MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

TORONTO HYDRO CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE INTERIM PERIOD ENDED JUNE 30, 2011

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Forward-Looking Information

Toronto Hydro Corporation (the "Corporation") includes forward-looking information in its 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 Toronto Hydro-Electric System Limited's ("LDC") distribution revenue, the Corporation's plans to borrow funds to repay maturing debentures and finance the investment in LDC's infrastructure, the potential transfer of street lighting activities from Toronto Hydro Energy Services Inc. ("TH Energy"), the outcome of outstanding proceedings before the Ontario Energy Board ("OEB"), the effect of changes in interest rates on future revenue requirements, the changes in accounting estimates for the Corporation and the Corporation's conversion to United States Generally Accepted Accounting Principles ("US GAAP"). 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 and the impact of the conversion of US GAAP 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, 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.

Introduction

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

- the unaudited interim consolidated financial statements and accompanying notes of the Corporation as at and for the three-month period and the six-month period ended June 30, 2011 (the "Interim Consolidated Financial Statements");

- the audited consolidated financial statements and accompanying notes of the Corporation as at and for the year ended December 31, 2010 (the "Annual Consolidated Financial Statements"); and

- MD&A of financial condition and results of operations for the year ended December 31, 2010 (including the sections entitled "Electricity Distribution – Industry Overview", "Summary of Quarterly Results", "Liquidity and Capital Resources", "Corporate Developments", "Legal Proceedings", "Share Capital", "Transactions with Related Parties", "Risk Factors", "Environmental Regulation", "Critical Accounting Estimates", "Significant Accounting Policies", "Changes in Accounting Standards", and "Future Accounting Pronouncements" which remain substantially unchanged as at the date hereof except as noted below or as updated by the Interim Consolidated Financial Statements).

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

The Corporation's Interim Consolidated Financial Statements and Annual Consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are presented in Canadian dollars (see "Significant Accounting Policies" below).

Business of Toronto Hydro Corporation

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

- *LDC* - which distributes electricity and engages in Conservation and Demand Management ("CDM") activities; and

- *TH Energy* - which provides street lighting services.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, which delivers electricity to approximately 705,000 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. See note 2 to the Annual Consolidated Financial Statements.

Selected Interim Consolidated Financial Data

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

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

	2011 $	2010 $	Change $	Change %
Revenues	683,787	627,707	56,080	8.9
Costs				
Purchased power and other	548,148	493,921	54,227	11.0
Operating expenses	59,741	54,741	5,000	9.1
Depreciation and amortization	35,414	40,166	(4,752)	(11.8)
	643,303	588,828	54,475	9.3
Income before the following:	40,484	38,879	1,605	4.1
Net financing charges	(18,066)	(17,539)	(527)	(3.0)
Gain on disposals of property, plant and equipment (“PP&E”)	1,753	862	891	103.4
Income before provision for (recovery of) payments in lieu of corporate taxes (“PILs”)	24,171	22,202	1,969	8.9
Provision for (recovery of) PILs	(99)	6,363	(6,462)	(101.6)
Net income	24,270	15,839	8,431	53.2
Basic and fully diluted net income per share	24,270	15,839	8,431	53.2

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

	2011 $	2010 $	Change $	Change %
Revenues	1,385,129	1,274,518	110,611	8.7
Costs				
Purchased power and other	1,109,413	1,013,644	95,769	9.4
Operating expenses	122,624	108,521	14,103	13.0
Depreciation and amortization	68,886	79,852	(10,966)	(13.7)
	1,300,923	1,202,017	98,906	8.2
Income before the following:	84,206	72,501	11,705	16.1
Net financing charges	(36,962)	(34,159)	(2,803)	(8.2)
Gain on disposals of PP&E	4,717	1,546	3,171	205.1
Income before provision for PILs	51,961	39,888	12,073	30.3
Provision for PILs	2,239	11,498	(9,259)	(80.5)
Net income	49,722	28,390	21,332	75.1
Basic and fully diluted net income per share	49,722	28,390	21,332	75.1

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

	As at June 30 2011 $	As at December 31 2010 $
Total assets	3,337,655	3,338,614
Current liabilities	648,547	640,385
Long-term liabilities	1,620,070	1,658,850
Total liabilities	2,268,617	2,299,235
Shareholder’s equity	1,069,038	1,039,379
Total liabilities and shareholder’s equity	3,337,655	3,338,614

Results of Operations

Net Income

Net income for the three months and the six months ended June 30, 2011 was $24.3 million and $49.7 million compared to $15.8 million and $28.4 million for the comparable periods in 2010.

The increase in net income for the three months ended June 30, 2011 was primarily due to lower provision for PILs ($6.5 million), lower depreciation expense ($4.8 million) and higher net revenues ($1.9 million). These favourable variances were partially offset by higher operating expenses ($5.0 million).

The increase in net income for the six months ended June 30, 2011 was primarily due to higher net revenues ($14.8 million), lower depreciation expense ($11.0 million), lower provision for PILs ($9.3 million) and higher gain on disposals of surplus PP&E ($3.2 million). These favourable variances were partially offset by higher operating expenses ($14.1 million) and higher net financing charges ($2.8 million).

Net Revenues

Net revenues for the three months and the six months ended June 30, 2011 were $135.6 million and $275.7 million compared to $133.8 million and $260.9 million for the comparable periods in 2010 (see "Non-GAAP Financial Measures" below).

The increase in net revenues for the three months ended June 30, 2011 was primarily due to higher regulated distribution revenue at LDC ($2.6 million). The increase in distribution revenue was primarily due to the approval by the OEB of higher revenue requirement balance ($3.0 million) to fund LDC's infrastructure modernization program, workforce renewal initiative and incremental maintenance costs (see "Corporate Developments – Distribution Rates for LDC" below) and higher consumption of electricity in 2011.

The increase in net revenues for the six months ended June 30, 2011 was primarily due to higher regulated distribution revenue at LDC ($16.7 million) partially offset by lower other income ($1.9 million). The increase in distribution revenue was primarily due to the approval by the OEB of higher revenue requirement balance ($14.3 million) to fund LDC's infrastructure modernization program, workforce renewal initiative and incremental maintenance costs (see "Corporate Developments – Distribution Rates for LDC" below) and higher consumption of electricity in 2011 (12,637 Gigawatt-Hour ("GWh") in 2011 compared to 12,543 GWh in 2010) ($4.1 million). The decrease in other income was primarily due to lower customer connection activities and lower margins in connection with Ontario Power Authority ("OPA") programs in 2011.

Expenses

Operating expenses for the three months and six months ended June 30, 2011 were $59.7 million and $122.6 million compared to $54.7 million and $108.5 million for the comparable periods in 2010.

The increase in operating expenses for the three months ended June 30, 2011 was primarily due to higher operating labour costs ($4.2 million) resulting from changes in accounting estimates related to burden rates (see "Changes in Accounting Estimates – Property, Plant and Equipment" below) and higher overall compensation costs due to annual general increase in wages and related benefits and higher accounting conversion costs ($3.0 million) following the decision by the OEB to disallow the recovery of a portion of the costs incurred by the Corporation for its conversion to International Financial Reporting Standards ("IFRS') as it appears that such costs were included in prior period electricity distribution rates. These variances were partially offset by lower maintenance costs for electricity infrastructure in 2011 ($1.2 million) and lower Ontario capital tax expense in 2011 following the elimination of such tax in the second quarter of 2010 ($1.0 million).

The increase in operating expenses for the six months ended June 30, 2011 was primarily due to higher operating labour costs ($12.3 million) resulting from changes in accounting estimates related to burden rates (see "Changes in Accounting Estimates – Property, Plant and Equipment" below) and higher overall compensation costs due to annual general increase in wages and related benefits, higher accounting conversion costs ($3.0 million) following the decision by the OEB to disallow the recovery of a portion of the costs incurred by the Corporation for its conversion to IFRS as it appears that such costs were included in prior period electricity distribution rates and higher bad debt expenses in 2011 ($1.4 million). These variances were partially offset by lower maintenance costs for electricity infrastructure in 2011 ($1.1 million) and lower Ontario capital tax expense in 2011 following the elimination of such tax in the second quarter of 2010 ($1.1 million).

Depreciation and amortization expense for the three months and the six months ended June 30, 2011 was $35.4 million and $68.9 million compared to $40.2 million and $79.9 million for the comparable periods in 2010.

The decrease in depreciation and amortization expense for the three months and the six months ended June 30, 2011 was primarily due to changes in accounting estimates related to useful lives of certain items of PP&E (see "Changes in Accounting Estimates – Property, Plant and Equipment" below). This decrease was partially offset by an increase in depreciation related to the renewal of the regulated electricity distribution infrastructure of LDC. Over the past few years, LDC significantly increased its capital expenditures following the approval by the OEB of higher capital programs aimed at modernizing the electricity infrastructure of LDC (see "Liquidity and Capital Resources – Net Cash Used in Investing Activities" below).

Net Financing Charges

Net financing charges for the three months and the six months ended June 30, 2011 were $18.1 million and $37.0 million compared to $17.5 million and $34.2 million for the comparable periods in 2010.

The increase in net financing charges for the three months and the six months ended June 30, 2011 was primarily due to higher long-term financing charges in 2011 from the issuance of $200.0 million of senior unsecured debentures on May 20, 2010 to finance LDC's expanded capital program.

Gain on Disposals of PP&E

The increases of $0.9 million and $3.2 million in the gain on disposals of PP&E for the three months and the six months ended June 30, 2011 compared to the same periods in 2010 were mainly due to the recognition of gains realized in connection with the disposals of surplus properties at LDC. During 2011, LDC recognized $4.7 million in gain on disposals of surplus properties, of which $1.4 million related to surplus properties for which the OEB reduced electricity distribution rates in 2010. LDC began recognizing the actual gains realized on the sale of these properties over a one-year period from May 1, 2010 to mirror the actual timing of the reduction in 2010 electricity distribution rates.

Provision for PILs

Provision for PILs for the three months and the six months ended June 30, 2011 were $nil and $2.2 million compared to $6.4 million and $11.5 million for the comparable periods in 2010.

The decrease in the provision for PILs for the three months ended June 30, 2011 was primarily due to higher deductions for permanent and temporary differences between accounting and tax treatments ($5.0 million) and recoveries resulting from favourable resolution of Ministry of Revenue tax audits of LDC for 2005 and 2006 taxation years ($2.0 million).

The decrease in the provision for PILs for the six months ended June 30, 2011 was primarily due to higher deductions for permanent and temporary differences between accounting and tax treatments ($10.7 million) and recoveries resulting from favourable resolution of Ministry of Revenue tax audits of LDC for 2005 and 2006 taxation years ($2.0 million). These decreases in the provision for PILs were partially offset by the effect of higher income in 2011 ($3.4 million).

Quarterly Results of Operations

The table below presents unaudited quarterly consolidated financial information of the Corporation for the eight quarters including and immediately preceding June 30, 2011.

Quarterly Results
(in thousands of dollars, unaudited)

	June 30 2011 $	March 31 2011 $	December 31 2010 $	September 30 2010 $
Revenues	683,787	701,342	656,649	680,504
Costs	643,303	657,620	621,179	631,807
Net income	24,270	25,452	10,048	27,687
	June 30 2010 $	**March 31 2010 $**	**December 31 2009 $**	**September 30 2009 $**
Revenues	627,707	646,811	632,979	639,692
Costs	588,828	613,189	597,001	602,162
Net income	15,839	12,551	8,941	11,831

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

Financial Position

The following table outlines the significant changes in the consolidated balance sheets between June 30, 2011 and December 31, 2010.

Interim Consolidated Balance Sheet Data
As at June 30, 2011 compared to December 31, 2010
(in thousands of dollars, unaudited)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Cash and cash equivalents	(210,413)	See "Liquidity and Capital Resources" below.
Investments	34,017	The increase in investments is due to the investment in two floating rate notes in the amounts of $25.0 million and $9.0 million, the first maturing on November 16, 2011 and the second maturing on February 17, 2012, which are guaranteed by two Canadian Schedule I banks.

Interim Consolidated Balance Sheet Data As at June 30, 2011 compared to December 31, 2010 (in thousands of dollars, unaudited)		
Balance Sheet Account	**Increase (Decrease) $**	**Explanation of Significant Change**
Accounts receivable, net of allowance for doubtful accounts...........	36,799	The increase in accounts receivable is primarily due to seasonality, the timing of billing and collection activities from large customers and the timing of the Ontario Clean Energy Benefit Rebate from the Independent Electricity System Operator ("IESO"), which did not exist in 2010.
Unbilled revenue	11,492	The increase in unbilled revenue is primarily due to higher electricity prices compared to the previous year, partially offset by lower consumption in June 2011 compared to December 2010.
PILs receivable	10,563	The increase in PILs receivable is primarily due to instalments made during the period in excess of the PILs provision.
PP&E and intangible assets, net	135,761	The increase in PP&E and intangible assets is primarily due to capital expenditures ($205.2 million) offset by depreciation during the period ($68.9 million).
Regulatory assets	(6,638)	The decrease in regulatory assets is primarily due to the on-going recoveries of charges from customers, partially offset by increases in the retail settlement balances regulated by the OEB.
Future income tax assets.......................	(13,994)	The decrease in future income tax assets is primarily due to a decrease in the net deductible temporary differences between tax and accounting values of PP&E.
Deferred revenue	7,231	The increase in deferred revenue is primarily due to a significant balance received in advance from the OPA relating to CDM programs for 2011.
Post-employment benefits	4,758	The increase in post-employment benefits is primarily due to higher defined benefit costs.
Regulatory liabilities	(30,530)	The decrease in regulatory liabilities is primarily due to the net disposition of retail settlement balances to customers approved by the OEB and a reduction of future income tax assets payable to customers.
Customers' advance deposits	(13,191)	The decrease in customers' advance deposits is primarily due to the reimbursement of customer deposits during the period in compliance with OEB rules and regulations.
Retained earnings	29,659	The increase in retained earnings is due to net income ($49.7 million) offset by dividends paid ($20.1 million).

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, financing charges and prudential requirements.

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

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

	Three months Ended June 30		Six months Ended June 30	
	2011 $	**2010 $**	**2011 $**	**2010 $**
Cash and cash equivalents, beginning of period ...	196,095	212,108	330,151	211,370
Net cash provided by operating activities	29,427	53,387	66,092	136,279
Net cash used in investing activities	(94,891)	(60,250)	(244,743)	(136,991)
Net cash provided by (used in) financing activities	(10,893)	200,205	(31,762)	194,792
Cash and cash equivalents, end of period	119,738	405,450	119,738	405,450

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months and the six months ended June 30, 2011 was $29.4 million and $66.1 million compared to $53.4 million and $136.3 million for the comparable periods in 2010.

The decrease in net cash provided by operating activities for the three months ended June 30, 2011 was primarily due to a decrease in accounts payable and accrued liabilities primarily due to timing of payments to suppliers ($37.4 million), a variance in PILs receivable ($8.3 million) and a decrease in depreciation and amortization ($4.8 million). These variances were partially offset by a variance in the aggregate amount of accounts receivable and unbilled revenue due to the timing of billing and collection activities ($10.6 million), higher net income ($8.4 million) and an increase in deferred revenue relating to cash received in advance for CDM programs ($7.3 million).

The decrease in net cash provided by operating activities for the six months ended June 30, 2011 was primarily due to a variance in the aggregate amount of accounts receivable and unbilled revenue due to the timing of billing and collection activities ($60.4 million), a variance in PILs receivable ($16.8 million), a decrease in depreciation and amortization ($11.0 million), a decrease in accounts payable and accrued liabilities primarily due to timing of payments to suppliers ($8.8 million) and an increase in gain on disposals of PP&E ($3.2 million). These variances were partially offset by higher net income ($21.3 million) and an increase in deferred revenue relating to cash received in advance for CDM programs ($7.0 million).

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months and the six months ended June 30, 2011 was $94.9 million and $244.7 million compared to $60.3 million and $137.0 million for the comparable periods in 2010.

The increase in net cash used in investing activities for the three months ended June 30, 2011 was primarily due to higher capital expenditures ($23.0 million), a higher change in net regulatory assets and liabilities ($21.7 million) primarily related to a higher variance in 2011 of retail settlement balances regulated by the OEB and by the impact of the net proceeds received in 2011 on the disposition of surplus properties ($5.9 million). These variances were partially offset by the net impact of investing excess cash in low-risk floating rate notes ($16.0 million).

The increase in net cash used in investing activities for the six months ended June 30, 2011 was primarily due to higher capital expenditures ($50.8 million), the impact of investing excess cash in low-risk floating rate notes ($34.0 million), a higher change in net regulatory assets and liabilities ($18.4 million) primarily related to a higher variance in 2011 of retail settlement balances regulated by the OEB and by the impact of the net proceeds received in 2011 on the disposition of surplus properties ($4.5 million).

The increase in regulated capital expenditures at LDC for the three months and the six months ended June 30, 2011 amounted to $23.0 million and $50.1 million, respectively.

The increase in capital expenditures for the three months and the six months ended June 30, 2011 was primarily due to higher investment in electricity distribution assets in connection with LDC's infrastructure renewal program approved by the OEB. For 2011, the OEB approved $378.8 million in regulated capital expenditures for LDC in comparison to $350.0 million for 2010. It should be noted that when considering the changes in accounting estimates implemented prospectively by the Corporation in 2011 (see "Changes in Accounting Estimates – Property, Plant and Equipment" below), the OEB effectively approved an increase of $50.0 million in LDC regulated capital programs for 2011.

For the six months ended June 30, 2011, the increase in capital expenditures was primarily related to distribution lines ($17.3 million), transformer stations ($14.2 million), customer connections ($8.7 million) and metering ($5.3 million).

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

Capital Expenditures
(in thousands of dollars, unaudited)

	Three months Ended June 30		Six months Ended June 30	
	2011 $	**2010 $**	**2011 $**	**2010 $**
LDC				
Distribution system	90,789	67,928	177,668	130,087
Technology assets	8,791	7,369	14,662	13,698
Other (1)	3,921	5,174	9,703	7,877
	103,501	80,471	202,033	151,662
Other (2)	1,346	1,390	3,162	2,726
Total Capital Expenditures	104,847	81,861	205,195	154,388

Notes:

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

Net Cash Used in Financing Activities

Net cash used in financing activities for the three months and the six months ended June 30, 2011 was $10.9 million and $31.8 million compared to $200.2 million and $194.8 million of cash provided by financing activities for the comparable periods in 2010.

The variance in net cash used in financing activities for the three months ended June 30, 2011 compared to the same period in 2010 was primarily due to the issuance by the Corporation of $200.0 million of senior unsecured debentures on May 20, 2010 to finance the renewal of LDC's electricity infrastructure and higher reimbursement of customer deposits in 2011 in compliance with OEB rules and regulations ($12.6 million).

The variance in net cash used in financing activities for the six months ended June 30, 2011 compared to the same period in 2010 was primarily due to the issuance by the Corporation of $200.0 million of senior unsecured debentures on May 20, 2010 to finance the renewal of LDC's electricity infrastructure, higher reimbursement of customer deposits in 2011 in compliance with OEB rules and regulations ($20.0 million) and higher dividends paid with respect to net income for the year ended December 31, 2010, which was paid to the City on March 18, 2011 ($8.1 million).

Summary of Contractual Obligations

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

Summary of Contractual Obligations and Other Commitments
As at June 30, 2011
(in thousands of dollars, unaudited)

	Total $	2011 $	2012/2013 $	2014/2015 $	After 2015 $
Debentures – principal repayment...	1,415,114	245,057	470,057	–	700,000
Debentures – interest payments.......	560,917	39,437	112,295	70,360	338,825
Operating lease obligations and future commitments….....................	36,309	4,707	13,108	10,895	7,599
Asset retirement obligations...........	5,609	670	1,084	316	3,539
Total contractual obligations and other commitments….....................	2,017,949	289,871	596,544	81,571	1,049,963

Revolving Credit Facility

The Corporation is a party to a revolving credit facility pursuant to which the Corporation may borrow up to $400.0 million, of which up to $140.0 million is available in the form of letters of credit. Additionally, the Corporation is a party to a bilateral facility for $50.0 million for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO.

On May 3, 2011, the Corporation extended its revolving credit facility, for an additional one-year term, expiring on May 3, 2013. The extension maintained the level of credit available at $400.0 million.

As at June 30, 2011, no amounts had been drawn under the Corporation's revolving credit facility and $46.1 million had been drawn on the bilateral facility.

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.

Dividends

On March 11, 2011, the board of directors of the Corporation declared dividends in the amount of $14.1 million. The dividends are comprised of $8.1 million with respect to net income for the year ended December 31, 2010, which was paid to the City on March 18, 2011 and $6.0 million with respect to the first quarter of 2011, which was paid to the City on March 31, 2011.

On May 24, 2011, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect to the second quarter of 2011, which was paid to the City on June 30, 2011.

On August 25, 2011, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect to the third quarter of 2011. The dividend is payable on September 30, 2011.

Credit Rating

The Corporation and the Corporation's debentures were rated as follows:

Credit Ratings	As at June 30 2011	As at December 31 2010
DBRS Limited	A (high)	A (high)
Standard & Poor's	A	A

Corporate Developments

Distribution Rates for LDC

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect distribution rates and other permitted recoveries in the future. The electricity distribution rates of LDC are typically effective from May 1 to April 30 of the following year. Accordingly, for the first four months of 2011, distribution revenue was based on the rates approved for 2010.

On April 9, 2010, the OEB issued its final decision regarding electricity distribution rates of LDC for the 2010 rate year beginning on May 1, 2010 and ending on April 30, 2011. The decision provided for distribution revenue requirement and rate base of $518.7 million and $2,140.7 million, respectively. The OEB also set the return on equity ("ROE") of LDC at 9.85% for 2010.

On July 7, 2011, the OEB issued its final decision regarding electricity distribution rates of LDC for the 2011 rate year commencing on May 1, 2011 and ending on April 30, 2012. The decision rendered by the OEB was substantially aligned with a settlement proposal agreed to by LDC and other parties on March 29, 2011. The final decision provides for a distribution revenue requirement and rate base of $522.0 million and $2,298.2 million, respectively, and a ROE of 9.58% for 2011. The increase in revenue requirement will be recovered over a period of nine months commencing on August 1, 2011.

On August 26, 2011, LDC filed a rate application, following the cost of service model, with the OEB seeking approval of separate and successive revenue requirements and corresponding rates for three rate years commencing on May 1, 2012, May 1, 2013 and May 1, 2014. The requested distribution revenue requirements for these rate years are $571.4 million, $639.5 million, and $712.8 million, respectively, and rate bases for these rate years are $2,636.3 million, $3,053.5 million, and $3,503.2 million, respectively. The expected ROE for these three rate years is 9.58%.

Contact Voltage

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

On October 29, 2010, the OEB issued its decision, following further review of the costs incurred by LDC in connection with the contact voltage remediation activities. In its decision, the OEB deemed the balance allowable for recovery at $5.3 million. The variance from the Corporation's original estimate is mainly due to the OEB's interpretation of the definition of controllable expenses used to determine the final allowable recovery. In connection with this decision from the OEB, the Corporation revised its recovery estimate for contact voltage costs, resulting in an increase in operating expenses of $3.8 million in 2010. On November 18, 2010, LDC filed a motion to review the decision with the OEB seeking an amendment to allow for recovery in accordance with the initial decision rendered on December 10, 2009. On March 25, 2011, the OEB issued its decision on the LDC motion, denying the requested additional recovery.

Street Lighting Activities

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution licence for a new wholly-owned legal entity to which the Corporation intended 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 was to transfer the street lighting assets to the regulated electricity distribution activities of LDC to increase the overall safety of the related infrastructure.

On February 11, 2010, the OEB issued its decision in regard to these applications. In its decision, the OEB agreed, that under certain conditions, the treatment of certain types of street lighting assets as regulated assets is justified. The OEB ordered the Corporation to provide a detailed valuation of the street lighting assets and to perform an operational review to determine which assets could become regulated assets. The Corporation performed a detailed asset operational review and financial valuation of the street lighting assets, which was submitted to the OEB on January 31, 2011. Based on this updated asset valuation and the OEB's decision issued on February 11, 2010, LDC was seeking the OEB's approval to transfer $29.4 million of street lighting assets from TH Energy to LDC.

On August 3, 2011, the OEB issued its final decision allowing the transfer of street lighting assets in the amount of $28.9 million to the wholly-owned entity, and for LDC to amalgamate with the new legal entity. The transfer of the street lighting assets is expected to be completed within a period of 18 months as directed by the OEB. The Corporation does not believe such transfer will have a material impact on its financial position and results of operations.

CDM Activities

On March 31, 2010, the Minister of Energy and Infrastructure of Ontario, under the guidance of sections 27.1 and 27.2 of the *Ontario Energy Board Act, 1998*, directed the OEB to establish CDM targets to be met by electricity distributors. Accordingly, on November 12, 2010, the OEB amended LDC's distribution licence to require LDC, as a condition of its licence, to achieve 1,304 GWh of energy savings and 286 Mega Watt of summer peak demand savings, over the period beginning January 1, 2011 through December 31, 2014.

Effective January 1, 2011, LDC entered into an agreement with the OPA to deliver CDM programs in the amount of approximately $50.0 million extending from January 1, 2011 to December 31, 2014 (the "Master CDM Program Agreement"). As at June 30, 2011, LDC has received approximately $9.2 million from the OPA for the delivery of CDM programs under the Master CDM Program Agreement. All programs to be delivered under the Master CDM Program Agreement are expected to be fully funded and paid in advance by the OPA. These programs will support the achievement of the mandatory conservation targets described above.

On January 10, 2011, LDC filed an application with the OEB seeking an order granting approval of funding for CDM programs specific to its customer base. LDC requested funding for eight specific programs amounting to $50.7 million. On July 12, 2011, the OEB issued its decision regarding CDM programs of LDC. In its decision, the OEB approved with modifications two of the eight programs for a total funding of $5.3 million. The modifications directed by the OEB included changes to the term and nature of those two programs. The OEB did not approve the other six programs as it considered them to be duplicative of existing CDM programs already funded by the OPA.

On August 3, 2011, LDC filed a letter with the OEB informing them that, due to the modified term and nature of the two approved programs, LDC's revised economic assessment showed these two programs as being uneconomic, and would not be implemented. LDC will continue to work with the OPA to expand the roster of current CDM programs in order to achieve its mandated CDM targets.

Special Purpose Charge

On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment under Section 26.1 of the *Ontario Energy Board Act, 1998,* for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed LDC the amount of $9.7 million for its apportioned share of the total provincial amount of the SPC of $53.7 million in accordance with the rules set out in Ontario Regulation 66/10 (the "SPC Regulation"). In accordance with Section 9 of the SPC Regulation, LDC was allowed to recover this balance. The recovery was completed as at April 30, 2011.

OEB PILs Proceeding

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

Following this decision, the OEB expects all the other electricity distributors to apply for final disposition of their balances following the guidelines established in the decision mentioned above.

LDC has reviewed the balances of its regulatory variance accounts and applied the guidelines provided by the OEB. As at June 30, 2011, LDC has estimated its liability at approximately $2.8 million. This balance has been recorded in the Corporation's consolidated financial statements. LDC intends to apply for disposition of this balance as part of its 2012 electricity distribution rates application. The amount to be approved by the OEB will be based on the OEB's interpretation and application of its guidelines and the final balance which is approved by the OEB could differ materially from LDC's estimation of its liability.

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 section 92 of the *Electricity Act, 1998* that are in excess of the amounts LDC believes are payable. The dispute arose as a result of inaccurate information incorporated into Ontario Regulation 224/00, correction of which has been requested by LDC.

The balance assessed by the Ministry of Revenue above the balance accrued by the Corporation amounts to $9.8 million as at June 30, 2011. The Corporation has been working with the Ministry of Revenue and the Ministry of Finance to resolve this issue. However, there can be no assurance that the Corporation will not have to pay the full assessed balance in the future.

Legal Proceedings – Late Payment Charges Class Action

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

The July 22, 2010 court order formalized a settlement pursuant to which the defendant MEUs will pay the amount of $17.0 million plus costs and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. Under the settlement, all of the MEUs involved in the settlement, including LDC, requested an order from the OEB allowing for the future recovery from customers of all costs related to the settlement. On February 22, 2011, the OEB issued its final decision allowing LDC to recover its share of the settlement in the amount of $7.5 million from customers. As at June 30, 2011, LDC's regulatory asset pertaining to late payment charges amounted to $7.5 million. The payment to settle LDC's portion of the class action suit was made on June 30, 2011. On July 7, 2011, the OEB authorized LDC to begin the recovery of the balance on August 1, 2011. The full recovery of the balance will be done over a 21-month period ending April 30, 2013.

Customer Care and Billing System

On July 6, 2011, LDC implemented a new customer care and billing system for its regulated electricity distribution business. The new system will allow for more flexibility for its users and provide better information for the calculation of accounting estimates related to revenue recognition. The system provides an integrated billing platform leveraging the technology of the smart meters installed over the past few years. Finally, the new system will ensure conformance with all the Ontario market rules requirements.

Share Capital

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

Transactions with Related Parties

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

Transactions with Related Parties Summary (in thousands of dollars, unaudited)

	Three months Ended June 30		Six months Ended June 30	
	2011 $	2010 $	2011 $	2010 $
Revenues	36,825	36,916	75,152	75,979
Operating expenses and capital expenditures	5,024	3,251	9,336	5,558
Net financing charges	–	–	–	7,487

Transactions with Related Parties Summary (in thousands of dollars, unaudited)

	As at June 30 2011 $	As at December 31 2010 $
Accounts receivable, net of allowance for doubtful accounts	3,913	6,711
Unbilled revenue	11,837	9,830
Other assets	7,324	7,368
Accounts payable and accrued liabilities	19,313	12,164
Customers' advance deposits	10,074	10,953

Revenues represent amounts charged to the City for electricity, energy management services, street lighting services, consolidated billing services, relocation services and other construction activities. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Net financing charges represent interest paid to the City on the promissory note.

Accounts receivable, net of allowance for doubtful accounts represent receivables from the City for street lighting services, relocation services, other construction activities, sale of electricity and energy management services. Unbilled revenue represents receivables from the City related to the provision of electricity not yet billed. Other assets represent amounts for prepaid land leases from the City. Accounts payable and accrued liabilities represent amounts payable to the City relating to road cut repairs and other services and funds received from the City for the construction of distribution assets. Customers' advance deposits represent funds received from the City for future expansion projects.

See note 13 to the Interim Consolidated Financial Statements.

Non-GAAP Financial Measures

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

Significant Accounting Policies

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

Changes in Accounting Estimates

Property, Plant and Equipment – Changes in Estimates

Effective January 1, 2011, the Corporation revised its estimates of useful lives of certain items of PP&E following a detailed review and analysis supported by external third-party evidences. These changes in estimates have been accounted for on a prospective basis in the consolidated financial statements effective January 1, 2011.

Effective January 1, 2011, the Corporation revised its estimates of burden rates of certain items of PP&E following a detailed review and analysis of all the components included in such burden rates. These changes in estimates of burden rates include changes in the allocation of engineering and administration costs, changes in the calculation of standard labour rates, and changes in the calculation of materials handling costs. These changes in estimates have been accounted for on a prospective basis in the consolidated financial statements effective January 1, 2011.

The changes discussed above were reflected in the 2011 electricity distribution rates approved by the OEB on July 7, 2011. Accordingly, it is estimated that these changes will decrease distribution revenues by approximately $24.6 million, increase operating expenses by approximately $22.0 million, decrease depreciation expenses by approximately $33.0 million and decrease PILs by approximately $13.6 million for the year ended December 31, 2011.

See note 3 to the Interim Consolidated Financial Statements.

Future Accounting Pronouncements

Adoption of New Accounting Standards

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises would 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.

Prior to the developments noted below, the Corporation's IFRS conversion project was proceeding as planned to meet the January 1, 2011 conversion date.

Rate-Regulated Accounting

In accordance with Canadian GAAP, the Corporation currently follows specific accounting policies unique to a rate-regulated business. Under rate-regulated accounting ("RRA"), the timing and recognition of certain expenses and revenues may differ from those otherwise expected under Canadian GAAP in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These timing differences are recorded as regulatory assets and regulatory liabilities on the Corporation's consolidated balance sheet and represent current rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. As at June 30, 2011, the Corporation reported $78.5 million of regulatory assets and $243.2 million of regulatory liabilities.

On July 23, 2009, the International Accounting Standards Board ("IASB") issued an Exposure Draft ("ED") proposing accounting requirements for rate-regulated activities. The IASB received a significant number of comment letters with diverging opinions. On September 3, 2010, in preparation for the September board meetings, the IASB staff issued Agenda Paper 12 outlining the staff's view that regulatory assets and regulatory liabilities did not meet the definitions of an intangible asset under IAS 38 – *Intangible Assets*, a financial liability nor a provision under IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* respectively. The utility industry immediately expressed its concern against the issuance of such a blanket prohibition under IFRS. On September 16, 2010, the IASB held a meeting to discuss Agenda Paper 12 and the overall status of the rate-regulated activities project. The Board members remained divided on the issue and determined that the matter could not be resolved quickly. As such, the Board decided to obtain feedback through public consultation as to the next steps that the IASB should take in relation to the rate-regulated activities project. Feedback from constituents was expected to be obtained by early 2011 and next steps for the project were expected to be determined and communicated by the second half of 2011. At this time, no further discussions are planned for this project on the Board's work plan.

The Canadian Electricity Association ("CEA") wrote a joint letter to the IASB on September 28, 2010 requesting an interim standard to grandfather previous GAAP accounting practices, such as those in Canada, be developed with respect to accounting for regulatory assets and liabilities. The IASB response indicated that it would further consider an interim standard after public consultation in 2011. To date, the IASB has not approved any temporary exemption or finalized a RRA standard under IFRS.

On September 10, 2010, the AcSB granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation. This decision came in light of the uncertainty created by the IASB in regard to RRA. To date, the IASB has not approved any temporary exemption or finalized a RRA standard under IFRS. Subsequently, the CSA announced that entities subject to rate regulation may defer the adoption of IFRS for up to one year, consistent with the one-year deferral granted by the AcSB.

Given the continued uncertainty around the timing, scope and eventual adoption of a RRA standard under IFRS and the potential material impact of RRA on the Corporation's consolidated financial statements, the Corporation decided to elect the optional one-year deferral of its adoption of IFRS. Accordingly, the Corporation continues to prepare its consolidated financial statements in accordance with Canadian GAAP accounting standards in Part V of the Canadian Institute of Chartered Accountants Handbook in 2011.

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

In the absence of a definitive plan to consider the issuance of a RRA standard by the IASB, the Corporation decided to evaluate the option of adopting United States Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012 as an alternative to IFRS. It is expected that the Corporation's current application of Canadian GAAP for RRA will be generally consistent with US GAAP. Under US GAAP, the Corporation's financial reporting will be more stable and comparable with its current Canadian GAAP results than it would have been under IFRS and is expected to facilitate the comparability against other large North American utilities in terms of securities and cost comparisons for the OEB.

Canadian Securities Legislation

Acknowledging the significance of the RRA issue, the Ontario Securities Commission ("OSC") communicated that the CSA would grant exemptive relief to rate-regulated utilities to adopt US GAAP. On June 3, 2011, a decision was rendered to a gas utility by the Securities Commissions of Alberta and Ontario, granting relief to allow it to file financial statements prepared in accordance with US GAAP, without being a Securities Exchange Commission ("SEC") registrant until years commencing on or after January 1, 2015.

On July 8, 2011, the Corporation filed an application with the applicable Canadian securities regulatory authorities pursuant to section 5.1 of National Instrument 52-107 "Acceptable Accounting Principles and Auditing Standards", to permit the Corporation to prepare its consolidated financial statements in accordance with US GAAP without qualifying as a SEC registrant.

On July 21, 2011, the applicable Canadian securities regulatory authorities issued a decision which would permit the Corporation to prepare its consolidated financial statements in accordance with US GAAP for its financial years beginning on or after January 1, 2012 but before January 1, 2015 and to deem US GAAP as the "issuer's GAAP" for purposes of applicable Canadian securities legislation. The decision is similar to that obtained by other rate-regulated utilities. Therefore, the Corporation will commence reporting under US GAAP in its first quarter consolidated financial statements for the year 2012.

The Corporation is in the process of amending its trust indenture agreement allowing the use of US GAAP for reporting purposes. The Corporation expects the required changes to be completed in the third quarter of 2011.

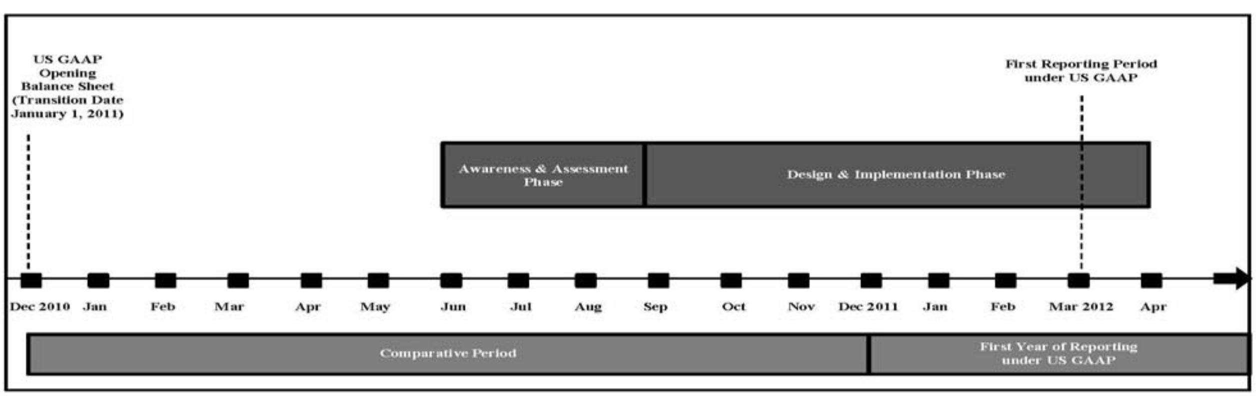
On August 26, 2011, the board of directors of the Corporation approved the adoption of US GAAP for financial reporting purposes for the year beginning on January 1, 2012. As a result of this decision, the Corporation's IFRS conversion project efforts have been reduced. However, the work will be managed in such a way that it can effectively be restarted if a future transition to IFRS is required.

US GAAP Conversion Project

The Corporation commenced its US GAAP conversion project and established a formal project governance structure. This structure includes a steering committee consisting of senior levels of management from finance, information technology and operations, among others. External accounting advisors have been engaged to assist the US GAAP conversion project team and to provide technical accounting support as required. Regular progress reports are provided to senior executive management. The Corporation's audit committee will receive periodic project updates from senior management and will approve all US GAAP accounting policies. The Corporation's board of directors will receive periodic project updates from senior executive management.

The Corporation's project consists of two phases:

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



The Corporation has completed its awareness and initial assessment. During the initial assessment it was determined that the areas of accounting differences with the highest potential impact to the Corporation's future financial position and results of operations are employee benefits, PILs, financial instruments, and customer advance deposits. The Corporation substantially completed its detailed assessment of accounting and disclosure differences in August 2011. Based on the result of the assessment, no material differences are expected that would impact the consolidated financial statements on the date of transition to US GAAP and post US GAAP implementation. In parallel, a detailed assessment of the impact of the US GAAP 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 design and implementation phase of the project has started. The activities involved in the design phase include establishing issue-specific working groups in each of the identified risk areas. The working groups are comprised of individuals from finance and operations, among others, and will establish key milestones which include developing recommendations, analyzing financial system and internal control impacts, developing significant accounting policies, and carrying out ongoing discussions with external consultants and auditors, in each area. Based on the outcomes of each working group, the Corporation will determine the final impacts of adopting US GAAP on its consolidated financial statements.

The roll-out of the required changes will take place during the implementation phase and will involve the development of new accounting policies and accounting manuals and the associated training for the finance and operational teams, testing the effectiveness of the changes made to systems, a simulation of the financial reporting process, preparation of opening balance sheet on transition date and related reconciliations and related disclosures. Based on these changes, the Corporation will be 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 US GAAP reporting requirements. The Corporation plans to develop and implement 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. It is expected that implementation will be completed in time such that the Corporation's interim consolidated financial statements for the first quarter of 2012 will be prepared in accordance with US GAAP.

US GAAP Differences

Based on the result of the assessment, at a high level, the following is a summary of the key accounting areas for which significant Canadian GAAP to US GAAP differences were identified:

Risk Areas	Key Differences Canadian GAAP vs. US GAAP	Potential Key Impacts
Employee Benefits	US GAAP permits only the full obligation (or the funded status) of defined benefit plans to be recognized as a liability in the balance sheet and no adjustments are made for minimum funding requirements.	Based on preliminary assessments, all unamortized actuarial gains and losses and unamortized past service costs will be reclassified from liability to AOCI.
	Actuarial gains and losses are recognized in Other Comprehensive Income ("OCI") in the period in which they arise and are presented within equity as Accumulated Other Comprehensive Income ("AOCI"). Amounts presented in AOCI are subsequently reclassified to profit or loss, generally using the corridor method.	Actuarial gains and losses and past service costs will be recognized in OCI and presented within equity as AOCI. Since the corridor method is used under both Canadian GAAP and US GAAP, no differences will arise with respect to the recognition of actuarial gains and losses and past service costs in profit or loss in a period.
	Prior service costs are recognized initially in OCI in the period in which they arise and are presented within equity as AOCI.	A portion of the benefit obligation will be presented as a current liability on the balance sheet.
	The liability for an underfunded plan must be classified as a current liability, a non-current liability or both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months exceeds the fair value of plan assets.	The measurement date of the actuarial valuation is required to be as of the reporting date of the Corporation, therefore, a reconciliation for the one day difference may be required.

Risk Areas	Key Differences Canadian GAAP vs. US GAAP	Potential Key Impacts
PILs	US GAAP requires future income taxes to be calculated based on enacted tax rates. If it is determined that it is not more likely than not (i.e. less than 50%) that a tax position will be sustained, a provision should be recorded. The provision amount should reflect the largest amount expected to be realized on settlement with the taxing authorities, based on consideration of all possible outcomes. Additional specific disclosures related to tax uncertainties are required under US GAAP.	Based on preliminary assessments, the approach to recording the tax provision is expected to add complexities to the calculation of the accruals and introduce volatility in the measurement.
Financial Instruments	US GAAP requires financing fees to be reported on the balance sheet as a deferred charge; hence, financing fees are presented on a gross basis.	Based on preliminary assessments, it is expected that financing fees associated with long-term debt will no longer be netted against the principal balance of the related long-term debt.
Customer Advance Deposits	Under US GAAP, customer advance deposits are classified as current liabilities if they are due on demand or will be due on demand within one year from the end of the reporting period. As such, they are classified as a current liability even if refunds of the deposits are not to be expected within that period.	Based on preliminary assessments, it is expected that there will be a reclassification for customer advance deposits from non-current to current liability under US GAAP.

OEB Review Process

On June 13, 2011, the OEB issued an Addendum to Report of the Board: *Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment.* Specifically, the OEB addressed the use of US GAAP in rate applications. The OEB is encouraging utilities adopting US GAAP to file a letter in advance of making the rate application, stating the intention to file under US GAAP. The utility must be able to demonstrate its eligibility under the relevant securities legislation to report financial information under US GAAP, and identify the benefits and potential disadvantages of adopting US GAAP.

To date, there are no formal clear guidelines from the OEB regarding the treatment of the differences between Canadian GAAP and IFRS or US GAAP in the electricity distribution rates application process. However, considering the similarities between Canadian GAAP currently used by LDC to derive electricity distribution rates and US GAAP the Corporation does not believe that the adoption of US GAAP will have a material impact on LDC's electricity distribution rates.

On August 19, 2011, the Corporation filed a letter with the OEB stating its intention to adopt US GAAP as the basis for the calculation of electricity distribution rates starting in 2012. This letter was filed in accordance with the guidelines established by the OEB.

Additional Information

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

Toronto, Canada

August 26, 2011