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TORONTO HYDRO CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2009

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of Toronto Hydro Corporation (the "Corporation") as at and for the year ended December 31, 2009 (the "Consolidated Financial Statements"). The Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including accounting principles prescribed by the Ontario Energy Board (the "OEB"), and are presented in Canadian dollars.

Business of Toronto Hydro

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 690,000 customers located in the City of Toronto (the "City"). LDC is the largest municipal electricity distribution company in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB which has broad powers relating to licensing, standards of conduct and service and the regulation of rates charged by LDC and other electricity distributors in Ontario.

The sole shareholder of the Corporation is the City.

Electricity Distribution – Industry Overview

In April 1999, the government of Ontario initiated a restructuring of Ontario's electricity industry. The restructuring was intended, among other things, to facilitate competition in the generation and sale of electricity, to protect the interests of consumers with respect to prices and the reliability and quality of electricity service and to promote economic efficiency in the generation, transmission and distribution of electricity.

On May 1, 2002, the Province opened Ontario's wholesale and retail markets to competition by providing generators, retailers and consumers with open access to Ontario's transmission and distribution network ("Open Access").

Since the commencement of Open Access, LDC and other electricity distributors have been purchasing their electricity from the wholesale market administered by the Independent Electricity System Operator ("IESO") and recovering the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the OEB.

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The *Ontario Energy Board Act, 1998* sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing process requirements for rate-setting purposes.

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The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that electricity distribution companies fulfil obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than the distribution rate, represent a pass through of amounts payable to third parties):

- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers and the OEB-allowed rate of return. Distribution rates are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.

  The volume of electricity consumed by LDC's customers during any period is governed by events largely outside LDC's control (principally, sustained periods of hot or cold weather which increase the consumption of electricity and sustained periods of moderate weather which decrease the consumption of electricity).

- *Electricity Price and Related Regulated Adjustments* – The electricity price and related regulated adjustments represent a pass through of the commodity cost of electricity.

- *Retail Transmission Rate* – The retail transmission rate represents a pass through of wholesale costs incurred by distributors in respect of the transmission of electricity from generating stations to local areas. Retail transmission rates are regulated by the OEB.

- *Wholesale Market Service Charge* – The wholesale market service charge represents a pass through of various wholesale market support costs. Retail rates for the recovery of wholesale market service charges are regulated by the OEB.

LDC is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings.

The Corporation and its subsidiaries are exempt from tax under the *Income Tax Act* (Canada), the *Corporations Tax Act* (Ontario) and the *Taxation Act, 2007* (Ontario), if not less than 90% of the capital of the Corporation is owned by the City and not more than 10% of the income of the Corporation and each of its subsidiaries is derived from activities carried on outside the municipal geographical boundaries of the City.

The Corporation and each of its subsidiaries is a Municipal Electricity Utility ("MEU") for purposes of the Payment In Lieu of Corporate Taxes ("PILs") regime contained in the *Electricity Act, 1998*. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act* (Canada), the *Corporations Tax Act* (Ontario) and the *Taxation Act, 2007* (Ontario) is required to make, for each taxation year, a PILs to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (for years ending after 2008) or the *Corporations Tax Act* (Ontario) (for years ending prior to 2009) if it were not exempt from tax.

On May 14, 2009, the *Green Energy and Green Economy Act, 2009* (Ontario) (the "Green Energy Act") received Royal Assent from the Province of Ontario. The Green Energy Act, among other things, permits electricity distribution companies to own renewable energy generation facilities; obligates electricity distribution companies to provide priority connection access for renewable energy generation facilities; empowers the OEB to set CDM targets for electricity distribution companies as a condition of license; and requires electricity distribution companies to accommodate the development and implementation of a smart grid in relation to their systems. The legislation was largely enabling and provided that much of the implementation detail would be defined in subsequent regulations. The Corporation expects that the full implementation of the Act will affect the manner and framework under which many of its business operations are currently conducted.

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Selected Consolidated Financial Data

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

Years ended December 31,
(in thousands of dollars except for per share amounts)

	2009 $	2008 $	Change $	Change %	2007 $
Revenues	2,461,671	2,380,084	81,587	3.4	2,351,486
Costs					
Purchased power and other	1,953,657	1,884,296	69,361	3.7	1,853,874
Operating expenses	210,889	203,429	7,460	3.7	190,404
Depreciation and amortization	162,970	156,159	6,811	4.4	143,983
	2,327,516	2,243,884	83,632	3.7	2,188,261
Income before interest, change in fair value of investments, other and provision for PILs	134,155	136,200	(2,045)	(1.5)	163,225
Interest income	3,207	12,328	(9,121)	(74.0)	13,949
Interest expense					
Long-term debt	(73,061)	(71,542)	(1,519)	(2.1)	(75,312)
Other interest	(697)	(3,212)	2,515	(78.3)	1,403
Change in fair value of investments	(1,049)	(22,033)	20,984	95.2	(13,059)
Other	-	-	-	-	1,674
Income before provision for PILs	62,555	51,741	10,814	20.9	91,880
Provision for PILs	19,742	5,745	13,997	243.6	37,802
Income from continuing operations	42,813	45,996	(3,183)	(6.9)	54,078
Income (loss) from discontinued operations – net of tax[(1)]	(680)	123,016	(123,696)	(100.6)	28,753
Net income	42,133	169,012	(126,879)	(75.1)	82,831
Basic and fully diluted net income per share from continuing operations	42,813	45,996	(3,183)	(6.9)	54,078
Basic and fully diluted net income (loss) per share from discontinued operations	(680)	123,016	(123,696)	(100.6)	28,753
Basic and fully diluted net income per share	42,133	169,012	(126,879)	(75.1)	82,831

Notes:

(1) Consists of discontinued operations for Toronto Hydro Telecom Inc. ("Telecom") and The SPi Group ("SPi"). See note 27 to the Consolidated Financial Statements.

As at December 31, (in thousands of dollars)	2009 $	2008 $
Consolidated Balance Sheet Data		
Total assets	3,059,227	2,779,812
Current liabilities[1]	336,739	561,443
Long-term liabilities	1,724,234	1,237,078
Total liabilities	2,060,973	1,798,521
Shareholder's equity	998,254	981,291
Total liabilities and shareholder's equity	3,059,227	2,779,812

Note:

(1) Amounts include current liabilities from discontinued operations regarding Telecom and SPi. See note 27 to the Consolidated Financial Statements.

Results of Operations – 2009 compared to 2008

Net Income

Net income was $42.1 million in 2009 compared to $169.0 million in 2008. The decrease in net income was primarily due to lower income from discontinued operations in 2009 relating to the sale of Telecom in 2008 (see "Discontinued Operations" below) ($123.7 million), higher provision for PILs in 2009 ($14.0 million), higher net interest expense ($8.2 million), higher operating expenses ($7.5 million), and higher depreciation expense ($6.8 million). These unfavourable variances were partially offset by a lower reduction in the fair value of investments in 2009 compared to 2008 due to changes in market conditions ($21.0 million) and higher net revenues ($12.2 million).

Net Revenues

Net revenues (revenues minus the cost of purchased power and other) were $508.0 million in 2009 compared to $495.8 million in 2008. The increase was primarily due to increased net revenues at LDC ($12.1 million).

At LDC, the increase in net revenues was primarily due to increased distribution revenue. The increase in distribution revenue was mainly related to higher distribution rates for 2009 ($20.3 million). The increase in distribution rates was approved by the OEB in 2008 and provides for increases in maintenance program expenditures and capital expenditures of LDC. This favourable variance was partially offset by lower consumption in 2009 (25,223 GWh in 2009 compared to 26,037 GWh in 2008) ($6.8 million), mainly due to a higher impact from the general slow down in the economy in 2009 and mild weather conditions for 2009.

Expenses

Operating expenses were $210.9 million in 2009 compared to $203.4 million in 2008. The increase in operating expenses was primarily due to higher payroll costs at LDC mainly from the hiring of new apprentices in the electrical trades and annual general wage increases ($7.0 million) and unexpected emergency operating expenditures incurred by LDC to ensure the safety of its electricity distribution infrastructure. During the month of February 2009, LDC suspended all non-emergency maintenance and capital programs and mobilized its workforce to inspect the connections of its infrastructure to the street lights and other unmetered assets. The overall operating costs related to this initiative were approximately $14.4 million and were comprised primarily of internal labour costs and external scanning and remediation costs. Of this amount, $9.1 million has been approved for future recovery by the OEB and transferred from operating expenses to regulatory assets following the decision rendered

on December 10, 2009 (see "Corporate Developments – Contact Voltage" below). Accordingly, in connection with this issue, the Corporation incurred $5.3 million of unexpected operating expenditures in 2009. These unfavourable variances were partially offset by lower costs at TH Energy related to decreased activities in energy management services ($3.8 million).

Depreciation and amortization expense was $163.0 million in 2009 compared to $156.2 million in 2008. The increase in depreciation and amortization expense was primarily due to increased investments in the electricity distribution assets of LDC. Since 2007, LDC has significantly increased its capital expenditures through its strategy of modernizing the electricity infrastructure. This strategy was presented to the OEB in 2008 and related incremental funding was approved in distribution rates for 2008 and 2009.

Net Interest Expense

Net interest expense was $70.6 million in 2009 compared to $62.4 million in 2008. The increase in net interest expense was primarily due to lower interest income.

Change in Fair Value of Investments

Change in fair value of investments was $1.0 million in 2009 compared to $22.0 million in 2008. The decrease in the change in fair value of investments was primarily due to deteriorating market conditions in 2008 reflected in the mark-to-model valuation performed on the Asset Backed Commercial Paper ("ABCP") notes. In each valuation, the Corporation considered the impact of its share of cash in the conduit trusts and the changes in prevailing market conditions impacting the value of the investments including the impact of the credit rating downgrade of the Class A-2 notes in August 2009 (see "Investments" below).

Provision for PILs

Provision for PILs was $19.7 million in 2009 compared to $5.7 million in 2008. The increase in the provision for PILs was primarily due to the favourable impact in 2008 of the settlement of the Ministry of Revenue PILs audits for 2001 and 2002 and higher earnings before tax in 2009, partially offset by lower temporary and permanent differences in LDC in 2009.

Discontinued Operations

Loss from discontinued operations, net of tax, was $0.7 million in 2009 compared to income from discontinued operations, net of tax, of $123.0 million in 2008. The decrease in income from discontinued operations, net of tax, was primarily due to the sale of Telecom in 2008.

On July 31, 2008, the Corporation sold all of the shares of Telecom to Cogeco Cable Canada Inc. for cash consideration of $200.0 million. In connection with this transaction, the Corporation recorded a net gain of $118.7 million in the third quarter of 2008, and recorded an unfavourable post-closing adjustment of $1.9 million for the year ended December 31, 2009. The results of operations and financial position of Telecom have been segregated and presented as discontinued operations in the Consolidated Financial Statements.

On April 30, 2009, EBT Express, an equal partnership between the Corporation's wholly owned subsidiary 1455948 Ontario Inc. and OPG EBT Holdco Inc., sold its interest in SPi to ERTH Corporation for cash consideration of approximately $5.2 million subject to post-closing adjustments and transaction costs. The Corporation's share of the sale proceeds from this transaction as it relates to 1455948 Ontario Inc. was approximately $2.6 million. In connection with this transaction and other activities related to this business, the Corporation recorded a net gain of $1.2 million in the second quarter of 2009. The results of operations and financial position of SPi have been segregated and presented as discontinued operations in the Consolidated Financial Statements.

See note 27 to the Consolidated Financial Statements.

Results of Operations – 2008 compared to 2007

Net income was $169.0 million in 2008 compared to $82.8 million in 2007. The increase in net income was primarily due to higher contribution from discontinued operations in 2008 ($94.3 million) related to the sale of Telecom (see "Discontinued Operations" above) and a favourable variance in provision for PILs mainly from the settlement of disputes with the Ministry of Revenue ($32.1 million). These favourable variances were partially offset by higher operating expenses ($13.0 million), higher depreciation expense ($12.2 million), higher impairment on investments recorded in 2008 ($9.0 million), higher net interest expense ($2.4 million), and lower gains on disposition of property, plant and equipment ($1.7 million). For further details, see the Corporation's 2008 Management's Discussion and Analysis as filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

Summary of Quarterly Results

The tables below present unaudited quarterly consolidated financial information of the Corporation for 2009 and 2008 and reflect discontinued operations. See note 27 to the Consolidated Financial Statements.

2009 quarter ended, (in thousands of dollars)	December 31 $	September 30 $	June 30 $	March 31 $
Revenues	634,041	639,692	575,771	612,167
Costs	597,108	602,167	541,051	587,190
Income from continuing operations	9,398	11,826	14,621	6,968
Net income	8,941	11,831	14,375	6,986

2008 quarter ended, (in thousands of dollars)	December 31 $	September 30 $	June 30 $	March 31 $
Revenues	586,608	633,236	568,354	591,886
Costs	555,502	588,766	533,758	565,858
Income from continuing operations	4,688	11,029	9,654	20,625
Net income	4,820	126,623	15,077	22,492

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.

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Liquidity and Capital Resources Year Ended December 31, (in thousands of dollars)	2009 $	2008 $
Cash and cash equivalents, beginning of year	340,492	216,002
Net cash provided by operating activities	192,451	266,466
Net cash used in investing activities	(304,119)	(197,864)
Net cash used in financing activities	(16,816)	(112,722)
Net cash provided by (used in) discontinued operations [1]	(638)	168,610
Cash and cash equivalents, end of year	211,370	340,492

Note:

(1) Consists of discontinued operations for Telecom and SPi. See note 27 to the Consolidated Financial Statements.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $192.5 million in 2009 compared to $266.5 million in 2008. The decrease in net cash provided by operating activities was primarily due to a variance in the aggregate of accounts receivable and unbilled revenue due to higher energy prices at the end of 2009 and the timing of billing and collection activities at LDC and TH Energy ($79.7 million), a non-cash variance in the fair value of investments ($21.0 million), and lower income from continuing operations ($3.2 million). The decrease was partially offset by timing variances and higher energy prices in electricity payables at LDC ($15.1 million), a variance in PILs receivable ($9.9 million), and increased depreciation and amortization ($6.8 million).

Net Cash Used in Investing Activities

Net cash used in investing activities was $304.1 million in 2009 compared to $197.9 million in 2008. The increase in net cash used in investing activities was primarily due to a reduction of regulatory liabilities ($41.1 million) primarily related to the payment to customers of prior periods' retail settlement variance account balances arising from the variances in transmission and other market administration charges regulated by the OEB, an increase in regulatory assets ($34.3 million) mainly from the deployment of smart meters, and an increase in capital expenditures ($34.7 million). These variances were partially offset by the accumulated cash in conduits trusts received by the Corporation in 2009 ($3.9 million) (see "Liquidity and Capital Resources – Investments" below).

The increase in capital expenditures at LDC for 2009 amounted to $36.0 million and was primarily due to the increased investment in electricity distribution assets in connection with LDCs infrastructure renewal program approved by the OEB in 2008, higher technology asset purchases related to system upgrades, and higher fleet purchases including the purchase of new energy efficient vehicles.

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

Year Ended December 31, (in thousands of dollars)		
	2009 **$**	**2008** **$**
Capital Expenditures from Continuing Operations		
LDC		
Distribution system	183,479	160,256
Technology assets	38,159	30,316
Other [(1)]	20,048	15,140
	241,686	205,712
TH Energy	7,619	8,869
Total capital expenditures	249,305	214,581

Notes:

(1) Consists of leasehold improvements, vehicles, other work-related equipment, furniture and office equipment.

Net Cash Used In Financing Activities

Net cash used in financing activities was $16.8 million in 2009 compared to $112.7 million in 2008. The decrease in net cash used in financing activities was primarily due to decreased dividends paid to the City of Toronto in 2009 compared to 2008 and higher reimbursement of customer deposits in 2009 in compliance with OEB rules and regulations.

Revolving Credit Facility

The Corporation is a party to a revolving credit facility pursuant to which the Corporation may borrow up to $500.0 million, of which up to $175.0 million is available in the form of letters of credit. As at December 31, 2009, no borrowings for working capital were outstanding and letters of credit in the amount of $45.2 million had been issued primarily to support the prudential requirements of LDC with the IESO. (See note 12 to the Consolidated Financial Statements).

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.

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Investments

The Corporation held $88.0 million of third-party ABCP notes impacted by the liquidity crisis that arose in the Canadian market in August 2007. At the time the Corporation purchased each of these notes, they were rated R1(High) by DBRS Limited ("DBRS"), the highest credit rating issued for commercial paper. Following the liquidity crisis, a group representing banks, asset providers and major investors (the "Montreal Committee") was formed to oversee the restructuring of the impacted ABCP notes.

On January 12, 2009, the Ontario Superior Court approved the restructuring plan proposed by the Montreal Committee and supported by the noteholders of the Canadian third-party ABCP market. On January 21, 2009, the amended restructuring plan was completed and the Corporation received its replacement notes. The replacement notes received have an aggregate principal amount of $87.7 million. The distribution by class is listed below:

Master Asset Vehicle II	Amount Received	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 notes	$7.6 million	8.7%

Of the $87.7 million, $80.1 million includes a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets which is represented by senior Class A-1 and Class A-2 and subordinated Class B and Class C long-term restructured notes, and $7.6 million is represented by assets that have an exposure to U.S. mortgages and sub-prime mortgages, which has been replaced by Ineligible Asset Tracking ("IAT") notes.

At the time of issuance, DBRS assigned 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).

According to the Eighteenth and Nineteenth Reports of the Monitor, the "legal final maturity" of the restructured 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. Based on the information contained in the above-mentioned reports, there is no obligation to pay interest on the notes before 2019 and no legal requirement to pay principal until 2056.

As part of the implementation of the restructuring plan, the Corporation re-measured its investments in ABCP notes prior to the exchange. This valuation considered new information available at that date and reflected current market conditions. As a result of this valuation, the Corporation increased the fair value of its investment in ABCP notes from $52.9 million at December 31, 2008 to $56.5 million at January 20, 2009. The increase in fair value reflected the expected payment to the Corporation of its share of cash accumulated in the conduit trusts from August 2007 to January 2009. The increase in fair value was recorded as income in the first quarter of 2009, under change in fair value of investments.

On January 23, 2009, the Corporation received $2.7 million representing the first instalment of its share of the accumulated cash in the conduit trusts up to August 31, 2008. On May 15, 2009, the Corporation received a further $1.2 million representing the second instalment of its share of accumulated cash in the conduit trusts from September 2008 through January 20, 2009. These balances reduced the value of the investments.

Following the receipt of the new notes, the Corporation changed the classification of these investments from "Investments Held-To-Maturity" to "Investments Held-For-Trading". This change was mainly related to the underlying nature of the new notes and follows the guidance issued by the Accounting Standards Board of Canada ("AcSB") on February 2, 2009. The new notes are measured at fair value at each period end with changes in fair value included in the consolidated statements of income in the period in which they arise.

In the fourth quarter of 2009, the Corporation noticed evidence of the development of a market for these notes. However as at December 31, 2009, this market had not developed to a state that warranted a mark-to-market valuation process. Accordingly, the Corporation continued to use a mark-to-model valuation technique that incorporated available information and market data. The valuation technique used by the Corporation to estimate the fair value of its investments in the restructured notes as at December 31, 2009, incorporated a discounted cash flow model considering the best available public information regarding market conditions, including the ratings assigned by DBRS regarding the Class A-1 and Class A-2 notes, and other factors that a market participant would consider to evaluate such investments. The Corporation may change its valuation methodology to a mark-to-market valuation in the future as a more robust market for these notes develops.

A weighted average interest rate of 1.28% was used to determine the expected interest income on the restructured notes, except for the IAT notes, for which a weighted average interest rate of 1.98% was used. These rates were based on a forecast of 90-day Bankers' Acceptance ("BA") rates less 50 basis points from 2010 through 2017, except for the IAT notes for which a discount rate based on forecast 90-day BA rate plus 20 basis points was used. To derive a net present value of the principal and future cash flows, the restructured notes were discounted using an interest rate spread over forecast BA rates ranging from 340 basis points to 1,600 basis points over a seven-year period. On a weighted average basis, the interest rates used to discount the notes ranged from 4.27% to 16.87%.

The discount rates vary by each of the different replacement long-term notes issued as each is expected to have a different risk profile. The discount rates used to value the notes include a risk premium factor that incorporates current indicative credit default swap spreads, an estimated liquidity premium, and a premium for credit losses.

Based on the assumptions described above, the discounted cash flows resulted in an estimated fair value of the Corporation's investment in the restructured notes of $47.9 million as at December 31, 2009 as compared to $56.5 million as at January 20, 2009. The variance was mainly related to the cash received in connection with the Corporation's share of cash accumulated in the conduit trust and the change in interest rates due to changing market conditions including the impact of the credit rating downgrade of the Class A-2 notes in August 2009.

A sensitivity analysis was also conducted to examine the impact of an increase or a decrease in the overall weighted average discount rate. Based on the Corporation's mark-to-model valuation, a variation of 1% (100 basis points) would reduce or increase the estimated fair value of the restructured notes by approximately $3.7 million.

The estimation by the Corporation of the fair value of the restructured notes, as at December 31, 2009 is subject to significant risks and uncertainties, including the timing and amount of future cash flows, market liquidity and the quality of the underlying assets and financial instruments. Accordingly, there can be no assurance that the Corporation's assessment of the estimated fair value of the restructured notes will not change materially in subsequent periods.

The on-going liquidity crisis 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 ongoing liquidity and capital expenditure requirements and is in compliance with the financial covenants under the terms of its outstanding indebtedness.

Dividends

The shareholder direction adopted by the City with respect to the Corporation provides that the board of directors of the Corporation will use its best efforts to ensure the Corporation meets certain financial performance standards, including those relating to the credit rating and dividends. Subject to applicable law, the shareholder direction provides that the Corporation will pay dividends to the City each year amounting to the greater of $25 million or 50% of the Corporation's consolidated net income for the year. The dividends are not cumulative and are payable as follows:

- $6 million on the last business day of each of the first three fiscal quarters during the year;
- $7 million on the last business day of the fiscal year; and

- the amount, if any, by which 50% of the Corporation's net income for the year exceeds $25 million, within ten calendar days after the board of directors of the Corporation approved the Corporation's Consolidated Financial Statements for the year.

The board of directors of the Corporation declared and paid dividends totalling $25.2 million in 2009 and $116.4 million in 2008 to the City. The 2008 dividend payments included a special dividend of $75.0 million paid on December 31, 2008, in relation to the sale of all the shares of Telecom.

On March 5, 2010, the board of directors of the Corporation declared dividends in the amount of $6.0 million with respect to the first quarter of 2010, payable to the City on March 31, 2010.

Credit Rating

As at December 31, 2009, the Corporation and the Corporation's Debentures were rated "A"(high) by DBRS and "A" by Standard & Poor's ("S&P").

Corporate Developments

Medium-Term Note Program

On November 12, 2009, the Corporation issued $250.0 million in 10-year senior unsecured debentures ("Series 3") which bear interest at the rate of 4.49% per annum and are payable semi-annually in arrears in equal installments on May 12 and November 12 of each year. The Series 3 debentures mature on November 12, 2019, and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness not ranking *pari passu* or dispose of all or substantially all of their assets. The net proceeds of this issuance were used principally to repay $245.1 million of indebtedness outstanding to the City under the terms of the Corporation's promissory note with the City (the "Amended and Restated City Note") on December 31, 2009.

Management Change

On August 17, 2009, David O'Brien announced his retirement as President and Chief Executive Officer of the Corporation effective September 30, 2009. The Board appointed Anthony Haines as President and Chief Executive Officer of the Corporation effective October 1, 2009. Mr. Haines is also the President of LDC.

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 the distribution rates and other permitted recoveries in the future.

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 base 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 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. LDC's position is that the reduction in distribution revenue should be done after the deemed properties are sold and for the related actual net after-tax gain. In the event the OEB does not concur

with LDC's position and orders an immediate reduction in distribution revenue, the Corporation would have to reduce its distribution revenue by the deemed amount less the net after-tax gain of the deemed properties already sold. At December 31, 2009, the reduction in distribution revenue would be approximately $8.1 million. Further to the notice of clarification filed by LDC in the fourth quarter of 2009, the OEB indicated that it intends 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 issued the allowed return on equity ("ROE") for LDC for the 2009 rate year. The percentage was set at 8.01%. In addition to 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 August 28, 2009, LDC filed a rate application with the OEB seeking approval of the distribution revenue requirement and corresponding rates for the rate year May 1, 2010.

On December 11, 2009, the OEB issued revised cost of capital guidelines which set the initial allowed ROE for LDC for 2010 at 9.75%. The ROE formula will be adjusted to reflect the forecast long Canada Bond yield and A-rated Canadian Utility bond spreads when this data is released by the OEB on or about the beginning of March 2010. LDC will adjust its distribution rates to reflect the new guidelines as part of its rate finalization process for 2010 distribution rates.

On February 4, 2010, the OEB tentatively accepted a settlement proposal agreed to by LDC and various intervening parties. The settlement proposal captures a majority of issues, and provides for a 2010 capital budget of $350.0 million with a variance account to capture up to an additional $27.8 million of capital expenditures and operations, maintenance, and administration expenditures of $204.1 million. The settlement proposal does not settle issues relating to cost of capital (including applicability of new ROE guidelines to LDC), suite metering, and distributed generation, which are subject to a decision by the OEB in the first quarter of 2010. The final disposition of these matters could have a material impact on the final settlement.

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 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 631,000 smart meters as at December 31, 2009.

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 property, plant and equipment 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.

Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM")

Under certain specific rules, the OEB has allowed LDC to receive compensation for the lost revenue and the benefits associated to CDM programs delivered. The LRAM represents the lost revenue from CDM programs and the SSM represents LDC's share of provincial savings related to these programs.

On September 22, 2009, the OEB approved the recovery by LDC of $3.5 million in relation to LRAM and SSM expenditures related to CDM programs delivered in 2007. The recovery will be done through rate riders commencing on May 1, 2010 and ending April 30, 2011.

CDM Agreements

In May 2007, LDC entered into agreements with the Ontario Power Authority ("OPA") to deliver OPA-funded CDM programs in the amount of approximately $60.0 million during the years from 2007 to 2010. All programs are fully funded by the OPA with any advance payments recorded on the consolidated balance sheet as a deferred liability.

Since the launch of these programs in 2007, LDC has spent a total of $60.4 million on OPA programs ($20.7 million in 2007, $10.0 million in 2008 and $29.7 million in 2009) and recognized $11.1 million in margin related to such programs ($6.2 million in 2007, $1.9 million in 2008 and $3.0 million in 2009).

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 regards 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 evaluating the impact of this decision on its regulated and unregulated businesses and whether to transfer the street lighting assets to LDC.

Contact Voltage

On June 30, 2009, LDC filed an application with the OEB seeking recovery of costs incurred for the unexpected impact of the remediation of safety issues on its electricity distribution infrastructure. LDC sought recovery of $14.4 million by way of fixed term rate riders of three years for the street lighting and unmetered scattered load rate classes, and one year for all other classes. On December 10, 2009, the OEB issued its decision, which provides for the future recovery of $9.1 million of related expenditures. Accordingly, the Corporation has increased its regulatory assets and reduced its operating expenditures by $9.1 million for 2009.

OEB PILs Proceeding

In 2009, the OEB commenced its review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for all 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 $8.7 million as at December 31, 2009. The Corporation has been proactive 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

On April 22, 2004, in a decision in a class action commenced against The Consumers' Gas Company Limited (now Enbridge Gas Distribution Inc., hereinafter referred to as "Enbridge"), the Supreme Court of Canada (the "Supreme Court") ruled that Enbridge was required to repay the portion of certain late payment charges collected by it from its customers that were in excess of the interest limit stipulated in section 347 of the *Criminal Code*. Although the claim related to charges collected by Enbridge after the enactment of section 347 of the *Criminal Code* in 1981, the Supreme Court limited recovery to charges collected after the action was initiated in 1994. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for a determination of

the plaintiffs' damages. The parties reached a settlement of this class action. The Ontario Superior Court of Justice has approved this settlement.

On February 4, 2008, the OEB, in response to an application filed by Enbridge, ruled that all of Enbridge's costs related to settlement of the class action lawsuit, including legal costs, settlement costs and interest, are recoverable from ratepayers. The representative plaintiff in the class action lawsuit has made a petition to the Lieutenant Governor in Council ("Cabinet") under subsection 34(1) of the *Ontario Energy Board Act, 1998*, Schedule B for an order that the matter be submitted back to the OEB for reconsideration. The Cabinet dismissed the petition.

LDC was not a party to the Enbridge class action. It is, however, subject to the two class actions described below in which the issues are analogous.

The first is an action commenced in April 1994 against a predecessor of LDC and other Ontario MEUs under the *Class Proceedings Act, 1992* (Ontario) seeking $500.0 million in restitution for late payment charges collected by them from their customers that were in excess of the interest limit stipulated in section 347 of the *Criminal Code*. This action is at a preliminary stage. Pleadings have closed but examinations for discovery have not been conducted and the classes have not been certified. After the release by the Supreme Court of its 2004 decision in the Enbridge case, the plaintiffs in this proposed class action indicated their intention to proceed with the litigation.

The second is an action commenced in November 1998 against a predecessor of LDC under the *Class Proceedings Act, 1992* (Ontario) seeking $64.0 million in restitution for late payment charges collected by it from its customers that were in excess of the interest limit stipulated in section 347 of the *Criminal Code*. This action is also at a preliminary stage. Pleadings have closed and examinations for discovery have been conducted but, as in the first action, the classes have not been certified.

The claims made against LDC and the definitions of the plaintiff classes are identical in both actions. As a result, any damages payable by LDC in the first action would reduce the damages payable by LDC in the second action, and vice versa.

The determination of whether the late payment charges collected by LDC from its customers were in excess of the interest limit stipulated in section 347 of the *Criminal Code* is fact specific in each circumstance. Also, decisions of the OEB are fact specific in each circumstance and the decision of the OEB in respect of Enbridge's application for recovery of costs related to the settlement is not necessarily determinative of the outcome of any similar application which LDC may make to the OEB in the future.

On January 15, 2010, a conditional settlement was reached for both actions pursuant to which the defendants would pay the amount of $17.0 million plus costs and taxes in settlement of all claims. The amount paid by each MEU will be 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*. While the amounts have not yet been determined, it is anticipated that LDC's share of the settlement amount will be in the range of $7.5 million to $9.5 million. The settlement is conditional upon a sufficient number of MEUs participating so as to collect the full amount of the settlement funds payable to the plaintiffs. It is also conditional upon court approval. All 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 proposed settlement. LDC has not accrued any liabilities in relation to this proposed settlement. There is no guarantee that the OEB will allow for total or partial recovery of such costs in the future. The outcome of the OEB decision in this regard could 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. This action is at a preliminary stage. A statement of claim has been served on LDC but a statement of defence has not been filed. The proceedings of other parties to the action have revealed that the damages are likely to have been caused by a party other than LDC and LDC is making a motion to have LDC dismissed from the action. While it is not possible at this time to state conclusively, it is unlikely that LDC will be found liable for damages. If damages were awarded against LDC, LDC would make a claim under its liability insurance which LDC believes would cover such damages. Accordingly, this action is not likely to 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. This action is at a preliminary stage. A third party claim has been served on LDC but a statement of defence to the third party claim has not been filed. Accordingly, given the preliminary status of this action, it is not possible at this time 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 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. This action is at a preliminary stage. A third party claim has been served on LDC and a statement of defence to the third party claim has not been filed. Accordingly, given the preliminary status of this action, it is not possible at this time 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 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 maintenance services. In addition, the City and its agencies have entered into energy management contracts with TH Energy. 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 $109.7 million at prevailing market prices and normal trade terms in 2009, compared to $107.1 million in 2008. Included in “Unbilled Revenue”, as at December 31, 2009, is a balance amounting to $9.7 million receivable from the City related to the provision of electricity for the previous months, compared to $9.1 million as at December 31, 2008.

LDC provided relocation services related to the City in the amount of $0.9 million in 2009, compared to $1.0 million in 2008. Included in LDC’s “Accounts receivable, net of allowance for doubtful accounts”, as at December 31, 2009, is $1.2 million receivable from the City related to relocation services and other construction activities, compared to $4.1 million as at December 31, 2008.

TH Energy provided energy management services, street lighting services and consolidated billing services to the City amounting to $21.0 million in 2009, compared to $19.9 million in 2008. Included in TH Energy’s “Accounts receivable, net of allowance for doubtful accounts”, as at December 31, 2009, is $5.0 million receivable from the City related to these services, compared to $4.9 million as at December 31, 2008.

LDC purchased road cut and other services of $6.9 million from the City in 2009, compared to $4.9 million in 2008. Included in LDC’s “Accounts payable and Accrued liabilities”, as at December 31, 2009, is $5.5 million payable to the City related to services received from the City, compared to $4.5 million as at December 31, 2008.

LDC and TH Energy paid property tax expenses to the City of $6.3 million in 2009, compared to $6.5 million in 2008.

On December 31, 2009, the Corporation made the second scheduled payment of $245.1 million to the City in accordance with the terms of the Amended and Restated City Note. At December 31, 2009, the outstanding principal amount in respect of the Amended and Restated City Note was $490.1 million, compared to $735.2 million as at December 31, 2008. The remaining principal amount outstanding under the Amended and Restated City Note is classified as a long-term liability. The Corporation paid to the City interest of $44.9 million on the Amended and Restated City Note in each of 2009 and 2008.

See note 14 and note 23 to the Consolidated Financial Statements.

Risk Factors

The financial performance of the Corporation is subject to a variety of risks including those described below:

Regulatory Developments

Ontario's electricity industry regulatory developments may affect the distribution rates charged by LDC and the costs LDC is permitted to recover. This may in turn have a material adverse effect on the financial performance of the Corporation. In particular, there can be no assurance that:

- the OEB may not set a lower recovery for LDC's cost of capital;
- the full cost of providing service to distribution customers will be permitted to be recovered through distribution rates;
- the OEB will not permit competitors to provide distribution services in a distributor's licensed area, or loads within LDC's service area to become electrically served by a means other than through LDC's system;

- the OEB will allow recovery for revenue lost as a consequence of the emergence and adoption of new technologies such as distributed generation, or unanticipated effects of conservation and demand management;
- parts of LDC's services will not be separated from LDC and opened to competition; or
- regulatory or other changes will not be made to the PILs regime.

Changes to any of the laws, rules, regulations or policies applicable to the businesses carried on by the Corporation could have a significant impact on the Corporation. There can be no assurance that the Corporation will be able to comply with applicable future laws, rules, regulations and policies. Failure by the Corporation to comply with applicable laws, rules, regulations and policies may subject the Corporation to civil or regulatory proceedings that may have a material adverse effect on the Corporation.

Condition of Distribution Assets

LDC’s ability to continue to maintain and operate the distribution system reliably and safely in the future will depend on, among other things, the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

Information Technology Infrastructure

LDC's ability to operate effectively is in part dependent upon the development, maintenance and management of a complex information technology systems infrastructure. Computer systems are employed to operate LDC's distribution system, financial and billing systems and business systems to capture data and to produce timely and accurate information. Failures of LDC's financial, business and operating systems could have a material adverse effect on the Corporation’s business, operating results and financial condition (or prospects).

Electricity Consumption

LDC's distribution rates typically comprise a fixed charge and a usage-based (consumption) charge. The volume of electricity consumed by LDC's customers during any period is governed by events largely outside LDC's control (principally sustained periods of hot or cold weather which increase the consumption of electricity, and sustained periods of moderate weather which decrease the consumption of electricity). Accordingly, there can be no assurance that LDC will earn the revenue requirement approved by the OEB.

Market and Credit Risk

LDC is subject to credit risk with respect to customer non-payment. LDC is permitted to mitigate the risk of customer non-payment using any means permitted by law, including security deposits (including letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. In the event of an actual payment default and attendant bad debt expense incurred by LDC, roughly 80 percent of the expense would be related to commodity and transmission costs and the remainder to LDC's distribution revenue. While LDC would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the bad debt expense from remaining customers. Established practice in such cases is that the OEB would examine any utility's application for recovery of extraordinary bad debt expenses on a case-by-case basis.

LDC is also exposed to fluctuations in interest rates as its regulated rate of return is derived using a formulaic approach, which is based in part on a forecast of long-term Government of Canada bond yields coupled with an equity risk premium. LDC estimates that a 1% (100 basis points) reduction in long-term Government of Canada bond yields, used in determining its regulated rate of return would reduce LDC’s net income by approximately $4.3 million.

The Corporation is also exposed to fluctuation in interest rates for the valuation of its post-employment benefit obligations. The Corporation estimates that a 1% (100 basis points) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation, as at December 31, 2009, by $20.0 million, and a 1% (100 basis points) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2009, by $28.5 million.

Additional Debt Financing

The Corporation expects to borrow to repay the Amended and Restated City Note when required to do so under the terms of the Amended and Restated City Note; and to finance the renewal of LDC's electricity infrastructure. The Corporation's ability to arrange sufficient and cost-effective debt financing could be adversely affected by a number of factors, including financial market conditions, the regulatory environment in Ontario, the Corporation's results of operations and financial condition, the ratings assigned to the Corporation and its debt securities by credit rating agencies, the current timing of debt maturities and general economic conditions.

Work Force Renewal

Over the next nine years, approximately 600 LDC employees will be eligible for retirement. This number represents approximately 40% of LDC's workforce (with a significant number of potential retirements occurring in supervisory trades and technical positions). Accordingly, LDC will be required to attract and retain skilled employees. There can be no assurance that LDC will be able to attract and retain the required workforce.

Natural and Other Unexpected Occurrences

The facilities of LDC are exposed to the effects of natural and other unexpected occurrences. Although LDC's facilities are constructed, operated and maintained to withstand severe weather conditions, there can be no assurance that they will successfully do so in all circumstances. For example, an ice storm in January 1998 caused significant damage to transmission and distribution facilities in Ontario, Québec and the north-eastern United States. Any major damage to LDC's facilities could result in lost revenues and repair costs that are substantial in amount. If it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC could apply to the OEB for the recovery of the loss. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Insurance

Although the Corporation maintains insurance, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Corporation's business. The Corporation self-insures against certain risks (e.g., business interruption and physical damage to certain automobiles). The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Corporation could have a material adverse effect on the Consolidated Financial Statements.

Environmental Regulation

LDC is subject to Canadian federal, provincial and municipal environmental regulation. Failure to comply with environmental regulation could subject LDC to fines and other penalties. In addition, releases of hazardous substances now or in the past on or from properties owned, leased, occupied or used by LDC, or as a result of LDC's operations could lead to governmental orders requiring investigation, control and/or remediation of releases. The presence or release of hazardous substances could also lead to claims by third parties for harm as a result of the existence of these substances.

Changes in environmental regulation or enforcement may impose material additional costs on LDC. In addition, new approvals or permits or renewals of existing approvals and permits may require environmental assessment and/or result in the imposition of conditions which may result in significant compliance costs. The process for obtaining environmental permits and approvals, including any necessary environmental assessment, can be lengthy, contentious and expensive.

Investments

At December 31, 2009, the Corporation held long-term investments in connection with the restructuring of the ABCP market. The notes have an aggregate principal amount of $87.7 million.

The estimation by the Corporation of the fair value of its investments is subject to significant risks and uncertainties, including the timing and amount of future cash flows, market liquidity and the quality of the underlying assets and financial instruments. Accordingly, there can be no assurance that the Corporation's assessment of the estimated fair value of its long term investments will not change materially in subsequent periods.

toronto hydro corporation

Credit Rating

Should the Corporation's credit rating from both of its credit rating agencies falls below “A”(minus) (S&P) and “A”(low) (DBRS), LDC may be required to post additional collateral with the IESO.

Labour Relations

The Corporation’s ability to operate successfully in the restructured electricity industry in Ontario will depend in part on its ability to make changes to existing work practices and procedures to adapt to changing circumstances. The Corporation’s ability to make these changes will depend in part on its ability to develop plans and approaches that are acceptable to its labour unions. There can be no assurance that the Corporation will be able to secure the support of its labour unions in this regard.

Relationship with the City

The City owns all of the outstanding shares of the Corporation and has the power to determine the composition of the board of directors of the Corporation and influence major business and corporate decisions, including its financing programs and dividend payments. A conflict may arise between the City's role as the sole shareholder and major debt holder of the Corporation and its role as the administrator of the City budget and other matters for the residents of the City. The City may decide to sell all or part of the Corporation. In this event, depending on the nature of the transaction, the Corporation's credit ratings may be negatively affected.

Real Property Rights

Certain terminal stations and municipal substations of LDC are located on lands owned by the Province, the City and others. In some cases, LDC does not have and may not be able to obtain formal access agreements with respect to such facilities. Failure to obtain or maintain access agreements could adversely affect LDC.

LDC Competition

In the past, there had been one electricity distributor in each region of Ontario. Under the current regulatory regime, a person must obtain a licence from the OEB in order to own and operate a distribution system. LDC has the right to distribute electricity in the City. Although the distribution licence specifies the area in which the distributor is authorized to distribute electricity, unless otherwise provided, the licence does not provide exclusive distribution rights for such area.

The Corporation believes that the complexities and potential inefficiencies that would be created by having multiple electricity distributors authorized to serve a single area are likely to result in the continuation of the practice of having a single electricity distributor authorized to serve a single area. In addition, the Corporation believes that there are significant barriers to entry with respect to the business of electricity distribution in Ontario, including the cost of maintaining a distribution system, OEB regulation of distribution rates and the level of regulatory compliance required to operate a distribution system. However, the Corporation recognizes that more than one distribution licence could be issued for the same area and there is a possibility that in the future some business functions or activities could be separated from LDC and made open to competition from non-regulated business entities, or that defined geographical areas within LDC's service area may be electrically supplied by a means other than through LDC's system.

Considerations Related to Current Economic Conditions

Electricity Consumption

The current economic downturn could lead to lower overall electricity consumption, particularly in the commercial customer segments, 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 $3.3 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 1.415%. 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 at LDC's current rate base level.

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.

Critical Accounting Estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with Canadian GAAP requires estimates and assumptions which affect the reported amounts of assets, liabilities, revenues and costs, and related disclosures of commitments and contingencies. The estimates are based on judgements 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 judgements about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The following critical accounting estimates involve the more significant estimates and judgements used in the preparation of the Consolidated Financial Statements:

Regulatory Assets and Liabilities

Regulatory assets as at December 31, 2009, amounted to $68.2 million and primarily relate to the deferral of smart meters expenditures incurred in 2008 and 2009. Regulatory liabilities as at December 31, 2009, amounted to $308.6 million and primarily relate to PILs variances and settlement variances. These assets and liabilities can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is judged to be probable. In the event that the disposition of these balances was no longer deemed to be probable, the balances would be recorded in the consolidated statements of income.

Environmental Liabilities

The Corporation recognizes a liability for the future environmental remediation of certain properties and for future removal and handling costs for contamination in distribution equipment in service and in storage. The estimation of such a liability requires that assumptions be made, such as the number of contaminated properties and the extent of contamination, the number of assets and contamination levels of equipment. All factors used in deriving the Corporation's environmental liabilities represents management's best estimates based on planned approach of meeting regulatory requirements. However, it is possible that numbers of contaminated assets, current cost estimates, inflation assumptions and assumed pattern of annual cash flows may differ significantly from the Corporations' assumptions.

Employee Future Benefits

Employee future benefits other than pension provided by the Corporation include medical, dental and life insurance benefits, and accumulated sick leave credits. These plans provide benefits to employees when they are no longer providing active service. The accrued benefit obligations and current service cost are calculated by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect

management's best estimate. The assumptions were determined by management recognizing the recommendations of our actuaries. There could be no assurance that actual employee's future benefits cost will not differ significantly from the estimates calculated using management's assumptions.

Fair Value of Long-Term Investments

The estimation by the Corporation of the fair value of its long-term investments, as at December 31, 2009, is subject to significant risks and uncertainties, including the timing and amount of future cash flows, market liquidity and the quality of the underlying assets and financial instruments. Accordingly, there can be no assurance that the Corporation's assessment of the estimated fair value of its long-term investments will not change materially in subsequent periods.

Revenue Recognition

Revenue from the sale of electricity is recorded on a basis of cyclical billings and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. The unbilled revenue accrual at the end of each period is based on the difference between the forecast revenue and the actual amounts billed. The development of the revenue forecast requires estimates of customer growth, economic activity and weather conditions. There can be no assurance that actual unbilled revenue estimates will not differ materially from actual revenue for the period.

Significant Accounting Policies

The 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 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 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 Minister of Energy, the Minister of Finance, or the Minister of Revenue. The significant accounting policies of the Corporation are summarized in note 4 to the Consolidated Financial Statements.

Changes in Accounting Standards

Rate-Regulated Operations: Effective January 1, 2009, the Corporation adopted amended Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1100 – "Generally Accepted Accounting Principles" ("Handbook Section 1100"), Handbook Section 3465 – "Income Taxes" ("Handbook Section 3465"), and Accounting Guideline 19 – "Disclosures by Entities Subject to Rate Regulation". These amended sections and guidance established new standards and removed a temporary exemption in Handbook Section 1100 pertaining to the application of that section to the recognition and measurement of assets and liabilities arising from rate regulation. The new standards require the recognition of future income tax liabilities and assets in accordance with Handbook Section 3465 as well as a separate regulatory asset or liability balance for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers, and retain existing requirements to disclose the effects of rate regulation. The revised standards are effective for interim and annual financial statements for the fiscal years beginning on or after January 1, 2009. See note 4 and note 9 to the Consolidated Financial Statements.

Following the removal of the temporary exemption for rate-regulated operations included in Handbook Section 1100, the Corporation developed accounting policies for its assets and liabilities arising from rate regulation using professional judgment and other sources issued by bodies authorized to issue accounting standards in other jurisdictions. Upon final assessment and in accordance with Handbook Section 1100, the Corporation has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Financial Accounting Standards Board Accounting Standards Codification 980 – "Regulated Operations". Accordingly, the removal of the temporary exemption had no effect on the Corporation's results of operations as of December 31, 2009.

Handbook Section 3465 as amended requires the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates, applied on a retrospective basis without prior period

restatement. The implementation of these standards did not impact the Corporation's earnings or cash flows. As at December 31, 2009, LDC has recorded a future income tax asset of $250.9 million and a corresponding regulatory liability of $250.9 million. See note 4 and note 9 to the Consolidated Financial Statements.

Goodwill and Intangible Assets: Effective January 1, 2009, the Corporation retrospectively adopted CICA Handbook Section 3064 – "Goodwill and Intangible Assets" ("Handbook Section 3064"). Handbook Section 3064 replaces Handbook Section 3062 – "Goodwill and Other Intangible Assets" ("Handbook Section 3062") and provides extensive guidance on recognition, measurement and disclosure of intangible assets.

The Corporation evaluated existing intangible assets as at January 1, 2009 to determine whether the intangible assets recognized under previous Handbook Section 3062 met the definition, recognition, and measurement criteria of an intangible asset in accordance with Handbook Section 3064. The assets included land rights or easements, computer software, and capital contributions. As a result, the Corporation identified $2.0 million of expenditures that no longer met the definition of intangible assets under Handbook Section 3064. As a result, these expenditures were removed from intangible assets and transferred to a regulatory asset account for future recovery. The Corporation's decision to record these expenditures to regulatory assets is based on the fact that the expenditures have already been approved for recovery by the OEB in prior regulatory proceedings. In the absence of rate regulation, these expenditures would have been recorded to opening retained earnings.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities: In January 2009, the CICA issued Emerging Issues Committee Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC-173"), effective for interim and annual financial statements ending on or after January 2009. EIC-173 provides further information on the determination of the fair value of financial assets and financial liabilities under Handbook Section 3855 – "Financial Instruments - Recognition and Measurement" ("Handbook Section 3855"). It states that an entity's own credit and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this standard did not have any impact on the Corporation's results of operations or financial position.

Financial Instruments – Disclosures: In June 2009, the CICA amended Handbook Section 3862 – "Financial Instruments – Disclosures" ("Handbook Section 3862") to include additional disclosure requirements with respect to fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. Handbook Section 3862 establishes a fair value hierarchy which includes three levels of inputs that may be used to measure fair value:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2 – Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Corporation adopted these amendments effective for the fiscal year ended December 31, 2009. Comparative information is not required in the first year of application. See note 4 and note 19 to the Consolidated Financial Statements

Financial Instruments – Recognition and Measurement: In August 2009, the CICA amended Handbook Section 3855 to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the assets held-for-trading category. These amendments apply prospectively to reclassifications made on or after July 1, 2009. Earlier adoption is permitted. The application of these amendments did not have any impact on the Corporation's results of operations or financial position.

Impaired Loans: In August 2009, the CICA amended Handbook Section 3025 – "Impaired Loans" to include held-to-maturity investments and to conform the definition of a loan to that in amended Handbook Section 3855. These amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. The Corporation adopted these amendments effective for the fiscal year ended December 31,

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2009. The application of these amendments 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 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. 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. At this time, the impact on the Corporation's future financial position and results of operations is not reasonably determinable or estimable.

The Corporation commenced its IFRS conversion project in 2007 and has established a formal project governance structure. This structure includes a steering committee consisting of senior levels of management from finance, information technology, treasury 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 management.

The Corporation's project consists of 3 phases: (1) awareness and assessment; (2) design; and (3) implementation. The Corporation completed its awareness and initial assessment during the second quarter of 2008, which involved a high level review of the major differences between Canadian GAAP and IFRS. During the initial assessment it was determined that the areas of accounting differences with the highest potential impact to the Corporation are rate regulated accounting, accounting for property, plant and equipment, PILs, employee future benefits, as well as initial adoption of IFRS under the provisions of IFRS 1, *First-Time Adoption of IFRS*. The Corporation next completed a detailed assessment which involved detailed systematic gap analyses of accounting and disclosure differences between Canadian GAAP and IFRS, and conducted an analysis of the available accounting choices to be made to address these differences and options available under IFRS 1. In parallel, a detailed assessment of the impact of the IFRS conversion on the Corporation's systems, processes and controls as well as other business, regulatory and tax impacts was also conducted. During the awareness and assessment phase, the Corporation established a communication plan and a staff-training plan.

The Corporation is currently in the design phase of the project, and is nearing completion thereof. The design phase involves establishing issue-specific working groups in each of the identified risk areas. The working groups have established key milestones which include 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. Although the impact of the adoption of IFRS on the Corporation's financial position and results of operations is not yet reasonably determinable or estimable, the Corporation expects a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS, and has designed the systems to provide the additional information required to make these disclosures. Furthermore, as a result of the work performed in the design phase, the Corporation has identified and developed new business processes and modifications to existing business processes. The Corporation continues to roll out its communication initiatives during this phase and has begun to execute against the staff-training plan that was established during the awareness and assessment phase, as scheduled in the project plan. Training on the systems and process changes are incorporated as part of the implementation phase.

In conjunction with the design phase of the project, the Corporation commenced work in the implementation phase. The roll-out of the designed 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 team, 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. Other activities that take place in this phase might include implementation of possible changes to debt covenants, internal performance measures, contracts and processes, and carrying ongoing discussions with its external auditors.

The Corporation has begun to roll-out business process changes developed in the design phase and training finance and operation teams. Based on these process changes, the Corporation is updating internal control processes and documentation. Changes to accounting policies will result in additional controls and procedures to address reporting on transition date as well as ongoing IFRS reporting requirements. The Corporation is in the process of developing and implementing the related controls and procedures to ensure the integrity of internal controls over financial reporting and disclosure controls and procedures. The updated controls and procedures will be evaluated to ensure that they are operating effectively.

On July 23, 2009, the International Accounting Standards Board ("IASB") issued an Exposure Draft ("ED") proposing accounting requirements for rate-regulated activities. The ED proposes to allow entities with rate-regulated activities to recognize regulatory assets and liabilities on their balance sheets, at their present values, using an expected future cash flow model. Under the ED, expected cash flows would be derived by weighting various potential scenarios by their probabilities of occurrence. The ED also proposes to allow rate-regulated entities a special exception in those otherwise ineligible costs would be capitalized to items of PP&E or intangible assets, if those costs were required to be capitalized by the local regulator for rate-making purposes. The Corporation submitted its comment letter on November 20, 2009. The IASB received an overwhelming number of comment letters in regards to the ED with significant diversity in the comments. The Board held a meeting on February 17, 2010 to discuss the summary analysis of the comments 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 IFRSs. The IASB Staff will present their analysis to the IASB in the near term together with an amended timetable for the project. In light of these developments, a final standard is not likely to be issued in 2010. In addition, the IASB tentatively decided that the previously proposed amendment to IFRS 1 be removed from the broader Rate-regulated Activities project, and that it be incorporated as part of the omnibus *Improvements to IFRSs* expected to be issued in April 2010. The proposed amendment to IFRS 1 would allow an entity with operations subject to rate regulation to use its previous GAAP carrying amounts for PP&E and intangible assets as its deemed cost at the date of transition.

If a standard is not available in time for transition, there could be significant volatility in the Corporation's statement of comprehensive income since under current IFRS some or all regulatory assets and liabilities might not be recognized on the balance sheet. The Corporation will continue to monitor the rate-regulated activities project developments for further guidance, and evaluate the impacts on its systems, processes and controls.

In addition to the project on accounting for rate-regulated activities, the IASB has a number of on-going projects on its agenda. As accounting standards, exposure drafts and interpretations change prior to transition, the Corporation will actively monitor these developments and the impact that any resulting IFRS changes may have on its anticipated accounting policies, financial position or results of operations. The Corporation has and will continue to adjust its implementation plan for these changes.

The technical analysis performed to date is based on the IFRS standards in its current form. However, the analysis will be revisited in light of upcoming changes to the standards, including the ED on rate-regulated activities.

On July 28, 2009, the OEB issued its Report of the Board – *Transition to IFRS*, which contains recommendations on how regulatory reporting requirements should change in response to IFRS. The OEB has initiated a second phase in its transition project, which involves amending certain regulatory instruments. The Corporation continues to evaluate the potential impacts of the recommendations contained in the Report of the Board on both the activities of LDC and its IFRS transition plan.

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"), replace Handbook Section 1600 – "Consolidated Financial Statements" and establish 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 the classification or valuation of its Consolidated Financial Statements.

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. This section has also been amended 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 Corporation expects these amendments 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 2009 base distribution revenue, the Corporation's plans to borrow to repay the Amended and Restated City Note, 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.

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Additional Information

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

Toronto, Canada

March 8, 2010