TORONTO HYDRO CORPORATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE
THREE MONTHS AND NINE MONTHS ENDED
SEPTEMBER 30, 2010**

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

- the unaudited interim consolidated financial statements and accompanying notes of Toronto Hydro Corporation (the "Corporation") as at and for the three-month period and the nine-month period ended September 30, 2010 (the "Interim Consolidated Financial Statements");

- the audited consolidated financial statements and accompanying notes of the Corporation as at and for the year ended December 31, 2009 (the "Annual Consolidated Financial Statements"); and

- management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2009 (including the sections entitled "Electricity Distribution – Industry Overview", "Summary of Quarterly Results", "Liquidity and Capital Resources", "Corporate Developments", "Legal Proceedings", "Share Capital", "Transactions with Related Parties", "Risk Factors", "Critical Accounting Estimates", and "Significant Accounting Policies" which remain substantially unchanged as at the date hereof except as noted below or as updated by the Interim Consolidated Financial Statements).

Copies of these documents are available on the Canadian Securities Administrators' web site at www.sedar.com.

Business of Toronto Hydro Corporation

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

- *Toronto Hydro-Electric System Limited* ("LDC") - which distributes electricity and engages in Conservation and Demand Management ("CDM") activities; and

- *Toronto Hydro Energy Services Inc.* ("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 697,000 customers located in the City of Toronto (the "City"). LDC is the largest municipal electricity distribution company in Canada and distributes approximately 18% of the electricity consumed in Ontario. The electricity distribution business of LDC is regulated by the Ontario Energy Board (the "OEB") which has broad powers relating to licensing, standards of conduct and service and the regulation of rates charged by LDC and other electricity distributors in Ontario. See note 2 to the Annual Consolidated Financial Statements.

Selected Interim Consolidated Financial Data

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

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

	2010 $	2009 $	Change $	Change %
Revenues	680,504	639,692	40,812	6.4
Costs				
Purchased power and other	533,289	509,646	23,643	4.6
Operating expenses	57,103	51,679	5,424	10.5
Depreciation and amortization	41,415	40,837	578	1.4
	631,807	602,162	29,645	4.9
Income before the following:	48,697	37,530	11,167	29.8
Interest income	934	975	(41)	(4.2)
Interest income (expense)				
Long-term debt	(19,717)	(17,885)	(1,832)	(10.2)
Other interest	270	216	54	25.0
Change in fair value of investments……..	2,420	(3,507)	5,927	169.0
Gain on disposals of property, plant and equipment ("PP&E")	1,127	-	1,127	100.0
Income before provision for Payments in Lieu of Corporate Taxes ("PILs")	33,731	17,329	16,402	94.7
Provision for PILs	6,044	5,498	546	9.9
Net income	27,687	11,831	15,856	134.0
Basic and fully diluted net income per share	27,687	11,831	15,856	134.0

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

	2010 $	2009 $	Change $	Change %
Revenues	1,957,130	1,827,115	130,015	7.1
Costs				
Purchased power and other	1,546,933	1,449,258	97,675	6.7
Operating expenses	167,732	158,998	8,734	5.5
Depreciation and amortization	121,267	122,375	(1,108)	(0.9)
	1,835,932	1,730,631	105,301	6.1
Income before the following:	121,198	96,484	24,714	25.6
Interest income	1,541	2,513	(972)	(38.7)
Interest income (expense)				
Long-term debt	(54,787)	(53,656)	(1,131)	(2.1)
Other interest	574	(995)	1,569	157.7
Change in fair value of investments	2,420	(1,049)	3,469	330.7
Gain on disposals of PP&E	2,673	515	2,158	419.0
Income before provision for PILs	73,619	43,812	29,807	68.0
Provision for PILs	17,542	10,620	6,922	65.2
Net income	56,077	33,192	22,885	68.9
Basic and fully diluted net income per share	56,077	33,192	22,885	68.9

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

	As at September 30 2010 $	As at December 31 2009 $
Total assets	3,350,940	3,059,227
Current liabilities	382,343	336,739
Long-term liabilities	1,932,266	1,724,234
Total liabilities	2,314,609	2,060,973
Shareholder's equity	1,036,331	998,254
Total liabilities and shareholder's equity	3,350,940	3,059,227

Results of Operations

Net Income

Net income for the three months and the nine months ended September 30, 2010 was $27.7 million and $56.1 million compared to $11.8 million and $33.2 million for the comparable periods in 2009.

The increase in net income for the three months ended September 30, 2010, was primarily due to higher net revenues ($17.2 million), a favourable variance in the fair value of investments ($5.9 million) and higher gain on disposals of surplus PP&E ($1.1 million). These favourable variances were partially offset by higher operating expenses ($5.4 million) and higher net interest expense ($1.8 million).

The increase in net income for the nine months ended September 30, 2010, was primarily due to higher net revenues ($32.3 million), a favourable variance in the fair value of investments ($3.5 million), higher gain on disposals of surplus PP&E ($2.2 million) and lower depreciation expense ($1.1 million). These favourable variances were partially offset by higher operating expenses ($8.7 million) and higher provision for PILs ($6.9 million).

Net Revenues

Net revenues (revenues minus the cost of purchased power and other) for the three months and the nine months ended September 30, 2010 were $147.2 million and $410.2 million compared to $130.0 million and $377.9 million for the comparable periods in 2009.

The increase in net revenues for the three months ended September 30, 2010 was primarily due to higher regulated distribution revenue ($16.4 million). The increase in distribution revenue was primarily due to the approval by the OEB of higher distribution rates for 2010 to fund LDC's infrastructure renewal program ($11.0 million) (see "Corporate Developments – Distribution Rates for LDC" below) and higher consumption in 2010 (6,843 GWh in 2010 compared to 6,390 GWh in 2009) ($4.9 million).

The increase in net revenues for the nine months ended September 30, 2010 was primarily due to higher regulated distribution revenue ($28.3 million) and higher other income ($4.0 million). The increase in distribution revenue was primarily due to the approval by the OEB of higher distribution rates for 2010 to fund LDC's infrastructure renewal program ($20.8 million) (see "Corporate Developments – Distribution Rates for LDC" below) and higher consumption in 2010 (19,386 GWh in 2010 compared to 18,972 GWh in 2009) ($5.5 million). The increase in other income was primarily due to higher revenue from disposal of scrap material in connection with the renewal of the electricity infrastructure and higher customer connection activities in 2010.

Expenses

Operating expenses for the three months and the nine months ended September 30, 2010 were $57.1 million and $167.7 million compared to $51.7 million and $159.0 million for the comparable periods in 2009.

The increase in operating expenses for the three months ended September 30, 2010 was primarily due to the recognition in 2010 of an impairment charge of $3.8 million related to the regulatory assets capitalized in the last quarter of 2009 in connection with contact voltage remediation activities. During the third quarter of 2010, the Corporation revised its estimate of recoverable costs based on information received from the OEB (see "Corporate Developments – Contact Voltage" below). Other unfavourable variances contributing to the increase in operating expenses for the three months ended September 30, 2010 were higher compensation costs ($1.3 million) mainly due to the hiring of new employees as part of LDC's workforce renewal strategy, and annual general wage increases, and higher costs incurred in 2010 in relation with LDC's regulated expanded work programs ($1.0 million).

The increase in operating expenses for the nine months ended September 30, 2010 was primarily due to higher compensation costs ($6.7 million) mainly due to the hiring of new employees as part of LDC's workforce renewal strategy and annual general wage increases, and higher costs incurred in 2010 in relation with LDC's regulated expanded work programs ($5.8 million). These increases in operating expenses were partially offset by the net impact of the costs related to the remediation of contact voltage issues in 2009 ($3.8 million). During the first nine months of 2009, the Corporation recorded to operating expenses $7.6 million of costs in relation to the remediation activities performed. Following the initial OEB decision rendered on December 10, 2009, the Corporation reduced its 2009 operating expenses and increased its regulatory assets by $4.9 million to $9.1 million to reflect its estimation of future recovery in connection with such activities. In the third quarter of 2010, the Corporation reduced its recovery estimate and recorded to operating expenses an impairment charge of $3.8 million with a corresponding reduction to the balance of regulatory assets capitalized in 2009 to reflect new information received from the OEB (see "Corporate Developments – Contact Voltage" below).

Depreciation and amortization expense for the three months and the nine months ended September 30, 2010 was $41.4 million and $121.3 million compared to $40.8 million and $122.4 million for the comparable periods in 2009.

The decrease in depreciation and amortization expense for the nine months ended September 30, 2010 was primarily due to assets being fully depreciated at the end of 2009 mainly in the street lighting and information technology areas, partially offset by an increase in depreciation related to higher capital expenditures in 2010.

Net Interest Expense

Net interest expense for the three months and the nine months ended September 30, 2010 was $18.5 million and $52.7 million compared to $16.7 million and $52.1 million for the comparable periods in 2009.

The increases in net interest expense for the three months and the nine months ended September 30, 2010 were primarily due to higher long-term interest expense in 2010 from the issuance of debentures on May 20, 2010 (see "Corporate Developments – Medium-Term Note Program" below).

Change in Fair Value of Investments

The change in fair value of investments for the three months and the nine months ended September 30, 2010, was $2.4 million and was due to changes in market conditions and in the liquidity of the investments resulting in a change in the Corporation's valuation methodology for its investments to a mark-to-market approach (see "Liquidity and Capital Resources – Investments" below). The decrease in the fair value of investments recorded for the three months and the nine months ended September 30, 2009, was due to changes in market conditions and the impact of the restructuring of the Asset Backed Commercial Paper in 2009. The changes in the fair value of investments between 2009 and 2010 provided for a positive variance to net income of $5.9 million and $3.5 million for the three months and the nine months ended September 30, 2010.

Gain on Disposals of PP&E

The increases of $1.1 million and $2.2 million in the gain on disposals of PP&E for the three months and the nine months ended September 30, 2010 compared to the same periods in 2009 were mainly due to the recognition of gains realized in connection with the disposals of surplus properties at LDC, of which $1.7 million relates to surplus properties for which the OEB reduced electricity distribution rates in 2010 (see "Corporate Developments – Distribution Rates for LDC" below). LDC is recognizing the actual gains realized on the sale of these properties over a one-year period beginning on May 1, 2010 to mirror the actual timing of the reduction in 2010 electricity distribution rates. LDC intends to file an application with the OEB in the future to seek recovery for the difference between the actual gains of $4.1 million on these properties and the deemed gains of $10.3 million used to reduce electricity distribution rates in 2010.

Provision for PILs

The provision for PILs for the three months and the nine months ended September 30, 2010 was $6.0 million and $17.5 million compared to $5.5 million and $10.6 million for the comparable periods in 2009.

The increases in the provision for PILs for the three months and nine months ended September 30, 2010 were primarily due to higher earnings before tax in 2010, partially offset by the benefit of lower statutory tax rates in 2010.

Quarterly Results of Operations

The table below presents unaudited quarterly consolidated financial information of the Corporation for the eight quarters from December 31, 2008 to September 30, 2010.

Quarterly Results
(in thousands of dollars, unaudited)

	September 30 2010 $	June 30 2010 $	March 31 2010 $	December 31 2009 $
Revenues	680,504	629,815	646,811	633,543
Costs	631,807	590,936	613,189	597,565
Net income	27,687	15,839	12,551	8,941
	September 30 2009 $	**June 30 2009 $**	**March 31 2009 $**	**December 31 2008 $**
Revenues	639,692	575,256	612,167	586,573
Costs	602,162	541,297	587,172	555,370
Net income	11,831	14,375	6,986	4,820

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

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

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

Interim Consolidated Statement of Cashflows
(in thousands of dollars, unaudited)

	Three months Ended September 30		Nine months Ended September 30	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Cash and cash equivalents, beginning of period	405,450	264,757	211,370	340,492
Net cash provided by operating activities	79,999	21,828	216,278	108,185
Net cash used in investing activities	(109,554)	(73,659)	(246,545)	(222,828)
Net cash provided by (used in) financing activities	(4,391)	(2,774)	190,401	(15,697)
Cash and cash equivalents, end of period	371,504	210,152	371,504	210,152

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months and the nine months ended September 30, 2010 was $80.0 million and $216.3 million compared to $21.8 million and $108.2 million for the comparable periods in 2009.

The increase in net cash provided by operating activities for the three months ended September 30, 2010 was primarily due to a variance in the aggregate of accounts receivable and unbilled revenue due to the timing of billing and collection activities ($34.5 million), a timing difference in the settlement of electricity payable to the Independent Electricity System Operator (“IESO”) along with higher energy prices in 2010 ($16.1 million) and higher net income ($15.9 million).

The increase in net cash provided by operating activities for the nine months ended September 30, 2010 was primarily due to a variance in the aggregate of accounts receivable and unbilled revenue due to the timing of billing and collection activities ($46.0 million), a timing difference in the settlement of electricity payable to the IESO along with higher energy prices in 2010 ($44.2 million), and higher net income ($22.9 million).

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months and the nine months ended September 30, 2010 was $109.6 million and $246.5 million compared to $73.7 million and $222.8 million for the comparable periods in 2009.

The increase in net cash used in investing activities for the three months ended September 30, 2010 was mainly due to higher capital expenditures in 2010 ($30.7 million), partially offset by higher change in net regulatory assets and liabilities ($5.3 million) primarily related to higher variance in 2010 of retail settlement balances regulated by the OEB.

The increase in net cash used in investing activities for the nine months ended September 30, 2010 was mainly due to higher capital expenditures in 2010 ($85.4 million), partially offset by higher change in net regulatory assets and liabilities ($57.4 million) primarily related to higher variance in 2010 of retail settlement balances regulated by the OEB, and by the impact of the net proceeds received in 2010 on the disposition of surplus properties ($8.3 million).

The increases in capital expenditures at LDC for the three months and the nine months ended September 30, 2010 were $32.1 million and $87.3 million, respectively. The increases were primarily due to higher investment in electricity distribution assets in connection with LDCs infrastructure renewal program approved by the OEB.

Capital Expenditures
(in thousands of dollars, unaudited)

	Three months Ended September 30		Nine months Ended September 30	
	2010 $	2009 $	2010 $	2009 $
Capital Expenditures from Continuing Operations				
LDC - Regulated				
Distribution System	78,155	44,642	208,242	122,952
Technology assets	9,672	8,272	23,370	21,610
Other (1)	2,028	4,857	9,905	9,621
	89,855	57,771	241,517	154,183
Other (2)	620	1,979	3,346	5,266
Total Capital Expenditures	90,475	59,750	244,863	159,449

Notes:

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

Net Cash Provided by (Used in) Financing Activities

Net cash used in financing activities for the three months ended September 30, 2010 was $4.4 million and net cash provided by financing activities for the nine months ended September 30, 2010 was $190.4 million compared to net cash used in financing activities for the three months and the nine months ended September 30, 2009 of $2.8 million and $15.7 million.

The increase in net cash provided by financing activities for the nine months ended September 30, 2010 compared to the same periods in 2009 was due to the issuance by the Corporation of $200.0 million of senior unsecured debentures on May 20, 2010 (See "Corporate Developments – Medium-Term Note Program" below) to finance the renewal of LDC's electricity infrastructure.

Revolving Credit Facility

On May 3, 2010, the Corporation renewed its revolving credit facility, for a two-year term, expiring on May 3, 2012, pursuant to which the Corporation may borrow up to $400.0 million, of which up to $140.0 million is available in the form of letters of credit. Additionally, the Corporation negotiated a bilateral facility for $50.0 million for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO.

As at September 30, 2010, no amounts have been utilized under the Corporation's revolving credit facility and $45.1 million had been drawn on the $50.0 million bilateral demand line of credit in the form of letters of credit, primarily to support LDC's prudential requirements with the IESO.

Prudential Requirements and Third Party Credit Support

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

Investments

As at September 30, 2010, the Corporation continued to hold the following investments (listed by distribution of class) that were issued upon the 2009 completion of the restructuring of the non-bank sponsored asset backed commercial paper:

Master Asset Vehicle II	Amount $	Percent of Total
Class A-1	36.9 million	42.1%
Class A-2	34.5 million	39.3%
Class B	6.3 million	7.2%
Class C	2.4 million	2.7%
Ineligible Asset Tracking ("IAT") notes	7.6 million	8.7%
Total	87.7 million	100.0%
Fair value as at September 30, 2010	50.4 million	57.4%

At the time of issuance, DBRS Limited ("DBRS") issued an "A" credit rating to the Class A-1 and A-2 notes; the Class B, C and IAT notes were unrated. On August 11, 2009, DBRS downgraded the rating of the Class A-2 notes from A to BBB (low). The "legal final maturity" of the notes is July 15, 2056. However, the expected repayment date for the restructured Class A-1 and Class A-2 notes is January 22, 2017. On September 21, 2010, DBRS confirmed the Class A-2 notes at BBB (low) and upgraded the Class A-1 notes to A (high).

In the third quarter of 2010, the Corporation saw an increase in the number of transactions relating to similar investments. During that period, the Corporation initiated contact with market participants for the investments and received several market quotes for its portfolio. The Corporation performed a detailed analysis of the quotes received and compared the balances to the values derived from its mark-to-model analysis used to value the investments in the previous periods. As the quotes received appeared to be aligned with the valuations derived from its mark-to-model analysis, the Corporation decided to change its valuation methodology for its investments in the third quarter of 2010 and accordingly, adopted a mark-to-market approach based on the quotes received from market participants for its investments. Following this change in methodology, the classification of the investments was changed from long-term to current on the balance sheet, as at September 30, 2010.

Based on the market quotes received from market participants, the Corporation estimated the fair market value of its investments at $50.4 million as at September 30, 2010. This valuation represents an increase in the fair market value of the investments of $2.4 million from June 30, 2010 and December 31, 2009. The increase in fair market value was recorded in the statement of income as at September 30, 2010.

The on-going market uncertainty regarding the investments described above has had no significant impact on the Corporation's operations. The Corporation has sufficient cash to fund all of its on-going liquidity and capital expenditure requirements and is in compliance with the financial covenants under the terms of its outstanding indebtedness.

On October 8, 2010, the Corporation sold all of its investments for cash consideration of $50.4 million.

Dividends

On March 5, 2010, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect to the first quarter of 2010, which was paid on March 31, 2010.

On May 26, 2010, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect to the second quarter of 2010, which was paid on June 30, 2010.

On August 23, 2010, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect to the third quarter of 2010, which was paid on September 30, 2010.

On November 26, 2010, the board of directors of the Corporation declared a dividend in the amount of $7.0 million with respect to the fourth quarter of 2010. The dividend is payable on December 31, 2010.

Credit Rating

As at September 30, 2010, the Corporation and the Corporation's debentures were rated "A"(high) by DBRS and "A" by Standard & Poor's.

Corporate Developments

Medium-Term Note Program

On May 20, 2010, the Corporation issued $200.0 million in 30-year senior unsecured debentures ("Series 6") which bear interest at the rate of 5.54% per annum and are payable semi-annually in arrears in equal instalments on May 21 and November 21 of each year. The Series 6 debentures mature on May 21, 2040, and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The net proceeds of this issuance will be used principally to finance regulated capital expenditures of LDC.

Appointment

On March 31, 2010, the City, as sole shareholder of the Corporation, appointed David Williams as an independent director of the Corporation. The appointment is effective March 31, 2010 to November 30, 2010.

Monetization of City Note

During the first quarter of 2010, the City made the determination to monetize its interest in the amended and restated promissory note dated May 1, 2006 (the "City Note") under which the Corporation had $490.1 million of indebtedness outstanding to the City. Concurrent with the closing of the transaction on April 1, 2010, the City Note was converted, in accordance with its terms, into two series of debentures of the Corporation ("Series 4" and "Series 5") which were sold by a syndicate of underwriters as part of a secondary offering by the City and issued by the Corporation under the terms of an existing trust indenture as supplemented to effect the offering. The aggregate principal amount outstanding under the Series 4 and Series 5 debentures is $490.1 million. The Series 4 debentures mature on December 30, 2011. The Series 5 debentures mature on May 6, 2013. The Series 4 and Series 5 debentures bear interest at the rate of 6.11% per annum, payable semi-annually in arrears in equal instalments and on the maturity date. The Series 4 and Series 5 debentures 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 did not receive any proceeds from the transaction. Following the completion of the transaction, the Corporation has no further indebtedness outstanding to the City under the terms of the City Note and the City Note has been cancelled.

Distribution Rates for LDC

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect distribution rates and other permitted recoveries in the future. LDC electricity distribution rates are typically effective from May 1 to April 30 of the following year. Accordingly, for the first four months of 2010, distribution revenue is based on the rates approved for 2009.

On May 15, 2008, the OEB issued its decision regarding LDC's electricity distribution rates application for 2008 and 2009. In its decision, the OEB approved LDC's 2008 distribution revenue requirement and rate base of $473.0 million and $1,968.9 million, respectively. As part of the decision, the deemed debt to equity structure of LDC was modified to 62.5% debt and 37.5% equity for 2008, and to 60.0% debt and 40.0% equity for 2009 and thereafter.

In its decision on LDC's electricity distribution rates for 2008 and 2009, the OEB ordered that 100% of the net after-tax gains expected on the sale of certain LDC properties should be deducted from the revenue requirement recovered through distribution rates. The OEB deemed this amount to be $10.3 million (the "deemed amount"). On June 16, 2008, LDC filed an appeal with the Divisional Court of Ontario (the "Divisional Court") seeking to overturn the gain on sale aspects of the OEB decision and also sought and obtained a stay order with respect to the deduction of the deemed amount from the revenue requirement recovered through rates. On April 30, 2009, the Divisional Court denied the appeal by LDC. LDC filed a motion with the Court of Appeal for leave to appeal that decision of the Divisional Court. The requested leave was denied on September 14, 2009. LDC filed a notice of clarification with the OEB with respect to the timing and the quantum of the expected reduction in distribution revenue. The OEB indicated that it intended to provide a final ruling on this issue as part of LDC's electricity distribution rates decision for 2010.

On February 24, 2009, the OEB set LDC's allowed return on equity ("ROE") for the 2009 rate year at 8.01%. In addition to setting the ROE, the OEB also set LDC's 2009 distribution revenue requirement and rate base at $482.5 million and $2,035.0 million, respectively.

On December 11, 2009, the OEB issued revised cost of capital guidelines for implementation in 2010. Under the new guidelines, the ROE formula will be adjusted periodically to reflect the forecasted long Canada bond yield and A-rated Canadian utility bond spreads.

On April 9, 2010, the OEB issued its final decision regarding electricity distribution rates of LDC for the rate year beginning May 1, 2010 and ending April 30, 2011. The decision rendered by the OEB was aligned with the settlement proposal accepted by LDC and other various parties with regard to the major components of the revenue requirements, such as operating expenditures, capital expenditures and load forecast. The decision provides for capital expenditures of $350.0 million with an additional $27.8 million allowed to cover expenditures related to Transit City and operating expenses of $204.1 million. The OEB also increased the ROE of LDC from 8.01% in 2009 to 9.85% for 2010, as it transitioned to the new ROE formula guidelines issued in December 2009. Finally, the OEB ordered LDC to reduce its revenue requirement by $10.3 million to reflect the expected gains on sale related to some designated surplus properties. This reduction was related to the OEB's 2008 decision with regard to LDC's distribution rates for which LDC had filed a notice of clarification in September 2009. Accordingly, after considering all the elements of the 2010 OEB decision, the distribution revenue requirement and rate base of LDC were set at $518.7 million and $2,140.7 million, respectively.

On August 23, 2010, LDC filed a rate application with the OEB seeking approval of revenue requirements and corresponding rates for the rate year commencing on May 1, 2011 and ending on April 30, 2012. The requested distribution revenue requirement and rate base for this period are $578.4 million and $2,346.3 million, respectively.

Contact Voltage

On December 10, 2009, the OEB issued its initial decision in regard to costs incurred in 2009 for the remediation of safety issues related to contact voltage relating to LDC's electricity distribution infrastructure. The decision provided for the recovery of allowable actual expenditures incurred above the amount deemed as controllable expenses in LDC's 2009 approved electricity distribution rates. At the time of the decision, the Corporation estimated the allowable recovery of costs at $9.1 million.

On October 29, 2010, the OEB issued its final decision, following further review of costs incurred by LDC, in connection with the contact voltage remediation activities. In its decision, the OEB deemed the balance allowable for recovery at $5.3 million to be achieved over an 18-month period, from November 1, 2010 to April 30, 2012. The variance from the Corporation's original estimate is mainly due to the OEB's interpretation of the definition of controllable expenses used to determine the final allowable recovery. On November 18, 2010, LDC filed a motion to review the decision with the OEB seeking an amendment to allow for recovery in accordance with the initial decision rendered on December 10, 2009. In connection with this decision from the OEB, the Corporation revised its recovery estimate for contact voltage costs, resulting in an increase in operating expenses of $3.8 million in the third quarter of 2010.

Smart Meters

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010, LDC launched its smart meter project in 2006. The project's objective is to install smart meters and the supporting infrastructure by the end of 2010 for all residential and commercial customers. LDC had installed approximately 658,000 smart meters as at September 30, 2010.

In 2008, in connection with this initiative, the OEB approved the disposition of the balances incurred in 2006 and 2007. The OEB also approved the transfer from regulatory assets to PP&E of all capital expenditures incurred in 2006 and 2007. In a separate decision regarding LDC's electricity distribution rates for 2008, the OEB ordered LDC to record all future expenditures and revenues related to smart meters to a regulatory asset account and allowed LDC to keep the net book value of the stranded meters related to the deployment of smart meters in its rate base.

CDM Agreements

In May 2007, LDC entered into agreements with the Ontario Power Authority ("OPA") to deliver OPA-funded CDM programs during the years from 2007 to 2010. All programs are fully funded by the OPA with any advance payments recorded on the consolidated balance sheet as a deferred liability.

Since the launch of these programs in 2007, LDC has spent a total of $78.5 million on OPA programs ($18.1 million in 2010) and recognized $12.2 million in margin related to such programs ($1.1 million in 2010).

Street Lighting Activities

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution license for a new wholly-owned legal entity to which the Corporation intends to transfer the street lighting assets of TH Energy. Concurrently, the Corporation filed another application with the OEB seeking approval for the merger of LDC and the new legal entity. The main objective of these applications is to transfer the street lighting assets to the regulated electricity distribution activities of LDC to increase the overall safety of the related infrastructure.

On February 11, 2010, the OEB issued its decision in regard to these applications. In its decision, the OEB agreed, that under certain conditions, the treatment of certain types of street lighting assets as regulated assets is justified. The OEB ordered the Corporation to provide a detailed valuation of the street lighting assets and to perform an operational review to determine which assets could become regulated assets. The Corporation is currently performing a detailed asset and financial valuation of the street lighting assets, and expects to have this comprehensive review completed by the end of 2010. The Corporation is evaluating the impact of this decision on its regulated and unregulated businesses and whether to transfer all or a portion of the street lighting assets to LDC in the future.

OEB PILs Proceeding

The OEB is conducting a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for all Municipal Electricity Utilities ("MEUs"). The current proceeding is expected to provide direction regarding the interpretation of the rules issued by the OEB. The outcome of this proceeding could have a material impact on the financial position of the Corporation.

Payments in Lieu of Additional Municipal and School Taxes

The Ministry of Revenue has issued assessments in respect of payments in lieu of additional municipal and school taxes under s.92 of the *Electricity Act, 1998* that are in excess of the amounts LDC believes are payable. The dispute arose as a result of inaccurate information incorporated into Ontario Regulation 224/00, correction of which has been requested by LDC.

The balance assessed by the Ministry of Revenue above the balance accrued by the Corporation amounts to $9.2 million as at September 30, 2010. The Corporation has been working with the Ministry of Revenue and the Ministry of Finance to resolve this issue. However, there can be no assurance that the Corporation will not have to pay the full assessed balance in the future.

Legal Proceedings

Late Payment Charges Class Action

By Order dated July 22, 2010, the Ontario Superior Court of Justice consolidated and approved the settlement of two class actions against LDC, one commenced in 1994 and the other, against all Ontario MEUs, in 1998. The actions sought $500.0 million and $64.0 million, respectively, in restitution for late payment charges collected by them from their customers that were in excess of the interest limit stipulated in section 347 of the *Criminal Code*. The claims made against LDC and the definition of the plaintiff classes were identical in both actions such that any damages payable by LDC in the first action would reduce the damages payable by LDC in the second action, and vice versa.

The July 22, 2010 court order formalized a settlement pursuant to which the defendant MEUs will pay the amount of $17.0 million plus costs and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the *Criminal Code*. LDC's share of the settlement amount is $7.8 million, payable on June 30, 2011. Under the settlement, all of the MEUs involved in the settlement, including LDC, will request an order from the OEB allowing for the future recovery from customers of all costs related to the settlement. LDC has accrued a liability and a corresponding regulatory asset in the amount of $7.8 million and the request for recovery has been filed with the OEB.

On October 29, 2010, the OEB issued a notice of proceeding involving all of the defendant MEUs including LDC, to determine whether the costs and damages incurred by MEUs are recoverable from electricity ratepayers, and if so, the form and timing of such recovery. Based on the decision of the OEB in respect of a similar application for recovery made by Enbridge Gas Distribution Inc. in 2008, the Corporation believes that the OEB will allow such future recovery. However, there is no guarantee that the OEB will allow for total or partial recovery of such costs. If the OEB denies such recovery, it may have an adverse material impact on the consolidated results of operations and financial position of the Corporation in the future.

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 has been filed, and a certification order issued. Affidavits of Documents have been produced by LDC to the other parties and examinations for discovery have commenced and are continuing. 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.

Another action was commenced against LDC in February 2009 in the Ontario Superior Court of Justice seeking damages in the amount of $20.0 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 has been filed, and a certification order issued. Affidavits of Documents have been produced by LDC to the other parties and examinations for discovery have commenced and are continuing. 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, these two actions, together with a third smaller non-class action commenced in April 2009 involving the same incident, will be tried at the same time or consecutively. Consequently, documentary discovery and examinations for discovery will be joined for all three actions.

3650 Kingston Road

An action was commenced against LDC in March 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 and explosion in the electrical room at 3650 Kingston Road on March 19, 2009. A statement of claim was served on LDC. The proceedings of other parties to the action revealed that the damages are likely to have been caused by a party other than LDC. As a result, LDC brought a successful motion to have LDC dismissed from the action. Accordingly, this action will not have a material effect on the financial performance of the Corporation.

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 also added LDC as a defendant. The main action seeks damages in the amount of $10.0 million from LDC. Both actions are at a preliminary stage. A third party claim and now the Statement of Claim in the main action have been served on LDC and statements of defence to the main action and 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.

Another third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice 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 also added LDC as a defendant. The main action seeks damages in the amount of $0.4 million from LDC. Both actions are at a preliminary stage. Although a third party claim and the Statement of Claim in the main action have been served on LDC, statements of defence to the main action and 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.

Adamopoulos v. LDC

An action was commenced against LDC in November 2004 in the Ontario Superior Court of Justice seeking damages in the amount of $7.8 million as compensation for damages allegedly suffered as a result of a motor vehicle accident involving an LDC vehicle on January 9, 2001. This action is at an intermediate stage. The plaintiff's motion increasing its claim for damages to $23.8 million was granted on July 7, 2010. The trial in this action is scheduled for May 2011. 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 capital of the Corporation consists of an unlimited number of common shares of which 1,000 common shares are issued and outstanding as at the date hereof.

Transactions with Related Parties

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

LDC provided electricity to the City in the amount of $30.2 million and $95.4 million for the three months and the nine months ended September 30, 2010, compared to $26.9 million and $79.1 million for the three months and the nine months ended September 30, 2009. Included in "Unbilled Revenue", as at September 30, 2010, is a balance amounting to $9.2 million receivable from the City related to the provision of electricity for the previous months, compared to $9.7 million as at December 31, 2009.

LDC and TH Energy provided relocation services, energy management services, street lighting services and consolidated billing services to the City amounting to $5.3 million and $15.3 million for the three months and the nine months ended September 30, 2010, compared to $5.0 million and $15.5 million for the three months and the nine months ended September 30, 2009. Included in LDC's and TH Energy's "Accounts receivable, net of allowance for doubtful accounts", as at September 30, 2010, is $4.0 million receivable from the City related to these services compared to $6.2 million as at December 31, 2009.

LDC purchased road cut and other services of $2.6 million and $5.1 million for the three months and the nine months ended September 30, 2010, compared to $0.4 million and $1.7 million for the three months and the nine months ended September 30, 2009. Included in "Accounts payable and accrued liabilities", as at September 30, 2010, is $9.3 million payable to the City related to services received from the City compared to $5.5 million as at December 31, 2009.

LDC and TH Energy paid property tax expenses to the City of $3.1 million and $6.2 million for the three months and the nine months ended September 30, 2010, compared to $3.2 million and $6.3 million for the three months and the nine months ended September 30, 2009.

As at September 30, 2010, the outstanding principal with respect to the City Note was $nil compared to $490.1 million as at December 31, 2009. The Corporation paid interest of $nil and $7.5 million for the three months and the nine months ended September 30, 2010 on the City Note, compared to $11.2 million and $33.7 million for the three months and the nine months ended September 30, 2009 (see "Corporate Developments – Monetization of City Note" above).

See notes 8 and 13 to the Interim Consolidated Financial Statements.

Considerations Related to Current Economic Conditions

Electricity Consumption

Economic conditions could lead to lower overall electricity consumption, particularly in the commercial customer segment, which is estimated to be the most sensitive to economic changes. Lower electricity consumption from commercial customers may negatively impact LDC's revenue. On an annual basis, a decrease of 1% in electricity consumption would reduce net revenue by approximately $3.6 million.

Interest Rates

Changes in interest rates will impact the calculation of LDC's revenue requirements filed with the OEB. The first component impacted by interest rates is the ROE. Under the OEB's revised Cost of Capital formula, the approved adjustment formula for calculating ROE will increase or decrease by 50% of the change between the current Long Canada Bond Forecast and the risk free rate established at 4.25% and 50% of the change between the market-quoted Canadian A-rated utility bond spread and the initial spread set at 1.42%. The Corporation estimates that a 1% (100 basis points) decrease in the forecast long-term Government of Canada bond yield, with no corresponding decrease in the A-rated utility spread used in the current OEB formula to determine LDC's ROE would reduce net income by approximately $4.3 million.

The second component of revenue requirement which would be impacted by interest rates is the recovery of financing costs. The difference between actual interest rates on new debt issuances and those approved by the OEB may negatively impact the Corporation's results of operations.

Debt Financing

Cash generated from operations, after the payment of expected dividends, will not be sufficient to repay existing indebtedness, fund capital expenditures and meet other obligations. The Corporation relies on debt financing through a Medium-Term Note Program or its revolving credit facility to repay existing indebtedness and fund capital expenditures. However, given the recent and on-going turmoil on financial markets, there can be no assurance that the Corporation will be able to arrange long-term debt financing, nor renew short-term financing facilities with similar terms in the future.

Significant Accounting Policies

The Interim Consolidated Financial Statements of the Corporation have been prepared in accordance with Canadian GAAP including accounting principles prescribed by the OEB in the handbook "Accounting Procedures Handbook for Electric Distribution Utilities" ("AP Handbook") and are presented in Canadian dollars. In preparing the unaudited Interim Consolidated Financial Statements, management makes estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the Interim Consolidated Financial Statements and the reported amounts of revenues and expenses for the periods covered thereby. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy, the Ministry of Finance, or the Ministry of Revenue. The significant accounting policies of the Corporation are summarized in note 4 to the Annual Consolidated Financial Statements and in note 3 to the Interim Consolidated Financial Statements.

Changes in Accounting Standards

Financial Instruments – Recognition and Measurement

In June 2009, the Canadian Institute of Chartered Accountants ("CICA") amended Handbook Section 3855 – "Financial Instruments – Recognition and Measurement" ("Handbook Section 3855") to clarify the application of the effective interest method after a debt instrument has been impaired. This amendment applies retrospectively to financial statements for fiscal years beginning on or after January 1, 2010. The adoption of this amendment did not have any impact on the Corporation's results of operations or financial position.

Future Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP prior to 2011, with the remaining standards to be adopted at the change over date.

Prior to the developments noted below, the Corporation's IFRS conversion project was proceeding as planned to meet the January 1, 2011 conversion date. The Corporation has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its Consolidated Financial Statements. The Corporation believes that the impact on its financial statements could be material.

Rate-Regulated Accounting ("RRA")

In accordance with Canadian 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 that otherwise expected under Canadian GAAP in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated 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, 2010, the Corporation reported $89.2 million of regulatory assets and $305.2 million of regulatory liabilities.

On July 23, 2009, the International Accounting Standards Board ("IASB") issued an Exposure Draft ("ED") proposing accounting requirements for rate-regulated activities. The IASB received a significant number of comment letters with diverging opinions. The IASB held a meeting on February 17, 2010 to discuss the summary analysis of the comment letters received. During this meeting, the IASB directed the IASB Staff to continue its research and analysis on the project and to focus on the key issue of whether regulatory assets and regulatory liabilities exist in accordance with the current *Framework for the Preparation and Presentation of Financial Statements* and whether they are similar to other current standards. On September 3, 2010, in preparation for the September board meetings, the IASB staff issued Agenda Paper 12 outlining the staff's view that regulatory assets and regulatory liabilities did not meet the definitions of an intangible asset under IAS 38 – *Intangible Assets*, a financial liability nor a provision under IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* respectively. The utility industry immediately expressed its concern against the issuance of such a blanket prohibition under IFRS. On September 16, 2010, the IASB held a meeting to discuss Agenda Paper 12 and the overall status of the rate-regulated activities project. The board members remained divided on the issue and determined that the matter could not be resolved quickly. As such, the Board decided to obtain feedback through public consultation as to the next steps that the IASB should take in relation to the rate-regulated activities project. Feedback from constituents is expected to be obtained by early 2011 and next steps for the project are expected to be determined and communicated by the second half of 2011.

The Canadian Electricity Association ("CEA") wrote a joint letter to the IASB on September 28, 2010 requesting an interim standard to grandfather previous GAAP accounting practices, such as those in Canada, be developed with respect to accounting for regulatory assets and liabilities. The IASB response indicated that it would further consider an interim standard after public consultation next year. To date, the IASB has not approved any temporary exemption or finalized a RRA standard under IFRS.

On July 28, 2010, the AcSB issued an exposure draft applicable to Canadian publicly accountable enterprises, which proposes that qualifying entities with rate-regulated activities be permitted, but not required, to continue applying the Canadian GAAP accounting standards in Part V of the CICA Handbook and proposed an optional deferral to the adoption of IFRS until January 1, 2013, with earlier application permitted. The exposure draft was open for comments until August 31, 2010. On September 10, 2010, the AcSB issued its decision summary stating that it would only grant an optional one year deferral of IFRS adoption. Subsequently, the Canadian Securities Administrators announced that entities subject to rate regulation may defer the adoption of IFRS for up to one year, consistent with the one year deferral granted by the AcSB.

Given these recent developments and due to the continued uncertainty around the timing, scope and eventual adoption of a RRA standard under IFRS and the potential material impact of RRA on the Corporation's financial statements, the Corporation has decided to elect the optional one year deferral of its adoption of IFRS. Accordingly, the Corporation will continue to prepare its consolidated financial statements in accordance with Canadian GAAP for 2011.

As a result of these developments related to RRA under IFRS and the uncertainty, discussed below regarding the impact of IFRS on the OEB electricity distribution rates application process, the Corporation cannot reasonably quantify the full impact that adopting IFRS would have on its future financial position and results of operations. During the deferral period, the Corporation will continue to actively monitor IASB developments with respect to RRA and non-RRA IFRS developments and their potential impacts.

IFRS Conversion Project

The Corporation commenced its IFRS conversion project in 2007 and established a formal project governance structure. This structure includes a steering committee consisting of senior levels of management from finance, information technology and operations, among others. Regular progress reports are provided to senior executive management. The Corporation's audit committee receives periodic project updates from senior management and approves all IFRS accounting policies. The Corporation's board of directors receives periodic project updates from senior executive management.

The Corporation's project consists of three phases:

1) the awareness and assessment phase;
2) the design phase; and
3) the implementation phase.

The Corporation completed its awareness and initial assessment during the second quarter of 2008. During the initial assessment it was determined that the areas of accounting differences with the highest potential impact to the Corporation are RRA, accounting for PP&E, PILs, employee future benefits, as well as initial adoption of IFRS under the provisions of IFRS 1, First-time Adoption of IFRS ("IFRS 1"). The Corporation next completed a detailed assessment of accounting and disclosure differences.

The Corporation extended the design phase of the project given the uncertainty with respect to RRA. The design phase involved establishing issue-specific working groups in each of the identified risk areas. The working groups had established key milestones which included developing recommendations, analyzing financial system and internal control impacts, developing significant accounting policies, and carrying out ongoing discussions with external auditors, in each area. Based on the outcomes of each working group, the Corporation is determining the projected impacts of adopting IFRS on its financial statements after considering the options available under IFRS 1. With the exception of uncertainties with respect to RRA, the design phase was completed at the end of the second quarter of 2010. The Corporation is currently working through the implementation phase.

The roll-out of the changes developed in the design phase takes place during the implementation phase and involves the development of new accounting policies and accounting manuals and the associated training for the finance and operational teams, testing the effectiveness of the changes made to systems, a simulation of the financial reporting process, preparation of opening balance sheet on transition date and related reconciliations, assessing the ongoing impacts on the IFRS financial statements and related disclosures. The Corporation continues to roll-out business process changes developed in the design phase and train finance and operational employees. Based on these process changes, the Corporation is updating internal control processes and documentation.

As a result of electing the one-year deferral, the Corporation has revised its project plan to reflect the necessary work involved in determining the impacts of adopting IFRS at the new adoption date of January 1, 2012. The following table provides certain key activities of the changeover plan and an assessment of the Corporation's progress at this time. This information reflects the Corporation's most recent assumptions and expectations. Circumstances may arise such as changes in IFRS, regulations, or economic conditions, which would affect these assumptions or expectations.

Key Activities	Status
Accounting policies & procedures:	
• High level review of major differences between Canadian GAAP and IFRS • Establish issue-specific working groups in the identified risk areas • Detailed assessment of accounting and disclosure differences, accounting policy choices and IFRS 1 elections available • Develop recommendations and accounting policies through ongoing discussions with external auditors • Finalize new accounting policies and accounting manuals	• All accounting policy positions (with the exception of those that are impacted by RRA) have been developed. Further updates will be required due to the one-year deferral • The majority of the accounting policies have been approved by senior management and the audit committee • The timing of final approval of the remaining policies (those impacted by RRA) is contingent on the final decision regarding RRA under IFRS • Accounting policies and procedure manuals continue to be updated based on the IASB project developments
Financial statements preparation:	
• Identify Canadian GAAP to IFRS financial statements presentation differences and design interim and annual financial statements formats and related notes disclosures • Simulate of the financial reporting process under IFRS • Prepare the opening balance sheet on the date of transition, and IFRS 1 related reconciliations and disclosures • Assess ongoing impacts on the IFRS financial statements and related disclosures	• Developed financial statements formats • Testing of systems related modifications are in progress • Preparation of the opening balance sheet on transition date is in progress (with the exception of items that are impacted by RRA) • Obtained approval from senior management and Audit Committee over the design of the first IFRS annual and interim financial statements
Training & communication:	
• Provide training to affected finance and operational teams, management and the board of directors, and relevant committees thereof, including the audit committee • Develop and execute staff training plan, and roll out communication initiatives	• Completed detailed training for resources directly engaged in the changeover and general awareness training to broader group of finance employees • Continue to provide topic-specific and relevant training to finance and operational teams • Completed Design phase closeout training session for all key finance and operational staff • Continue ongoing, periodic internal and external communications on the Corporation's progress on the IFRS project and direction, including the effects of the changeover given the one-year deferral

Key Activities	Status
Business impacts:	
• Implement changes to debt covenants, internal performance measures, contracts and processes	• Impacts to debt covenants, regulatory and other business processes were identified and assessed throughout the development of accounting policies. Such impacts will be updated in light of the one-year deferral
Information technology systems:	
• Analysis of financial system to identify required modifications • Test the effectiveness of the changes made to systems • Ensure solution captures financial information under Canadian GAAP and IFRS during the year of transition for comparative reporting purposes	• Completed system changes for reporting purposes. Further changes to information systems are largely dependent upon future changes to IFRS standards such as RRA • Modify system to accommodate the new transition date of January 1, 2011 and begin to accumulate IFRS data for reporting comparative information • Continue to implement remaining required modifications to financial systems
Control environment:	
• Detailed assessment of the impact of IFRS conversion on people, systems, processes and internal controls • Analyze and update internal control processes and documentation • Implement related controls and procedures to ensure the integrity and effectiveness of internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P")	• Based on the accounting policies and procedures developed, the Corporation continues to evaluate and document the impacts on new and existing controls to ensure the integrity and effectiveness of ICFR and DC&P

In general, a first-time adopter is required to apply the IFRS standards retrospectively and recognize any consequential adjustments in retained earnings. IFRS 1 contains all of the transitional requirements applicable for the first-time adoption of IFRS. Several mandatory and optional exemptions to the retrospective application are available. The Corporation has considered the impacts of IFRS 1 and an initial assessment has been made as to which exemptions would be elected upon transition. At this time, the impact on the Corporation's future financial position and results of operations is not reasonably determinable or estimable mainly due to the issue related to RRA and the uncertainty, as discussed below regarding the impact of IFRS on the OEB electricity distribution rates application process. In addition, during the one-year deferral, changes to IFRS may impact exemptions available for first-time adopters, and in turn, may change the Corporation's original assessments and policy selections.

Areas of IFRS	Summary of Exemption Available	Policy Selection
IAS 16 PP&E ("IAS 16")	The rate-regulated deemed cost exemption permits rate-regulated entities adopting IFRS for the first time to elect to use the previous GAAP carrying amount of certain items of PP&E and intangible assets at the date of transition to IFRS as deemed cost. The fair value or revaluation as deemed cost exemption permits the cost of an item of PP&E to be measured based at deemed cost, which can be fair value at the date of transition.	The Corporation plans to elect (1) the rate-regulated deemed cost exemption for regulated eligible assets and (2) the fair value deemed cost exemption for its unregulated assets.
IAS 19 Employee Benefits ("IAS 19")	The "corridor" approach defers the recognition of some actuarial gains and losses. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition into a recognized and an unrecognized portion. However, the Corporation may elect to recognize all cumulative actuarial gains and losses in retained earnings at the date of transition. Also, for its defined benefit plans, the Corporation may disclose the information required by IAS 19 (i.e. previous four annual periods) as the amounts are determined prospectively from the date of transition.	The Corporation plans to elect the exemption to recognize all cumulative actuarial losses in retained earnings at the date of transition. The Corporation plans to elect the disclosure exemption and thereby plans to disclose four years of comparative information required by IAS 19.
IAS 39 Financial Instruments Recognition and Measurement ("IAS 39")	IAS 39 does not permit the reclassification of a financial instrument after it has been designated as a financial asset or liability at fair value through profit or loss. Despite this requirement, an entity is permitted to re-designate, at the date of transition to IFRS any financial instrument as at fair value through profit or loss provided certain criteria of IAS 39 are met (i.e. this exemption allows the Corporation to reclassify its portfolio on the date of transition).	The Corporation has concluded that the cash equivalents portfolio meets the designation requirements of IAS 39. The Corporation plans to elect the exemption to re-designate the cash equivalent portfolio from held-to-maturity to fair value through profit or loss.

Areas of IFRS	Summary of Exemption Available	Policy Selection
IAS 37 Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")	IFRS 1 includes an elective exemption that allows a first-time adopter to re-measure the amount of the decommissioning provision capitalized in PP&E using a simplified method.	The Corporation plans to elect to re-measure its decommissioning provisions on the date of transition using a simplified method.
IFRIC 4 Determining whether an arrangement contains a Lease ("IFRIC 4")	There are two optional exemptions with respect to leases. The first optional exemption permits that when a first-time adopter had made the same determination of whether an arrangement contains a lease under previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, reassessment of determination for such arrangements at the date of transition is not required. The second exemption permits a first-time adopter to apply the transitional provisions in IFRIC 4, effectively allowing the determination of whether or not any arrangements existing at the date of transition contain a lease based on the facts and circumstances at that date rather than at the date of the inception of the arrangement.	The Corporation plans to elect the first exemption and will not be required to make any additional assessments at the date of transition. Based on the Corporation's assessment, there will not be a requirement to elect the second exemption.
IFRIC 18 Transfers of Assets from Customers ("IFRIC 18")	The Corporation may apply the transitional provisions in IFRIC 18 and thereby apply the interpretation prospectively to transfers of assets from customers received on or after the date of transition or early adoption is permitted.	The Corporation plans to elect the exemption to apply IFRIC 18 prospectively to transfers of assets received from customers on or after the date of transition.
IAS 23 Borrowing Costs ("IAS 23")	The Corporation may prospectively capitalize borrowing costs related to qualifying assets for which the commencement date of capitalization is on or after the date of transition or early adoption is permitted, thereby avoiding the retrospective reconstruction of such amounts for periods prior to the IFRS transition date.	As the Corporation plans to elect the deemed cost exemption, it may not elect this IFRS 1 exemption.

The Corporation has completed a detailed assessment of the accounting and disclosure differences between Canadian GAAP and IFRS and identified the following areas as having the potential to materially impact the consolidated financial statements on the date of transition to IFRS and post-IFRS implementation. The Corporation cannot reasonably assess the impact of the changes discussed below on its future financial position and results of operations as the OEB has not yet determine the impact of IFRS on the calculation of the annual base revenue requirement and rate base of LDC. In light of the one-year deferral in the IFRS transition date, accounting and disclosure differences must be revisited due to changes to standards during this period.

Risk Areas	Key Differences Canadian GAAP vs. IFRS	Potential Key Impacts
IAS 1 Presentation of Financial Statements ("IAS 1")	IAS 1 states that a liability is presented as current if: (i) an entity does not have an unconditional right to defer its settlement for at least twelve months after the reporting period; and (ii) a liability is payable upon demand.	Based on preliminary assessments, it is expected that there will be an increase in customer advance deposits being reclassified from non-current to current liability under IFRS.
IAS 12 Income Taxes ("IAS 12")	Canadian GAAP and IAS 12 are similar in that they are based on the balance sheet liability approach whereby an entity recognizes deferred tax liabilities for taxable temporary differences, and deferred tax assets for deductible temporary differences, unused losses and tax credit carry-forwards.	The impact of IAS 12 on the Corporation's consolidated financial statements cannot reasonably be estimated until greater clarity is provided by the IASB on the future direction of RRA and until final accounting policy decisions are made under other standards.
IAS 16	IAS 16 requires that an item of PP&E be separated into components when those parts are significant in relation to the total cost of the item. Each component is depreciated over its estimated useful life, and derecognized separately. Costs that are not directly attributable to items of PP&E (such as administration and other general overhead costs) cannot be capitalized under IAS 16. IAS 16 also requires that items of PP&E be derecognized as soon as they are taken out of service.	The Corporation has componentized its items of PP&E, and assessed the respective useful lives following a detailed review of all its assets. It is expected that as a result of this review, the estimated useful lives will be longer and accordingly, the associated depreciation expense will be lower. Based on preliminary assessments, it is expected that less costs would be capitalized under IFRS.

Risk Areas	Key Differences Canadian GAAP vs. IFRS	Potential Key Impacts
IAS 19	IAS 19 provides guidance on all employee benefits, unlike Canadian GAAP which focuses on employee future benefits. Short term benefits that accumulate are recognized even when the benefit is non-vested. Post-employment defined benefit plans are subject to different accounting treatments related to the attribution method and the attribution period under IFRS. Actuarial gains and losses are permitted to be recognized directly in equity or through earnings using the corridor method or another systematic method that allows for faster recognition through earnings, and amortized over the expected remaining working lives of the employees.	Based on preliminary assessments, the impact on the date of transition as a result of the adoption of IAS 19 (including the IFRS 1 exemption discussed above) is an expected increase to liabilities with a corresponding decrease to opening retained earnings.
IAS 23	The core principle of IAS 23 is that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset forms part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.	Based on preliminary assessments, it is expected that additional borrowing costs would be capitalized as a result of adoption of IAS 23.
IAS 37	IAS 37 requires the use of a risk-free rate to discount provisions, whereas Canadian GAAP requires the use of a credit-adjusted risk-free rate.	Based on preliminary assessments, the impact on the date of transition as a result of measurement differences (including the IFRS 1 exemption discussed above) is an increase to decommissioning provisions, a decrease to PP&E, and a decrease to opening retained earnings.
IFRIC 18	IFRIC 18 does not allow for the netting of capital contributions received against items of PP&E.	Based on preliminary assessments, there will be a reclassification between PP&E, and unearned revenue liability. Presentation differences will have no impact on the net income reported.

OEB Review Process

The OEB is still in the process of reviewing the AP Handbook in order to provide guidance on the impacts of IFRS and RRA on the electricity distribution rates application process. To date the OEB has conducted two consultations and issued some preliminary guidelines.

The OEB issued its Report of the Board – *Transition to IFRS* on July 28, 2009, which contained recommendations on how regulatory reporting requirements should change in response to IFRS. The Corporation continues to evaluate the potential impacts of the recommendations as several issues were not addressed in the Report of the Board.

The OEB has initiated a second phase in its transition project, which involves amending certain regulatory instruments. On February 24, 2010, the OEB issued a letter titled *Accounting for Overhead Costs Associated with Capital Work* which provides guidance regarding the overhead capitalization for regulatory reporting purposes. The OEB will require overhead costs to be capitalized in accordance with IFRS for regulatory reporting purposes. Specific alternative treatment for regulatory purposes is available where the OEB authorizes such treatment. In addition, the OEB engaged a third party consultant to complete a depreciation study on PP&E. The OEB released the draft report on April 30, 2010 and requested that utilities comment on the findings. The Corporation responded via a joint submission through the Coalition of Large Distributors. On July 8, 2010, the OEB issued a letter entitled *Depreciation Study for Use by Electricity Distributors, Consultant Final Report* which indicated that the depreciation study should be used as a tool for the determining of useful lives for distribution assets that may be both acceptable to the OEB and for financial reporting purpose. Accordingly, upon transition to IFRS, the OEB will no longer prescribe service lives for PP&E.

On November 8, 2010, the OEB issued an amendment to *Appendix 2: Summary of Board Policy* of the July 28, 2009 Report of the Board – *Transition to IFRS* which mirrors the one-year deferral. In addition, the amendment provides guidance on filing requirements for rate applications and reporting and record-keeping requirements for electricity distributors.

To date, there are no clear guidelines from the OEB regarding the treatment of the differences between Canadian GAAP and IFRS in the electricity distribution rates application process. Accordingly, the Corporation cannot reasonably assess at this time, the impact of the adoption of IFRS on its future financial position and results of operations. In light of the one-year deferral in the IFRS transition date, quantifications must be revisited and revised in order to reflect underlying transactional data and standard changes during this period. The Corporation will continue to monitor the activities of the OEB in regard to the impact of the transition to IFRS on electricity distribution rates and intends to actively participate in future consultations related to this issue.

Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued Handbook Section 1601 – "Consolidated Financial Statements" ("Handbook Section 1601"). This section along with the new Handbook Section 1602 – "Non-controlling Interests" ("Handbook Section 1602"), replaces Handbook Section 1600 – "Consolidated Financial Statements" and establishes standards for the preparation of consolidated financial statements. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted as of the beginning of a fiscal year. The Corporation has determined that these standards will have no impact on its results of operations and financial position.

Financial Instruments – Recognition and Measurement

In June 2009, the CICA amended Handbook Section 3855 to clarify when an embedded prepayment option is separated from its host debt instrument for accounting purposes. This amendment applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Corporation expects this amendment will have no impact on its results of operations and financial position.

Comprehensive Revaluation of Assets and Liabilities

In August 2009, the CICA amended Handbook Section 1625 – "Comprehensive Revaluation of Assets and Liabilities" to be consistent with Handbook Section 1582 – "Business Combinations", Handbook Section 1601 and Handbook Section 1602, which were issued in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Corporation expects these amendments will have no impact on its results of operations and financial position.

Forward-Looking Information

The Corporation includes forward-looking information in the Management's Discussion and Analysis ("MD&A") within the meaning of applicable securities laws in Canada ("forward-looking information"). 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 "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "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 LDC's base distribution revenue, the Corporation's plans to borrow funds to finance the investment in LDC's infrastructure, the impact of current economic conditions and financial market volatility on the Corporation's results of operations, performance, business prospects and opportunities, the potential transfer of street lighting activities from TH Energy, the outcome of outstanding proceedings before the OEB, the estimated fair value of the Corporation's investments, the effect of changes in interest rates on future revenue requirements, and the Corporation's conversion to 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, the Corporation's ability to borrow, the fair market value of the Corporation's investments, and the impact of IFRS on the Corporation's Consolidated Financial Statements.

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, the timing and amount of future cash flows generated by the Corporation's investments, 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.

Additional Information

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

Toronto, Canada

November 26, 2010