest payments.
Restructuring accrual	(10,229)	The decrease was due to payments made against the restructuring accrual related to the workforce restructuring program initiated by the Corporation in the first quarter of 2012.

Interim Consolidated Balance Sheet Data
As at September 30, 2013 compared to December 31, 2012
(in thousands of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Debentures	(20,271)	The decrease was primarily due to the repayment of $470.1 million senior unsecured debentures offset by the issuance of $450.0 million senior unsecured debentures during the second quarter of 2013 (see "Liquidity and Capital Resources" below).
Regulatory liabilities	(19,801)	The decrease was primarily due to lower deferred income tax assets payable to customers, partially offset by a disposition from regulatory variance accounts primarily related to PILs.
Retained earnings	55,276	The increase in retained earnings was due to net income for the year ($92.0 million), partially offset by dividends paid ($36.7 million).

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to $545.5 million and $623.2 million respectively as at September 30, 2013, resulting in a working capital deficit of $77.7 million. The deficit is due to the Corporation's decision to utilize its revolving credit facility in lieu of issuing additional debentures to fund significant capital spending in the current year due to the existing low short-term interest rate environment.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, amounts available to be drawn against its credit facilities, 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, to purchase power, to meet financing obligations and for prudential requirements.

The Corporation does not believe that equity contributions from the City, its sole shareholder, will constitute a source of capital.

The City has authorized the Corporation to provide financial assistance to its subsidiaries, and LDC to provide financial assistance to other subsidiaries of the Corporation, in the form of guarantees, letters of credit, direct loans or otherwise, for the purpose of enabling them to carry on their businesses, with financial assistance provided to subsidiaries other than LDC not to exceed an aggregate amount of $500.0 million.

On September 6, 2013, the Corporation extended the maturity date of its $600.0 million revolving credit facility from October 10, 2017 to October 10, 2018.

As at September 30, 2013, $110.0 million had been drawn under the Corporation's $600.0 million revolving credit facility and $3.8 million had been drawn under the Corporation's $20.0 million working capital facility. As at September 30, 2013, $50.1 million had been drawn on the $75.0 million prudential facility. For the three months and the nine months ended September 30, 2013, the average outstanding borrowings on the Corporation's revolving credit facility were $119.7 million and $54.1 million with weighted average interest rates of 2.02 % and 2.18 %, respectively. The revolving credit facility and the working capital facility are summarized in note 8 to the Interim Consolidated Financial Statements.

The Corporation filed a base shelf prospectus dated December 10, 2012 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to $1.5 billion during the following 25-month period.

On April 9, 2013, the Corporation issued Series 8 ($250.0 million) and Series 9 ($200.0 million) debentures, which bear interest payable semi-annually in arrears 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 Corporation may redeem all or part of the Series 8 and Series 9 debentures 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 to the date fixed for redemption. The net proceeds of the debentures, together with borrowings under the Corporation's revolving credit facility, were used to repay the Corporation's Series 1 and Series 5 debentures which matured on May 7, 2013 and May 6, 2013, respectively. Debt issuance costs of $2.7 million relating to the Series 8 and Series 9 debentures were deferred as other assets in the second quarter of 2013.

As at September 30, 2013, the Corporation had long-term debentures outstanding in the principal amount of $1,450.0 million. These debentures mature between 2017 and 2063. The Corporation may issue up to $1.05 billion of additional debentures under the existing base shelf prospectus.

The debentures issued under the Corporation's medium-term note program were rated as follows:

Credit Ratings
As at September 30, 2013

	Rating
DBRS	A (high)
Standard & Poor's	A

The Corporation believes that it has sufficient available sources of liquidity and capital to satisfy working capital requirements for the next 12 months.

On February 28, 2013, the Board of Directors of the Corporation declared dividends in the amount of $24.0 million. The dividends were comprised of $18.0 million with respect to the net income for the year ended December 31, 2012, which was paid to the City on March 8, 2013, and $6.0 million with respect to the first quarter of 2013, which was paid to the City on March 28, 2013.

On May 16, 2013, the Board of Directors of the Corporation declared a dividend in the amount of $6.5 million with respect to the second quarter of 2013, which was paid to the City on June 28, 2013.

On August 15, 2013, the Board of Directors of the Corporation declared a dividend in the amount of $6.25 million with respect to the third quarter of 2013, which was paid to the City on September 30, 2013.

On November 15, 2013, the Board of Directors of the Corporation declared a dividend in the amount of $6.25 million with respect to the fourth quarter of 2013. The dividend is payable on December 31, 2013.

Interim Consolidated Statements of Cash Flows
(in thousands of Canadian dollars, unaudited)

	Three months Ended September 30		Nine months Ended September 30	
	2013 $	**2012 $**	**2013 $**	**2012 $**
Cash and cash equivalents, beginning of period	33,474	120,831	76,592	154,256
Net cash provided by operating activities	52,711	91,749	171,351	177,033
Net cash used in investing activities	(94,711)	(61,265)	(299,625)	(145,712)
Net cash provided by (used in) financing activities	8,526	(13,992)	51,682	(48,254)
Cash and cash equivalents, end of period	-	137,323	-	137,323

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months and nine months ended September 30, 2013 was $52.7 million and $171.4 million compared to $91.7 million and $177.0 million for the comparable periods in 2012.

The decrease in net cash provided by operating activities for the three months ended September 30, 2013 was primarily due to lower non-cash working capital, partially offset by the change in the non-current portion of the restructuring accrual established in 2012.

The decrease in net cash provided by operating activities for the nine months ended September 30, 2013 was primarily due to lower non-cash working capital and changes in non-cash items, primarily the non-current portion of the restructuring accrual established in 2012 and the post-retirement benefit obligations. These variances were partially offset by an increase in net income.

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months and nine months ended September 30, 2013 was $94.7 million and $299.6 million compared to $61.3 million and $145.7 million for the comparable periods in 2012.

The increase in net cash used in investing activities for the three months ended September 30, 2013 was primarily due to higher capital expenditures in 2013, partially offset by the change in net regulatory assets and liabilities mainly related to variances in retail settlement balances and capital contributions.

The increase in net cash used in investing activities for the nine months ended September 30, 2013 was primarily due to higher capital expenditures in 2013, the sale and maturity of investments in 2012, and a change in net regulatory assets and liabilities mainly related to variances in retail settlement balances and regulatory asset recovery accounts regulated by the OEB.

Electricity distribution is a capital-intensive business. As the largest municipal electricity distribution company in Canada, LDC continues to invest in rebuilding existing aging infrastructure to address safety, reliability and customer service requirements.

LDC estimates that approximately one-third of its electricity distribution assets are past their expected useful lives. As a strategic response to meet the objective of maximizing customer and stakeholder satisfaction through providing safe and reliable service, LDC is committed to maintenance and capital expenditure requirements for distribution plant refurbishment and replacement.

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

Capital Expenditures
(in thousands of Canadian dollars, unaudited)

	Three months Ended September 30		Nine months Ended September 30	
	2013 **$**	**2012** **$**	**2013** **$**	**2012** **$**
Regulated LDC				
Distribution system	103,208	59,506	280,523	160,293
Technology assets	4,309	5,511	10,297	15,732
Other [1]	917	1,067	2,207	4,134
	108,434	66,084	293,027	180,159
Other [2]	1,245	1,243	3,477	2,438
Total Capital Expenditures	109,679	67,327	296,504	182,597

1 Includes fleet capital and buildings.

2 Includes unregulated capital expenditures primarily related to TH Energy equipment.

The total regulated capital expenditures were $108.4 million and $293.0 million for the three months and nine months ended September 30, 2013 compared to $66.1 million and $180.2 million for the comparable periods in 2012. For the nine months ended September 30, 2013, the increase in regulated capital expenditures was primarily related to overhead infrastructure ($34.0 million), Copeland Station ($33.6 million), customer connections ($26.6 million), underground infrastructure ($17.2 million), and network infrastructure and equipment ($11.4 million).

The largest capital initiatives in 2013 include the construction of Copeland Station in response to the developing need for distribution solutions in the downtown core of the City, the delivery of customer connections, the replacement of underground infrastructure, and the replacement of overhead infrastructure.

Copeland Station will be the first transformer station built in downtown Toronto since the 1960's and will be the second underground transformer station in Canada. When in service, the new station will provide electricity to buildings and neighbourhoods in the central-southwest region of Toronto. Between 2006 and 2011, the population in the City's downtown increased by over 50%, and Toronto is now the fourth largest metropolitan area[4], by population, in North America. Copeland Station will provide much needed additional capacity to serve current and future load requirements in this high-density, high-growth area of Toronto.

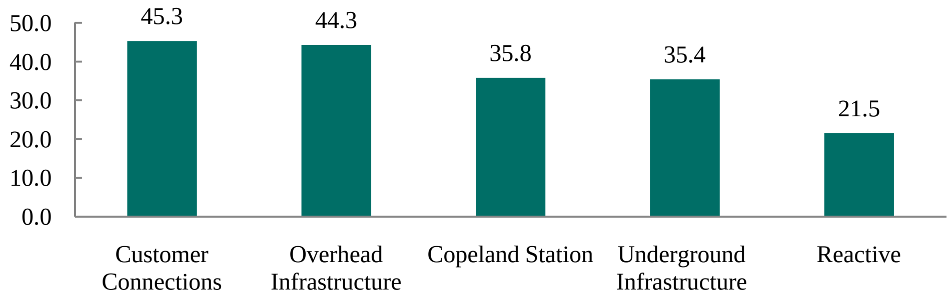
On May 22, 2013, the Corporation celebrated the official groundbreaking at the station. As at September 30, 2013, the capital expenditures on the Copeland Station project amounted to $50.9 million of which $35.8 million relates to 2013. The total capital expenditures required to complete Copeland Station are expected to be approximately $194.9 million. All capital expenditures related to Copeland Station are recorded to PP&E.

The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. As at September 30, 2013, the year-to-date capital expenditures for the delivery of customer connections were $45.3 million, net of related capital contributions received of $13.7 million.

The replacement of overhead infrastructure includes replacing poles, overhead transformers, overhead switches and other aging overhead infrastructure and equipment. The replacement of underground infrastructure includes replacing direct buried cables, transformers, handwells, and other aging underground infrastructure. Both initiatives will ensure LDC continues to provide ongoing safe and reliable service to its customers. As at September 30, 2013, the year-to-date capital expenditures for the overhead and the underground infrastructure initiatives were $44.3 million and $35.4 million, respectively.

4 http://www1.toronto.ca/staticfiles/static_files/economic_development_and_culture/docs/backgroundfile-56336.pdf

Most Significant Regulated Capital Expenditures
($Millions)
Nine months ended September 30, 2013



Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for the three months and the nine months ended September 30, 2013 was $8.5 million and $51.7 million compared to net cash used in financing activities of $14.0 million and $48.3 million for the comparable periods in 2012.

The increase in net cash provided by financing activities for the three months ended September 30, 2013 was primarily due to an increase in funds drawn under the Corporation's revolving credit facility and working capital facility related to higher capital expenditures in 2013 and a decrease in customer deposits in 2012 in compliance with OEB rules and regulations.

The increase in net cash provided by financing activities for the nine months ended September 30, 2013 was primarily due to funds drawn under the Corporation's revolving credit facility and working capital facility related to higher capital expenditures and a decrease in customer deposits in 2012 in compliance with OEB rules and regulations. These variances were partially offset by the net effect of the payment in connection with the retirement of $470.1 million of senior unsecured debentures and the issuance of $450.0 million of senior unsecured debentures in the second quarter of 2013.

Summary of Contractual Obligations and Other Commitments

The following table presents a summary of the Corporation's debentures, major contractual obligations and other commitments.

Summary of Contractual Obligations and Other Commitments
As at September 30, 2013
(in thousands of Canadian dollars, unaudited)

	Total $	2013 [1] $	2014/2015 $	2016/2017 $	After 2017 $
Working capital facility	3,771	3,771	-	-	-
Revolving capital facility	110,000	110,000	-	-	-
Debentures – principal repayment	1,450,000	-	-	250,000	1,200,000
Debentures – interest payments	989,101	30,518	121,990	121,990	714,603
Operating lease obligations	21,812	1,544	12,361	7,907	-
Capital project and other commitments [2]	96,664	25,611	71,053	-	-
Capital lease obligations	11,675	614	4,916	4,916	1,229
Asset retirement obligations	5,962	86	1,434	432	4,010
Total contractual obligations and other commitments	2,688,985	172,144	211,754	385,245	1,919,842

1 Represents the balance due over the period from October 1, 2013 to December 31, 2013.

2 Reflect capital project commitments for construction services and estimated capital contributions, with the majority related to Copeland Station.

Corporate Developments

Distribution Rates for LDC

On May 10, 2012, LDC filed an application for electricity distribution rates for 2012, 2013, and 2014 using the IRM framework, including the filing of an ICM application (the "IRM/ICM Application").

On October 31, 2012, LDC submitted an update to its IRM/ICM Application modifying the requested capital expenditures for 2012 and 2013 to $283.0 million and $579.1 million, respectively, and requesting that consideration for 2014 be deferred to a second phase of the proceeding, once LDC had received a decision from the OEB in respect of phase one. On November 3, 2012, the OEB accepted LDC's request for a two-phase proceeding: phase one comprising LDC's 2012 and 2013 work program proposals and phase two comprising LDC's 2014 work program proposal.

On April 2, 2013, the OEB issued a partial decision and order for phase one of the proceeding comprising LDC's 2012 and 2013 work program proposals. The OEB's decision determined that eligible capital funding under the ICM framework was to be calculated on an in-service basis. This correlates to the approval of capital expenditures amounting to $203.3 million for 2012 and $484.2 million for 2013. New rates became effective June 1, 2013. In 2015, LDC will be allowed to seek recovery for capital spent in 2012 and 2013 that has not yet been approved by the OEB in the current ICM decision due to the standard operation of the regulatory model.

On August 1, 2013, LDC filed an application with the OEB requesting approval for the disposition of balances in its smart meter deferral account related to smart meter installations in 2008, 2009 and 2010. In the application, LDC requested two new rate riders effective May 1, 2014. The first rate rider relates to the recovery of $23.9 million, which represents the cumulative revenue requirement net of recoveries from an existing smart meter rate rider. This existing smart meter rate rider would be discontinued when the new rate riders become effective. The second rate rider relates to the recovery of $9.6 million, which represents the forecasted 2014 incremental revenue requirement until LDC may be permitted to transfer the smart meter assets out of regulatory assets. LDC expects to apply to the OEB for both the transfer of the 2008, 2009 and 2010 smart meter costs from regulatory assets to PP&E and intangible assets, and the transfer of the net book value of the stranded meters from PP&E to regulatory assets, as part of its 2015 electricity distribution rates application.

On August 19, 2013, LDC submitted an update to its IRM/ICM Application regarding its 2014 work program proposal. The filed update incorporates the OEB's guidance on the ICM methodology provided in the April 2, 2013 partial decision and order with respect to phase one of this proceeding. In phase two, LDC is seeking approval for total capital expenditures amounting to $398.8 million for 2014.

OEB PILs Proceeding

The OEB conducted a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for certain MEUs. On June 24, 2011, the OEB issued its decision for these MEUs and provided guidelines for the calculation and further disposition of the balances accumulated in the PILs regulatory variance accounts.

LDC reviewed the balance of its PILs regulatory variance accounts and applied the guidelines provided by the OEB. LDC applied for disposition of the balance as part of its IRM/ICM Application filed on May 10, 2012. The OEB issued its decision and order on April 2, 2013 approving the disposition of the balance. The impact was recorded previously in the Corporation's consolidated financial statements.

Changes to the Corporation's Board of Directors

On April 3, 2013, the City, as the sole shareholder of the Corporation, appointed David Williams, Colum Bastable, Vincent Brescia, Glenna Carr, Derek Cowbourne, Sara Gelgor, Paulette Kennedy and Isabel Meharry to the Board of Directors as independent directors of the Corporation. Their appointments were effective April 15, 2013 for a term ending April 14, 2015 or until their successors are appointed. On April 3, 2013, the City also nominated David Williams as Chairman of the Corporation. Mr. Williams was appointed Chairman by the Corporation's Board of Directors effective April 15, 2013 for a term ending April 14, 2015 or until his successor is appointed.

Effective January 1, 2013, the City, as the sole shareholder of the Corporation, appointed councillor Gloria Lindsay Luby to the Board of Directors of the Corporation to replace councillor Ron Moeser and also re-appointed each of councillor Josh Colle, as the Mayor's designate, and councillor Shelley Carroll to the Board of Directors of the Corporation. Their appointments are effective for a term ending November 30, 2014 or until their successors are appointed.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various litigation and claims with customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. The Corporation and its subsidiaries are subject to various legal actions that arise in the normal course of business and if damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under their liability insurance which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions.

2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the Class Proceedings Act, 1992 (Ontario) seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, a statement of defence and third party claim have been served by LDC and a third party defence and counterclaim against LDC seeking damages in the amount of $51.0 million have been filed. A certification order has been issued. Affidavits of documents have been produced by LDC to the other parties and examinations for discovery have commenced and are continuing. A mediation has been scheduled for January 2014. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

On December 20, 2010, LDC was served with a statement of claim by the City seeking damages in the amount of $2.0 million as a result of the fire at 2 Secord Avenue. A statement of defence and a third party claim have been served. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

By order of the court dated January 24, 2012, the above actions and a smaller non-class action commenced in April 2009 involving the same incident will be tried at the same time or consecutively.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks damages in the amount of $10.0 million from LDC. Both actions are at a preliminary stage. The plaintiff has now scheduled its certification motion for November 2013. Statements of defence to the main action and to the third party claim have not been filed. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with these actions.

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of $2.0 million as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

Share Capital

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

Transactions with Related Parties

As a wholly-owned subsidiary of the City, the Corporation and the City are considered related parties. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

Revenues include amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures include amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City.

Accounts receivable include receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue includes receivables from the City related to the provision of electricity and other services provided and not yet billed. Other assets include amounts primarily for prepaid land leases from the City. Accounts payable and accrued liabilities include amounts payable to the City related to road cut repairs and other services, as well as amounts received from the City for the construction of electricity distribution assets. Advance deposits include amounts received from the City for future expansion projects.

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain of the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Interim Consolidated Financial Statements and the MD&A for the three months and nine months ended September 30, 2013. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation for the periods presented.

Non-GAAP Financial Measures

The Corporation's MD&A includes references to "net revenues", which is a non-GAAP financial measure. The definition of net revenues is revenue minus the cost of purchased power. This measure does not have any standard meaning prescribed by US GAAP and is not necessarily comparable to similarly titled measures of other companies. The Corporation uses this measure to assess its performance and to further make operating decisions. Users of the MD&A utilize this measure to assess the Corporation's financial performance from ongoing operations.

Significant Accounting Policies

The Interim Consolidated Financial Statements of the Corporation have been prepared in accordance with US GAAP 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 date of the Interim Consolidated Financial Statements, and the reported amounts of revenues 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 Ministry of Energy of Ontario, or the Ministry of Finance of Ontario. The significant accounting policies of the Corporation are summarized in note 2 and 4 to the Interim Consolidated Financial Statements.

IFRS

As a result of the Corporation's 2011 decision to adopt US GAAP, the conversion of the Corporation's general purpose financial statements to IFRS was suspended. The Corporation's IFRS conversion project included separate awareness and assessment, design and implementation phases. As well, it involved among other initiatives, a detailed assessment of the effects of IFRS on its financial statements, an update of information systems to meet IFRS requirements, and assessment of internal controls over financial reporting and disclosure controls and processes, as well as training of key finance and operations staff.

Rate-Regulated Accounting

In accordance with US GAAP, the Corporation currently follows specific accounting policies unique to a rate-regulated business. Under RRA, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under US GAAP in order to appropriately reflect the economic impact of regulatory decisions on the Corporation's revenues and expenditures. These timing differences are recorded as regulatory assets and regulatory liabilities on the Corporation's consolidated balance sheet and represent current rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. As at September 30, 2013, the Corporation recognized $196.2 million of regulatory assets and $177.0 million of regulatory liabilities.

On July 23, 2009, the IASB issued an Exposure Draft proposing accounting requirements for rate-regulated activities. The IASB received a significant number of comment letters with diverging opinions. After much deliberation with respect to the various issues raised, the IASB members remained divided and determined that the matter could not be resolved quickly. The RRA project was suspended in 2010, awaiting the outcome of the Agenda consultation.

On May 21, 2012, the IASB expressed its support for a standards level project on RRA. On September 20, 2012, the IASB decided that the RRA project would be restarted with the development of a Discussion Paper. In preparation for the December IASB meetings, the IASB staff issued Agenda Paper 6 outlining the staff's view of the issues to be addressed in the Discussion Paper, a proposed project plan, timeline and issues to consider when deciding whether or not to publish an interim standard. The IASB has also established a rate-regulated activities consultative group which includes a panel of experts comprised of preparers, auditors, users of financial statements and regulators to help in its project. The Discussion Paper is tentatively set to be published in early 2014. The IASB also tentatively decided to develop an Exposure Draft for an interim standard that would permit grandfathering of existing recognition and measurement policies for those entities that currently recognize regulatory assets and liabilities in accordance with their local accounting requirements.

On March 28, 2013, the IASB issued a RFI as it relates to the RRA project to help identify the various rate-regulatory schemes that stakeholders think should be incorporated into the scope of the full RRA standard. The comment period on the RFI ended on May 30, 2013. The Corporation issued two joint letters with the Canadian Electricity Association and the Coalition of Large Distributors in response to the RFI on May 30, 2013.

On April 25, 2013, the IASB issued the above mentioned Exposure Draft, which was open for public comment until September 4, 2013. The Corporation participated in a joint letter with members of the Coalition of Large Distributors and also issued a separate letter in support of the Exposure Draft for the interim standard on September 4, 2013. On October 30, 2013, the IASB tentatively decided to proceed with the interim standard, which is expected to be published in early 2014.

On February 12, 2013, the Accounting Standards Board decided to extend the existing deferral for IFRS adoption for entities subject to rate-regulation to January 1, 2015. The new mandatory IFRS adoption date also coincides with the expiration of the OSC's exemption permitting the Corporation to report under US GAAP. The Corporation intends to continue to use the OSC's exemption to report under US GAAP up to December 31, 2014.

The Corporation will determine in early 2014 if the financial statements for the year commencing January 1, 2015 will be reported under IFRS, or if the Corporation will seek to extend the Accounting Standards Board deferral and OSC exemption. Although the conversion of the Corporation's general purpose financial statements to IFRS was suspended in 2011, the IFRS conversion work is being managed in such a way that if a future transition to IFRS is required, the Corporation believes that this transition can be effectively accomplished.

Forward-Looking Information

The Corporation includes forward-looking information in its MD&A within the meaning of applicable securities laws in Canada. The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "aims", "anticipates", "believes", "budgets", "committed", "could", "estimates", "expects", "focus", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "strives", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management.

The forward-looking information in the MD&A includes, but is not limited to, statements regarding the Corporation's achievement of its strategic pillars as described in the section entitled "Corporate Strategy", LDC's distribution revenue and the outcome of outstanding rate applications and other proceedings before the OEB as described in the section entitled "Corporate Developments", the Corporation's strategy and plans to finance the investment in LDC's infrastructure and the working capital deficit as described in the section entitled "Liquidity and Capital Resources", the expected results of legal proceedings as described in the section entitled "Legal Proceedings", the impact of market volatility on the Corporation's consolidated results of operations, performance, business prospects and opportunities as described in the section entitled "Quarterly Results of Operations", the changes in accounting estimates as described in the section entitled "Significant Accounting Policies", and progress of the RRA project as described in the section entitled "IFRS". The statements that make up the forward-looking information are based on assumptions that include, but are not limited to, the future course of the economy and financial markets, the receipt of applicable regulatory approvals and requested rate orders, the receipt of favourable judgments, the level of interest rates and the Corporation's ability to borrow, and the effectiveness of a potential future transition to IFRS by the Corporation.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, market liquidity and the quality of the underlying assets and financial instruments, the timing and extent of changes in prevailing interest rates, inflation levels, legislative, judicial and regulatory developments that could affect revenues and the results of borrowing efforts.

All forward-looking information in the MD&A is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

Selected Financial Highlights

The following table sets forth selected financial information of the Corporation for the three months and nine months ended September 30, 2013 and for the comparable periods in 2012. This information has been derived from the Interim Consolidated Financial Statements.

Selected Financial Highlights
(in thousands of Canadian dollars, unaudited)

	Three months Ended September 30		Nine months Ended September 30	
	2013 $	**2012 $**	**2013 $**	**2012 $**
Net revenues [1]	151,023	154,811	442,628	436,688
Operating expenses [1]	59,821	62,238	192,640	180,066
Net income [1]	35,885	34,436	92,021	63,148
Capital expenditures [2]	109,679	67,327	296,504	182,597
Total debt to capitalization ratio [3]			56.7%	56.7%
Return on equity [4]			9.9%	7.3%

1 See "Results of Operations" for further details on net revenues, operating expenses and net income.

2 See "Liquidity and Capital Resources" for further details on capital expenditures.

3 Total debt to capitalization ratio = (total debt) / (total debt + total shareholder's equity), where total debt = (working capital facility + revolving credit facility + current portion of debentures + long-term portion of debentures).

4 Return on equity = net income / average total shareholder's equity. Return on equity is measured over a 12-month period.

Additional Information

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

Toronto, Canada

November 15, 2013

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

See MD&A for abbreviations used in the unaudited interim consolidated financial statements.

INTERIM CONSOLIDATED BALANCE SHEETS

[in thousands of Canadian dollars, unaudited]

	As at September 30, 2013 $	As at December 31, 2012 $
ASSETS		
Current		
Cash and cash equivalents	**-**	76,592
Accounts receivable, net of allowance for doubtful accounts *[note 11[b]]*	**223,339**	175,159
Unbilled revenue *[note 11[b]]*	**303,036**	278,086
Income tax receivable	**3,487**	7,879
Inventories	**7,681**	7,555
Regulatory assets *[note 7]*	**487**	1,658
Other assets	**7,427**	5,363
Total current assets	**545,457**	552,292
Property, plant and equipment, net *[note 5]*	**2,621,409**	2,526,666
Intangible assets, net *[note 6]*	**165,487**	134,080
Regulatory assets *[note 7]*	**195,670**	119,556
Other assets	**14,575**	12,442
Deferred income tax assets	**168,905**	194,318
Total assets	**3,711,503**	3,539,354
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Working capital facility *[note 8]*	**3,771**	-
Revolving credit facility *[note 8]*	**110,000**	-
Accounts payable and accrued liabilities *[note 11[b]]*	**431,434**	383,371
Restructuring accrual	**1,725**	11,954
Customers' advance deposits	**38,788**	40,048
Deferred conservation credit	**22,796**	20,316
Debentures *[note 9]*	**-**	470,050
Post-retirement benefits *[note 10]*	**8,492**	9,925
Other liabilities *[note 15]*	**2,011**	1,850
Regulatory liabilities *[note 7]*	**4,197**	-
Total current liabilities	**623,214**	937,514
Customers' advance deposits	**7,168**	6,790
Debentures *[note 9]*	**1,449,319**	999,540
Post-retirement benefits *[note 10]*	**249,838**	243,965
Other liabilities *[note 15]*	**8,436**	9,385
Regulatory liabilities *[note 7]*	**172,811**	196,809
Asset retirement obligations	**5,169**	5,079
Total liabilities	**2,515,955**	2,399,082
Commitments, contingencies and subsequent events *[notes 2, 15 and 16]*		
Shareholder's equity		
Share capital *[note 13]*	**567,817**	567,817
Retained earnings	**627,731**	572,455
Total shareholder's equity	**1,195,548**	1,140,272
Total liabilities and shareholder's equity	**3,711,503**	3,539,354

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

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

	Three months ended September 30, 2013 $	Three months ended September 30, 2012 $	Nine months ended September 30, 2013 $	Nine months ended September 30, 2012 $
Revenues	**833,339**	751,270	**2,383,124**	2,160,630
Costs				
Purchased power	**682,317**	596,459	**1,940,497**	1,723,942
Operating expenses	**59,820**	62,238	**192,639**	180,066
Depreciation and amortization	**36,103**	35,112	**106,125**	105,672
	778,240	693,809	**2,239,261**	2,009,680
Income before the following:	**55,099**	57,461	**143,863**	150,950
Net financing charges *[note 17]*	**(15,288)**	(18,517)	**(51,199)**	(55,337)
Gain on disposals of property, plant and equipment	**1,118**	-	**1,118**	-
Restructuring costs	**-**	-	**-**	(27,796)
Income before income taxes	**40,929**	38,944	**93,782**	67,817
Income tax expense	**5,044**	4,508	**1,761**	4,669
Net income and comprehensive income for the period	**35,885**	34,436	**92,021**	63,148
Basic and fully diluted net income per share *[note 13]*	**35,885**	34,436	**92,021**	63,148

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

[in thousands of Canadian dollars, unaudited]

	Three months ended September 30, 2013 $	Three months ended September 30, 2012 $	Nine months ended September 30, 2013 $	Nine months ended September 30, 2012 $
Share capital ***[note 13]***	**567,817**	567,817	**567,817**	567,817
Retained earnings, beginning of period	**598,096**	528,177	**572,455**	534,431
Net income for the period	**35,885**	34,436	**92,021**	63,148
Dividends *[notes 13 and 14]*	**(6,250)**	(6,000)	**(36,745)**	(40,966)
Retained earnings, end of period	**627,731**	556,613	**627,731**	556,613
Total shareholder's equity	**1,195,548**	1,124,430	**1,195,548**	1,124,430

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of Canadian dollars, unaudited]

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income for the period	**35,885**	34,436	**92,021**	63,148
Adjustments for non-cash items				
Depreciation and amortization	**36,103**	35,112	**106,125**	105,672
Change in other non-current assets	**442**	45	**561**	375
Change in other non-current liabilities	**(309)**	(368)	**199**	(204)
Restructuring accrual	**-**	(2,366)	**-**	2,048
Post-retirement benefits	**1,439**	2,176	**4,440**	6,530
Deferred income taxes	**336**	326	**(369)**	872
Gain on disposals of property, plant and equipment	**(1,118)**	-	**(1,118)**	-
Changes in non-cash working capital balances *[note 18]*	**(20,067)**	22,388	**(30,508)**	(1,408)
Net cash provided by operating activities	**52,711**	91,749	**171,351**	177,033
INVESTING ACTIVITIES				
Purchase of property, plant and equipment *[note 5]*	**(105,132)**	(57,847)	**(251,567)**	(146,908)
Purchase of intangible assets *[note 6]*	**(4,547)**	(9,480)	**(44,937)**	(35,689)
Proceeds from investments	**-**	-	**-**	34,000
Net change in regulatory assets and liabilities *[note 7]*	**14,241**	5,847	**(4,528)**	1,937
Proceeds on disposals of property, plant and equipment	**727**	215	**1,407**	948
Net cash used in investing activities	**(94,711)**	(61,265)	**(299,625)**	(145,712)
FINANCING ACTIVITIES				
Increase in working capital facility *[note 8]*	**3,771**	-	**3,771**	-
Increase in revolving credit facility *[note 8]*	**10,000**	-	**110,000**	-
Dividends paid *[notes 13 and 14]*	**(6,250)**	(6,000)	**(36,745)**	(40,966)
Increase (decrease) in customers' advance deposits	**1,500**	(7,544)	**(882)**	(5,941)
Proceeds from debentures *[note 9]*	**-**	-	**449,741**	-
Debt issuance costs paid *[note 9]*	**-**	-	**(2,694)**	-
Repayment of debentures *[note 9]*	**-**	-	**(470,057)**	-
Repayment of capital lease liability	**(495)**	(448)	**(1,452)**	(1,347)
Net cash provided by (used in) financing activities	**8,526**	(13,992)	**51,682**	(48,254)
Net increase (decrease) in cash and cash equivalents during the period	**(33,474)**	16,492	**(76,592)**	(16,933)
Cash and cash equivalents, beginning of period	**33,474**	120,831	**76,592**	154,256
Cash and cash equivalents, end of period	**-**	137,323	**-**	137,323
Supplementary cash flow information				
Total interest paid	**815**	219	**38,751**	38,043
Total income taxes recovered	**-**	(7,925)	**(3,106)**	(1,859)

The accompanying notes are an integral part of the interim consolidated financial statements.

1. INCORPORATION

On June 23, 1999, the Corporation was incorporated under the *Business Corporations Act* (Ontario), and is wholly-owned by the City. The incorporation was required in accordance with the provincial government's *Electricity Act, 1998* (Ontario).

The Corporation supervises the operations and provides corporate, management services and strategic direction to two subsidiaries incorporated under the *Business Corporations Act* (Ontario) and wholly-owned by the Corporation:

[i] LDC (incorporated June 23, 1999) – distributes electricity to customers located in the City and is subject to rate regulation. LDC is also engaged in the delivery of CDM activities; and

[ii] TH Energy (incorporated June 23, 1999) – provides street lighting services.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC.

2. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of the Corporation have been prepared in accordance with US GAAP with respect to the preparation of interim financial information, and are presented in Canadian dollars. The disclosures in these statements do not conform in all respects to the requirements of US GAAP for annual consolidated financial statements. These unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements of the Corporation for the year ended December 31, 2012, except as disclosed in note 4, and should be read in conjunction with the annual consolidated financial statements. The OSC granted an exemption to allow the Corporation to file financial statements under US GAAP for the years commencing on or after January 1, 2012 but before January 1, 2015.

The Corporation has evaluated the events and transactions occurring after the interim consolidated balance sheet date through November 15, 2013 when the Corporation's interim consolidated financial statements were available to be issued after the approval by the Corporation's Board of Directors, and identified the events and transactions which required recognition in the interim consolidated financial statements and/or disclosure in the notes to the interim consolidated financial statements *[note 13]*.

3. REGULATION

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect LDC's electricity distribution rates and other permitted recoveries in the future.

Electricity Distribution Rates

On May 10, 2012, LDC filed an application for electricity distribution rates for 2012, 2013, and 2014 using the IRM framework, including the filing of an ICM application [the "IRM/ICM Application"].

On October 31, 2012, LDC submitted an update to its IRM/ICM Application modifying the requested capital expenditures for 2012 and 2013 to $283,000,000 and $579,100,000, respectively, and requesting that consideration for 2014 be deferred to a second phase of the proceeding, once LDC had received a decision from the OEB in respect of phase one. On November 3, 2012, the OEB accepted LDC's request for a two-phase proceeding: phase one comprising LDC's 2012 and 2013 work program proposals and phase two comprising LDC's 2014 work program proposal.

On April 2, 2013, the OEB issued a partial decision and order for phase one of the proceeding comprising LDC's 2012 and 2013 work program proposals. The OEB's decision determined that eligible capital funding under the ICM framework was to be calculated on an in-service basis. This correlates to the approval of capital expenditures amounting to $203,330,000 for 2012 and $484,220,000 for 2013. New rates became effective June 1, 2013. In 2015, LDC will be allowed to seek recovery for capital spent in 2012 and 2013 that has not yet been approved by the OEB in the current ICM decision due to the standard operation of the regulatory model.

On August 1, 2013, LDC filed an application with the OEB requesting approval for the disposition of balances in its smart meter deferral account related to smart meter installations in 2008, 2009 and 2010. In the application, LDC requested two new rate riders effective May 1, 2014. The first rate rider relates to the recovery of $23,927,000, which represents the cumulative revenue requirement net of recoveries from an existing smart meter rate rider. This existing smart meter rate rider would be discontinued when the new rate riders become effective. The second rate rider relates to the recovery of $9,631,000, which represents the forecasted 2014 incremental revenue requirement until LDC may be permitted to transfer the smart meter assets out of regulatory assets. LDC expects to apply to the OEB for both the transfer of the 2008, 2009 and 2010 smart meter costs from regulatory assets to PP&E and intangible assets, and the transfer of the net book value of the stranded meters from PP&E to regulatory assets, as part of its 2015 electricity distribution rates application.

On August 19, 2013, LDC submitted an update to its IRM/ICM Application regarding its 2014 work program proposal. The filed update incorporates the OEB's guidance on the ICM methodology provided in the April 2, 2013 partial decision and order with respect to phase one of this proceeding. In phase two, LDC is seeking approval for total capital expenditures amounting to $398,780,000 for 2014.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Property, plant and equipment

Effective April 2, 2013, PP&E relating to eligible capital expenditures approved under the ICM framework for the 2012 and 2013 work program proposals are reclassified from construction in progress to regulatory assets once an asset is determined to be in-service, as directed by the OEB. The assets are then depreciated in the regulatory asset account over the estimated useful lives previously specified for PP&E. Corresponding ICM revenue is recognized based on in-service assets.

b) Use of estimates

The preparation of the Corporation's unaudited interim consolidated financial statements in accordance with US 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 interim consolidated financial statements, and the reported amounts of revenues and expenses for the period. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Significant areas requiring the use of management estimates relate to unbilled revenue, regulatory assets and liabilities, asset retirement obligations, employee future benefits, income taxes (including deferred income taxes), and revenue recognition. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy of Ontario, or the Ministry of Finance of Ontario.

[all tabular amounts in thousands of Canadian dollars, unaudited]

c) Adoption of New Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210): *Disclosures about Offsetting Assets and Liabilities*". The amendments require an entity to disclose both gross and net information about financial instruments and transactions eligible for offset in the consolidated balance sheets. ASU No. 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Retrospective application is required. The ASU No. 2013-01, "Balance Sheet (Topic 210): *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*", was issued in January 2013 to amend the scope of ASU No. 2011-11 to clarify that the disclosure requirements are limited to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in the consolidated balance sheets or subject to enforceable master netting arrangements or similar agreements. The adoption of these amendments did not impact the Corporation's consolidated balance sheets and related disclosures.

5. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	September 30 2013			December 31 2012		
	Cost $	**Accumulated depreciation $**	**Net book value $**	**Cost $**	**Accumulated depreciation $**	**Net book value $**
Land	**16,747**	**—**	**16,747**	16,747	—	16,747
Distribution lines	**3,062,416**	**1,532,766**	**1,529,650**	2,978,511	1,488,060	1,490,451
Transformers	**689,294**	**391,323**	**297,971**	672,981	377,900	295,081
Stations	**289,185**	**151,885**	**137,300**	286,229	145,601	140,628
Meters	**251,918**	**141,227**	**110,691**	243,152	133,789	109,363
Buildings	**167,914**	**74,832**	**93,082**	160,368	69,248	91,120
Rolling stock	**72,677**	**48,541**	**24,136**	73,239	43,834	29,405
Other capital assets	**73,508**	**50,586**	**22,922**	70,850	47,889	22,961
Equipment and tools	**46,727**	**35,578**	**11,149**	45,613	33,936	11,677
Assets under capital lease	**13,746**	**4,348**	**9,398**	13,538	2,948	10,590
Computer hardware	**52,529**	**43,214**	**9,315**	50,511	40,003	10,508
Communications	**32,668**	**28,036**	**4,632**	32,082	26,597	5,485
Construction in progress	**354,416**	**—**	**354,416**	292,650	—	292,650
	5,123,745	**2,502,336**	**2,621,409**	4,936,471	2,409,805	2,526,666

For the three months and the nine months ended September 30, 2013, AFUDC in the amount of $420,000 and $730,000 [three months and nine months ended September 30, 2012 - $235,000 and $720,000] was capitalized to PP&E and credited to net financing charges.

As at September 30, 2013, the net book value of stranded meters related to the deployment of smart meters amounting to $15,828,000 [December 31, 2012 - $17,647,000] was included in PP&E. In the absence of rate regulation, PP&E would have been $15,828,000 lower as at September 30, 2013 [December 31, 2012 - $17,647,000 lower].

[all tabular amounts in thousands of Canadian dollars, unaudited]

For the three months and the nine months ended September 30, 2013, capital contributions in the amount of $6,823,000 and $16,542,000 [three months and nine months ended September 30, 2012 - $6,808,000 and $16,115,000] were credited to PP&E.

For the three months and the nine months ended September 30, 2013, the Corporation recorded depreciation expense of $30,954,000 and $91,696,000 [three months and nine months ended September 30, 2012 - $30,329,000 and $90,102,000] of which $492,000 and $1,489,000 [three months and nine months ended September 30, 2012 - $488,000 and $1,498,000] related to assets under capital lease.

6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	September 30 2013			December 31 2012		
	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Computer software	**251,816**	**187,262**	**64,554**	242,254	174,410	67,844
Contributions	**22,239**	**2,853**	**19,386**	19,649	2,175	17,474
Software in development	**13,260**	**—**	**13,260**	14,210	—	14,210
Contributions for work in progress	**68,287**	**—**	**68,287**	34,552	—	34,552
	355,602	**190,115**	**165,487**	310,665	176,585	134,080

Contributions for work in progress relate to payments for connection projects to increase electricity distribution system capacity.

For the three months and the nine months ended September 30, 2013, AFUDC in the amount of $613,000 and $1,347,000 [three months and nine months ended September 30, 2012 - $350,000 and $993,000] was capitalized to intangible assets and credited to net financing charges.

For the three months and the nine months ended September 30, 2013, the Corporation recorded amortization expense on intangible assets of $4,480,000 and $13,530,000 [three months and nine months ended September 30, 2012 - $4,783,000 and $15,570,000].

[all tabular amounts in thousands of Canadian dollars, unaudited]

7. REGULATORY ASSETS AND LIABILITIES

Regulatory assets consist of the following:

	September 30 2013 $	December 31 2012 $
Post-retirement benefits	**59,973**	61,499
ICM	**59,895**	—
Smart meters	**51,220**	55,599
Settlement variances	**24,582**	1,071
RARA	**—**	2,466
Other	**487**	579
Total regulatory assets	**196,157**	121,214
Less: Current portion of regulatory assets	**487**	1,658
Long-term portion of regulatory assets	**195,670**	119,556

Regulatory liabilities consist of the following:

	September 30 2013 $	December 31 2012 $
Deferred income taxes	**167,494**	193,276
RARA	**5,943**	—
Income and other taxes variance account	**2,424**	2,398
Other	**1,147**	1,135
Total regulatory liabilities	**177,008**	196,809
Less: Current portion of regulatory liabilities	**4,197**	—
Long-term portion of regulatory liabilities	**172,811**	196,809

For the three months and the nine months ended September 30, 2013, LDC disposed of approved regulatory liabilities amounting to $1,787,000 and approved net regulatory assets amounting to $1,842,000, through permitted distribution rate adjustments [three months and nine months ended September 30, 2012 - approved regulatory assets of $1,094,000 and approved net regulatory liabilities of $9,939,000].

The regulatory assets and liabilities of the Corporation consist of the following:

a) Post-Retirement Benefits

This regulatory asset account relates to the expected future electricity distribution charges to customers arising from timing differences in the recognition of actuarial losses and prior service costs of other post-retirement benefits. In the absence of rate regulation, these amounts would be recorded in other comprehensive income and accumulated other comprehensive income. The amount is amortized over the same period as the corresponding actuarial losses and prior service costs. The period in which recovery is expected cannot be determined at this time.

b) Incremental Capital Module

The ICM regulatory asset account relates to the partial decision and order from the OEB for LDC's 2012 and 2013 work program proposals and the associated rate rider, which became effective June 1, 2013 *[note 3]*. As directed by the OEB, this account is comprised of the cost of the eligible in-service capital expenditures under ICM, offset by the amount collected through the rate rider. This account is also adjusted by the amount recognized into revenues related to the eligible in-service capital expenditures and their associated depreciation.

For the three months and the nine months ended September 30, 2013, eligible in-service capital expenditures of $27,635,000 and $65,333,000 [three months and nine months ended September 30, 2012 - $nil] were reclassified from PP&E to regulatory assets. As a non-cash transaction, this has been excluded from the statement of cash flows. As at September 30, 2013, eligible in-service capital expenditures, net of accumulated depreciation, totalling $64,434,000, were recorded in regulatory assets [December 31, 2012 - $nil]. In the absence of rate regulation, PP&E would have been $64,434,000 higher as at September 30, 2013 [December 31, 2012 - $nil impact].

For the three months and the nine months ended September 30, 2013, LDC recorded depreciation expense of $669,000 and $899,000 [three months and nine months ended September 30, 2012 - $nil] related to the eligible in-service capital expenditures.

For the three months and the nine months ended September 30, 2013, the revenues related to the eligible in-service capital expenditures were $1,019,000 and $2,786,000 [three months and nine months ended September 30, 2012 - $nil]. In the absence of rate regulation, for the three months and the nine months ended September 30, 2013, revenues would have been $4,530,000 and $4,536,000 higher [three months and nine months ended September 30, 2012 - $nil impact].

c) Smart Meters

The smart meters regulatory asset account relates to Ontario's decision to install smart meters throughout Ontario. LDC substantially completed its smart meter project as at December 31, 2010. In connection with this initiative, the OEB ordered LDC to record all expenditures and related revenues from 2008 to 2010 to a regulatory asset account and allowed LDC to keep the net book value of the stranded meters in PP&E. Effective January 1, 2011, LDC has recorded smart meter costs in PP&E and intangible assets as a regular distribution activity as directed by the OEB. On August 1, 2013, LDC filed an application with the OEB requesting approval for the disposition of balances in its smart meter deferral account related to smart meter installations in 2008, 2009 and 2010 *[note 3]*.

As at September 30, 2013, smart meter capital expenditures, net of accumulated depreciation, totalling $48,248,000 were recorded to regulatory assets [December 31, 2012 - $52,865,000]. In the absence of rate regulation, PP&E and intangible assets would have been $46,835,000 and $1,413,000 higher, respectively, as at September 30, 2013 [December 31, 2012 - $50,234,000 and $2,631,000 higher, respectively].

For the three months and the nine months ended September 30, 2013, smart meter depreciation expense of $1,504,000 and $4,617,000 were deferred [three months and nine months ended September 30, 2012 - $1,590,000 and $4,771,000]. In the absence of rate regulation, for the three months and the nine months ended September 30, 2013, depreciation expense would have been $1,504,000 and $4,617,000 higher [three months and nine months ended September 30, 2012 - $1,590,000 and $4,771,000 higher].

For the three months and the nine months ended September 30, 2013, smart meter customer revenues of $1,512,000 and $4,489,000 were deferred [three months and nine months ended September 30, 2012 - $1,506,000 and $4,392,000]. In the absence of rate regulation, for the three months and the nine months ended September 30, 2013, revenues would have been $1,512,000 and $4,489,000 higher [three months and nine months ended September 30, 2012 - $1,506,000 and $4,392,000 higher].

d) Settlement Variances

This account is comprised of the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by LDC. The settlement variances relate primarily to service charges, non-competitive electricity charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. The balance for settlement variances continues to be calculated and attracts carrying charges in accordance with the OEB's direction.

For the three months and the nine months ended September 30, 2013, settlement variances included in the RARA were adjusted by $nil and $3,358,000 [three months and nine months ended September 30, 2012 - $nil and $12,249,000 were disposed through rate adjustments].

e) Regulatory Assets Recovery Account

The RARA consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB-prescribed methodology and related rates.

On February 22, 2011, the OEB approved the disposition of the Late Payment Penalties Settlement regulatory asset of $7,526,000, over a 21-month period commencing on August 1, 2011 and ending on April 30, 2013.

On April 2, 2013, the OEB approved the disposition of net regulatory liabilities of $6,509,000, primarily consisting of PILs regulatory variance accounts, over an 11-month period commencing on June 1, 2013 and ending on April 30, 2014.

f) Deferred Income Taxes

This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred income tax assets.

As at September 30, 2013, LDC recorded a deferred income tax asset and a corresponding regulatory liability of $167,494,000 [December 31, 2012 - $193,276,000] with respect to its rate-regulated activities that will be included in the rate-setting process.

g) Income and Other Taxes Variance Account

The income and other taxes variance regulatory liability account relates to the differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in the rate adjustment model. As at September 30, 2013, the balance in this account consisted of an over-recovery from customers of $2,424,000 [December 31, 2012 - $2,398,000].

8. CREDIT FACILITIES

The Corporation is a party to a revolving credit facility ["Revolving Credit Facility"], pursuant to which it may borrow up to $600,000,000, of which up to $210,000,000 is available in the form of letters of credit. On September 6, 2013, the Corporation extended the maturity date of its Revolving Credit Facility from October 10, 2017 to October 10, 2018. The Corporation's Revolving Credit Facility also limits the debt to capitalization ratio to a maximum of 75%. As at September 30, 2013, the Corporation was in compliance with all covenants included in its Revolving Credit Facility.

Additionally, the Corporation is a party to:

- a demand facility with a Canadian chartered bank for $75,000,000 for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ["Prudential Facility"]; and
- a demand facility with a second Canadian chartered bank for $20,000,000 for the purpose of working capital management ["Working Capital Facility"].

As at September 30, 2013, $110,000,000 had been drawn under the Corporation's Revolving Credit Facility and $3,771,000 had been drawn under the Corporation's Working Capital Facility [December 31, 2012 - $nil]. As at September 30, 2013, $50,054,000 had been drawn on the Prudential Facility [December 31, 2012 - $49,227,000]. For the three months and the nine months ended September 30, 2013, the average outstanding borrowings on the Corporation's Revolving Credit Facility were $119,660,000 and $54,130,000 with weighted average interest rates of 2.02% and 2.18%, respectively.

9. DEBENTURES

On April 9, 2013, the Corporation issued $250,000,000 of 2.91% senior unsecured debentures due April 10, 2023 ["Series 8"] and $200,000,000 of 3.96% senior unsecured debentures due April 9, 2063 ["Series 9"]. The Series 8 and Series 9 debentures bear interest payable semi-annually in arrears 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 Corporation may redeem all or part of the Series 8 and Series 9 debentures 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 to the date fixed for redemption. The net proceeds of the debentures were used to repay the Corporation's Series 1 and Series 5 debentures which matured on May 7, 2013 and May 6, 2013, respectively. Debt issuance costs of $2,694,000 relating to the Series 8 and Series 9 debentures were deferred as other assets in the second quarter of 2013.

10. EMPLOYEE FUTURE BENEFITS

a) Pension

The Corporation provides a pension plan for its full-time employees through OMERS. For the three months and the nine months ended September 30, 2013, the Corporation's contributions were $4,695,000 and $14,550,000 [three months and nine months ended September 30, 2012 - $4,251,000 and $13,139,000].

[all tabular amounts in thousands of Canadian dollars, unaudited]

b) Post-retirement benefits other than pension

The components of net periodic benefit cost are:

	Three months ended September 30		Nine months ended September 30	
	2013 $	2012 $	2013 $	2012 $
Service cost	**1,277**	1,287	**3,951**	3,863
Interest cost	**2,701**	2,914	**8,094**	8,743
Amortization of net actuarial loss	**507**	762	**1,520**	2,285
Amortization of prior service cost	**2**	266	**6**	799
Net periodic benefit cost	**4,487**	5,229	**13,571**	15,690
Capitalized as part of PP&E	**1,722**	1,882	**4,792**	5,291
Charged to operations	**2,765**	3,347	**8,779**	10,399

11. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at September 30, 2013 and December 31, 2012, the fair values of cash and cash equivalents, net accounts receivable, unbilled revenue, Working Capital Facility, Revolving Credit Facility, and accounts payable and accrued liabilities approximate their carrying values due to the short maturity of these instruments. The fair values of customers' advance deposits approximate their carrying values taking into account interest accrued on the outstanding balance. Obligations under capital lease are measured based on a discounted cash flow analysis and approximate the carrying value as management believes that the fixed interest rates are representative of current market rates.

The fair values of the debentures are calculated by discounting the related cash flows at the estimated yield to maturity of similar debt instruments, and are included in Level 2 of the fair value hierarchy. As at September 30, 2013, the total fair value of the Corporation's debentures (including the current portion) was determined to be approximately $1,488,848,000 [December 31, 2012 - $1,615,860,000], with a total carrying value of $1,449,319,000 [December 31, 2012 - $1,469,590,000].

b) Financial Risks

The following is a discussion of financial risks and related mitigation strategies that have been identified by the Corporation for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

The Corporation is exposed to a variety of financial risks, particularly credit risk, interest rate risk and liquidity risk.

Credit risk

The Corporation is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation's exposure to credit risk primarily relates to cash and cash equivalents, accounts receivable and unbilled revenue. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

[all tabular amounts in thousands of Canadian dollars, unaudited]

The Corporation's credit risk associated with accounts receivable is primarily related to electricity bill payments from LDC customers. LDC has approximately 726,000 customers. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at September 30, 2013, LDC held security deposits in the amount of $45,956,000 [December 31, 2012 - $46,838,000], of which $22,771,000 [December 31, 2012 - $25,666,000] were related to security deposits on Offers to Connect to guarantee the payment of additional costs relating to expansion projects.

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	September 30 2013 $	December 31 2012 $
Unbilled revenue	**303,036**	278,086
Accounts receivable		
Outstanding for not more than 30 days	**195,043**	153,513
Outstanding for more than 30 days and not more than 120 days	**25,236**	18,231
Outstanding for more than 120 days	**13,670**	14,113
Less: Allowance for doubtful accounts	**(10,610)**	(10,698)
Total accounts receivable, net	**223,339**	175,159
Total accounts receivable and unbilled revenue	**526,375**	453,245

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered current and no allowance for doubtful accounts had been provided as at September 30, 2013 and December 31, 2012.

As at September 30, 2013, there were no significant concentrations of credit risk with respect to any customer. The credit risk related to cash and cash equivalents is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties. The Corporation's maximum exposure to credit risk is approximately equal to the carrying value of its financial assets.

Interest rate risk

The Corporation is exposed to short-term interest rate risk on the net of cash and cash equivalents, short-term borrowings under its Revolving Credit Facility and Working Capital Facility *[note 8]* and customers' advance deposits. The Corporation attempts to minimize interest rate risk by reducing its exposure to floating rate instruments, while ensuring that all payment obligations are met on an ongoing basis.

As at September 30, 2013, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its Revolving Credit Facility, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $1,600,000 to annual net financing charges.

Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation has access to credit facilities and debt capital markets and monitors cash balances daily. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing net financing charges. Liquidity risks associated with financial commitments are as follows:

[all tabular amounts in thousands of Canadian dollars, unaudited]

	September 30, 2013					
	Due within 1 year $	**Due within 2 years $**	**Due within 3 years $**	**Due within 4 years $**	**Due within 5 years $**	**Due after 5 years $**
Financial liabilities						
Working Capital Facility	**3,771**	—	—	—	—	—
Revolving Credit Facility	**110,000**	—	—	—	—	—
Accounts payable and accrued liabilities	**407,076**	—	—	—	—	—
Obligations under capital lease	**2,458**	**2,458**	**2,458**	**2,458**	**1,843**	—
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	—	—	—	—	**250,000**	—
Series 3 – 4.49% due November 12, 2019	—	—	—	—	—	**250,000**
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	**200,000**
Series 7 – 3.54% due November 18, 2021	—	—	—	—	—	**300,000**
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	**250,000**
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	**200,000**
Interest payments on debentures (1)	**61,015**	**60,995**	**60,995**	**60,995**	**54,558**	**690,543**
	584,320	**63,453**	**63,453**	**63,453**	**306,401**	**1,890,543**

(1) As at September 30, 2013, the Corporation has accrued $24,358,000 of interest on debentures.

Hedging and Derivative risk

As at September 30, 2013 and December 31, 2012, the Corporation had not entered into any hedging or derivative financial instruments.

Foreign exchange risk

As at September 30, 2013, the Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the interim consolidated financial statements.

12. FINANCIAL ASSISTANCE

The City has authorized the Corporation to provide financial assistance to its subsidiaries, and LDC to provide financial assistance to other subsidiaries of the Corporation, in the form of guarantees, letters of credit, direct loans or otherwise, for the purpose of enabling them to carry on their businesses, with financial assistance provided to subsidiaries other than LDC not to exceed an aggregate amount of $500,000,000.

As at September 30, 2013, the Corporation had drawn letters of credit in the amount of $50,054,000 [December 31, 2012 - $49,227,000] *[note 8]* on its Prudential Facility in respect of the operations of LDC.

[all tabular amounts in thousands of Canadian dollars, unaudited]

13. SHARE CAPITAL

Share capital consists of the following:

	September 30 2013 $	December 31 2012 $
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares		
Issued and outstanding		
1,000 common shares	**567,817**	567,817

The weighted daily average number of shares outstanding for the three months and the nine months ended September 30, 2013 was 1,000 [three months and nine months ended September 30, 2012 - 1,000]. Basic and fully diluted net income per share was determined by dividing the net income for the period by the weighted daily average number of shares outstanding.

Dividends

On February 28, 2013, the Board of Directors of the Corporation declared dividends in the amount of $23,995,000. The dividends were comprised of $17,995,000 with respect to the net income for the year ended December 31, 2012, which was paid to the City on March 8, 2013, and $6,000,000 with respect to the first quarter of 2013, which was paid to the City on March 28, 2013.

On May 16, 2013, the Board of Directors of the Corporation declared a dividend in the amount of $6,500,000 with respect to the second quarter of 2013, which was paid to the City on June 28, 2013.

On August 15, 2013, the Board of Directors of the Corporation declared a dividend in the amount of $6,250,000 with respect to the third quarter of 2013, which was paid to the City on September 30, 2013.

On November 15, 2013, the Board of Directors of the Corporation declared a dividend in the amount of $6,250,000 with respect to the fourth quarter of 2013. The dividend is payable on December 31, 2013.

14. RELATED PARTY TRANSACTIONS

As a wholly-owned subsidiary of the City, the Corporation and the City are considered related parties. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

Revenues include amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures include amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City *[note 13]*.

Accounts receivable include receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue includes receivables from the City related to the provision of electricity and other services provided and not yet billed. Other assets include amounts primarily for prepaid land leases from the City. Accounts payable and accrued liabilities include amounts payable to the City related to road cut repairs and other services, as well as amounts received from the City for the construction of electricity distribution assets. Advance deposits include amounts received from the City for future expansion projects.

[all tabular amounts in thousands of Canadian dollars, unaudited]

15. COMMITMENTS

Operating leases and capital projects

As at September 30, 2013, the future minimum annual payments under property operating leases, capital projects and other commitments with remaining terms from one to five years and thereafter were as follows:

	Operating leases $	Capital projects [3] and other $
2013 [1]	**1,544**	**25,611**
2014	**6,175**	**68,281**
2015	**6,186**	**2,772**
2016	**5,784**	**—**
2017	**2,123**	**—**
Thereafter	**—**	**—**
Total amount of future minimum payments [2]	**21,812**	**96,664**

(1) Represents the balance due over the period from October 1, 2013 to December 31, 2013.
(2) Refer to note 11 for repayments of senior unsecured debentures, Working Capital Facility, and Revolving Credit Facility excluded from the table above.
(3) Reflects capital project commitments for construction services and estimated capital contributions, with the majority related to Copeland Station.

Capital leases

As at September 30, 2013, the future minimum annual lease payments under capital leases with remaining lease terms from one to five years and thereafter were as follows:

	$
2013 [1]	**614**
2014	**2,458**
2015	**2,458**
2016	**2,458**
2017	**2,458**
Thereafter	**1,229**
Total amount of future minimum lease payments	**11,675**
Less: interest and executory costs	**1,228**
	10,447
Current portion included in Other liabilities	**2,011**
Long-term portion included in Other liabilities	**8,436**

(1) Represents the balance due over the period from October 1, 2013 to December 31, 2013.

16. CONTINGENCIES

a) Legal Proceedings

In the ordinary course of business, the Corporation is subject to various litigation and claims with customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. The Corporation and its subsidiaries are subject to various legal actions that arise in the normal course of business and if damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under their liability insurance which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions.

2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) seeking damages in the amount of $30,000,000 as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, a statement of defence and third party claim have been served by LDC and a third party defence and counterclaim against LDC seeking damages in the amount of $51,000,000 have been filed. A certification order has been issued. Affidavits of documents have been produced by LDC to the other parties and examinations for discovery have commenced and are continuing. A mediation has been scheduled for January 2014. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

On December 20, 2010, LDC was served with a statement of claim by the City seeking damages in the amount of $2,000,000 as a result of the fire at 2 Secord Avenue. A statement of defence and a third party claim have been served. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

By order of the court dated January 24, 2012, the above actions and a smaller non-class action commenced in April 2009 involving the same incident will be tried at the same time or consecutively.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) seeking damages in the amount of $30,000,000 as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks damages in the amount of $10,000,000 from LDC. Both actions are at a preliminary stage. The plaintiff has now scheduled its certification motion for November 2013. Statements of defence to the main action and to the third party claim have not been filed. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with these actions.

[all tabular amounts in thousands of Canadian dollars, unaudited]

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of $2,000,000 as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

b) OEB PILs Proceeding

The OEB conducted a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for certain MEUs. On June 24, 2011, the OEB issued its decision for these MEUs and provided guidelines for the calculation and further disposition of the balances accumulated in the PILs regulatory variance accounts.

LDC reviewed the balance of its PILs regulatory variance accounts and applied the guidelines provided by the OEB. LDC applied for disposition of the balance as part of its IRM/ICM Application filed on May 10, 2012. The OEB issued its decision and order on April 2, 2013 approving the disposition of the balance. The impact was recorded previously in the Corporation's consolidated financial statements.

17. NET FINANCING CHARGES

Net financing charges consist of the following:

	Three months ended September 30		Nine months ended September 30	
	2013 $	**2012 $**	**2013 $**	**2012 $**
Interest income	**356**	357	**1,722**	1,651
Interest expense				
Long-term debt [(1)]	**(15,411)**	(18,883)	**(52,233)**	(56,624)
Other interest	**(1,266)**	(576)	**(2,765)**	(2,077)
AFUDC	**1,033**	585	**2,077**	1,713
	(15,288)	(18,517)	**(51,199)**	(55,337)

[(1)] Includes amortization of debt issuance costs, premiums and discounts.

[all tabular amounts in thousands of Canadian dollars, unaudited]

18. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

Changes in non-cash working capital provided/(used) cash as follows:

	Three months ended September 30		Nine months ended September 30	
	2013 $	2012 $	2013 $	2012 $
Accounts receivable	**(38,061)**	(20,863)	**(48,180)**	(29,974)
Unbilled revenue	**(3,305)**	14,557	**(24,950)**	3,766
Income tax receivable	**4,763**	12,413	**4,392**	4,672
Inventories	**612**	(33)	**(126)**	486
Other current assets	**256**	(216)	**(2,064)**	(1,796)
Accounts payable and accrued liabilities	**17,443**	13,955	**48,063**	(1,567)
Restructuring accrual	**(3,206)**	(2,011)	**(10,229)**	12,839
Deferred conservation credit	**1,472**	4,641	**2,480**	10,541
Other current liabilities	**(41)**	(55)	**106**	(375)
	(20,067)	22,388	**(30,508)**	(1,408)

19. SEASONAL OPERATIONS

The Corporation’s quarterly results are impacted by changes in revenues resulting from variations in seasonal weather conditions, the fluctuations in electricity prices, and the timing and recognition of regulatory decisions. Consequently, the Corporation’s revenues, all other things being equal, would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling.