TORONTO HYDRO CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010 (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 700,000 customers located in the City of Toronto (the "City"). LDC is the largest municipal electricity distribution company in Canada and distributes approximately 19% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB which has broad powers relating to licensing, standards of conduct and service and the regulation of 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 began restructuring Ontario's electricity industry. Under regulations passed pursuant to the restructuring, 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.

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 fulfill their obligations to connect and service customers.

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.

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

- *Distribution Charges* – Distribution charges are designed to recover the costs incurred by LDC in delivering electricity to customers and the OEB-allowed rate of return. Distribution charges 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 is generally exempt from tax under the *Income Tax Act* (Canada) 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 is derived from activities carried on outside the municipal geographical boundaries of the City. In addition, the Corporation's subsidiaries are also generally exempt from tax under the *Income Tax Act* (Canada) provided that all of their capital is owned by the Corporation and not more than 10% of their respective income is from activities carried on outside the municipal geographical boundaries of the City. A corporation exempt from tax under the *Income Tax Act* (Canada) is also generally exempt from tax under the *Taxation Act, 2007* (Ontario) and the *Corporations Tax Act* (Ontario).

The Corporation and each of its subsidiaries are Municipal Electricity Utilities ("MEUs") 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 payment 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. The PILs regime came into effect on October 1, 2001, at which time the Corporation and each of its subsidiaries were deemed to have commenced a new taxation year for purposes of determining their respective liabilities for PILs payments.

The *Green Energy and Green Economy Act, 2009* (Ontario) (the "Green Energy Act") came into force on May 14, 2009. 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.

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)	2010 $	2009 $	Change $	Change %	2008 $
Revenues	2,611,671	2,457,923	153,748	6.3	2,379,773
Costs					
Purchased power and other	2,062,269	1,953,657	108,612	5.6	1,884,296
Operating expenses	223,326	208,834	14,492	6.9	202,821
Depreciation and amortization	169,408	162,970	6,438	4.0	156,159
	2,455,003	2,325,461	129,542	5.6	2,243,276
Income before the following:	156,668	132,462	24,206	18.3	136,497
Net interest expense	(71,150)	(70,551)	(599)	(0.8)	(62,426)
Change in fair value of investments	2,420	(1,049)	3,469	330.7	(22,033)
Gain on disposals of property, plant and equipment ("PP&E")	3,767	1,013	2,754	271.9	-
Income before provision for PILs	91,705	61,875	29,830	48.2	52,038
Provision for PILs	25,580	19,742	5,838	29.6	5,745
Income from continuing operations	66,125	42,133	23,992	56.9	46,293
Income from discontinued operations – net of tax[(1)]	-	-	-	-	122,719
Net income	66,125	42,133	23,992	56.9	169,012
Basic and fully diluted net income per share from continuing operations	66,125	42,133	23,992	56.9	46,293
Basic and fully diluted net income per share from discontinued operations	-	-	-	-	122,719
Basic and fully diluted net income per share	66,125	42,133	23,992	56.9	169,012

Note:

(1) Consists of discontinued operations for Toronto Hydro Telecom Inc. ("Telecom").

As at December 31, (in thousands of dollars)	2010 $	2009 $
Consolidated Balance Sheet Data		
Total assets	3,368,861	3,059,227
Current liabilities	640,385	338,212
Long-term liabilities	1,689,097	1,722,761
Total liabilities	2,329,482	2,060,973
Shareholder's equity	1,039,379	998,254
Total liabilities and shareholder's equity	3,368,861	3,059,227

Results of Operations – 2010 compared to 2009

Net Income

Net income was $66.1 million in 2010 compared to $42.1 million in 2009. The increase in net income was primarily due to higher net revenues ($45.1 million), a favourable variance in the fair value of investments ($3.5 million) and higher gain on disposals of surplus PP&E ($2.8 million). These favourable variances were partially offset by higher operating expenses ($14.5 million), higher depreciation expense ($6.4 million) and higher provision for PILs ($5.8 million).

Net Revenues

Net revenues (revenues minus the cost of purchased power and other) were $549.4 million in 2010 compared to $504.3 million in 2009. The increase was primarily due to increased net revenues at LDC ($45.0 million).

The increase in net revenues was primarily due to higher regulated distribution revenue at LDC ($38.6 million) and higher other income ($6.5 million). The increase in distribution revenue was primarily due to the approval by the OEB of higher distribution rates for 2010 to fund LDC's infrastructure renewal program ($31.3 million) (see "Corporate Developments – Distribution Rates for LDC" below) and higher consumption in 2010 (25,635 Gigawatt-Hour ("GWh") in 2010 compared to 25,223 GWh in 2009) ($6.9 million). The increase in other income was primarily due to higher revenue from disposal of scrap material in connection with the renewal of the electricity infrastructure and higher customer connection activities in 2010.

Expenses

Operating expenses were $223.3 million in 2010 compared to $208.8 million in 2009. The increase in operating expenses was primarily due to higher compensation costs ($10.5 million) mainly due to the hiring of new employees as part of LDC's workforce renewal strategy and annual general wage increases, recognition of provisions related to the potential unfavourable outcome of some contingencies ($7.4 million) (see "Legal Proceedings" below) and higher costs incurred in 2010 in relation with LDC's regulated maintenance work programs ($2.0 million). These increases in operating expenses were partially offset by lower Ontario capital tax expense in 2010 following the elimination of such tax in the second quarter of 2010 ($3.9 million) and lower bad debt expense due to improvements in collection activities ($3.0 million).

Significant quarterly variances in operating expenses were observed in 2009 and 2010 due to regulatory decisions related to the impact of remediation activities performed in 2009 on contact voltage issues. During the first nine months of 2009, the Corporation recorded $7.6 million of costs to operating expenses in relation to the remediation activities performed. Following the initial OEB decision rendered on December 10, 2009, the Corporation reduced its 2009 operating expenses and increased its regulatory assets by $4.9 million to $9.1 million to reflect its estimation of future recovery in connection with such activities. In the third quarter of 2010, the Corporation reduced its recovery estimate and recorded an impairment charge of $3.8 million to operating expenses with a corresponding reduction to the balance of regulatory assets capitalized in 2009 to reflect new information received from the OEB (see "Corporate Developments – Contact Voltage" below). Accordingly, the net impact of the contact voltage regulatory decisions resulted in a $1.1 million increase to operating expenses for 2010 compared to 2009.

Depreciation and amortization expense was $169.4 million in 2010 compared to $163.0 million in 2009. The increase in depreciation and amortization expense was primarily due to an increase in depreciation related to the renewal of the regulated electricity distribution infrastructure of LDC. Over the past three years, LDC significantly increased its capital expenditures following the approval by the OEB of higher capital programs aimed at modernizing the electricity infrastructure of the City (see "Liquidity and Capital Resources – Net Cash Used in Investing Activities" below).

Net Interest Expense

Net interest expense was $71.2 million in 2010 compared to $70.6 million in 2009. The increase in net interest expense was primarily due to higher long-term interest expense in 2010 from the issuance of debentures on May 20, 2010 to finance LDC's expanded capital program (see "Corporate Developments – Medium-Term Note Program" below). The increase in net interest expense was partially offset by lower interest expenses on existing long-term debt in 2010 arising from lower interest rates related to the issuance of unsecured debentures in 2009 in connection with the repayment of $245.1 million of indebtedness outstanding to the City under the terms of a promissory note.

Change in Fair Value of Investments

On October 8, 2010, the Corporation sold all of its investments for cash consideration of $50.4 million. In connection with these investments, the Corporation recognized a gain of $2.4 million in the consolidated statement of income in 2010. Due to changes in market conditions and in the liquidity of the investments, the Corporation's valuation methodology used to calculate the fair market value of its investments was changed from a mark-to-model approach to a mark-to-market approach in the third quarter of 2010.

The decrease of $1.0 million in the fair value of investments recorded in 2009 was due to changes in market conditions and the impact of the restructuring of the Asset Backed Commercial Paper ("ABCP") investments in 2009.

Gain on Disposals of PP&E

The increase of $2.8 million in the gain on disposals of PP&E for 2010 compared to 2009 was mainly due to the recognition of gains realized in connection with the disposals of surplus properties at LDC. During 2010, LDC recognized $3.8 million in gain on disposals of surplus properties, of which $2.8 million relates to surplus properties for which the OEB reduced electricity distribution rates in 2010 (see "Corporate Developments – Distribution Rates for LDC" below). 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 was $25.6 million in 2010 compared to $19.7 million in 2009. The increase in the provision for PILs was primarily due to higher earnings before tax in 2010, partially offset by lower temporary differences not benefited in LDC and the benefit of lower statutory tax rates in 2010.

Results of Operations – 2009 compared to 2008

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) ($122.7 million), higher provision for PILs in 2009 ($14.0 million), higher net interest expense ($8.1 million), higher operating expenses ($6.0 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 ($8.8 million).

For further details, see the Corporation's 2009 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 2010 and 2009.

2010 Quarter Ended, (in thousands of dollars)	**December 31 $**	**September 30 $**	**June 30 $**	**March 31 $**
Revenues	654,541	680,504	629,815	646,811
Costs	619,071	631,807	590,936	613,189
Net income	10,048	27,687	15,839	12,551

2009 Quarter Ended, (in thousands of dollars)	**December 31 $**	**September 30 $**	**June 30 $**	**March 31 $**
Revenues	630,808	639,692	575,256	612,167
Costs	594,830	602,162	541,297	587,172
Net income	8,941	11,831	14,375	6,986

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.

Liquidity and Capital Resources Year Ended December 31, (in thousands of dollars)	**2010 $**	**2009 $**
Cash and cash equivalents, beginning of year	211,370	340,492
Net cash provided by operating activities	280,318	190,757
Net cash used in investing activities	(347,584)	(303,063)
Net cash provided by (used in) financing activities	186,047	(16,816)
Cash and cash equivalents, end of year	330,151	211,370

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $280.3 million in 2010 compared to $190.8 million in 2009. The increase in net cash provided by operating activities was primarily due to a variance in the aggregate of accounts receivable and unbilled revenue due to the timing of billing and collection activities ($38.4 million), higher net income ($24.0 million), an increase in accounts payable and accrued liabilities due to timing of payments to suppliers ($17.5 million) and an increase in net change in other assets and liabilities ($5.5 million).

Net Cash Used in Investing Activities

Net cash used in investing activities was $347.6 million in 2010 compared to $303.1 million in 2009. The increase in net cash used in investing activities was primarily due to higher capital expenditures in 2010 ($141.5 million), partially offset by the proceeds received on the sale of investment ($50.4 million) (see "Investments" below), a higher change in net regulatory assets and liabilities ($42.7 million) primarily related to a higher variance in 2010 of retail settlement balances regulated by the OEB and by the impact of the net proceeds received in 2010 on the disposition of surplus properties ($7.8 million).

The increase in capital expenditures at LDC for 2010 amounted to $143.2 million and was primarily due to higher investment in electricity distribution assets in connection with LDC's infrastructure renewal program. The increase in LDC's capital program relates mainly to the replacement of overhead and underground network on its primary and secondary connection systems along with improvements to stations, transformers and feeder assets. The increase in LDC's capital program for 2010 has been approved by the OEB. The following table summarizes the Corporation's capital expenditures for the years indicated.

Year Ended December 31, (in thousands of dollars)		
	2010 $	**2009 $**
LDC		
Distribution system	311,781	183,479
Technology assets	39,556	38,159
Other [(1)]	33,575	20,048
	384,912	241,686
Other [(2)]	5,872	7,619
Total Capital Expenditures	390,784	249,305

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 Provided by (Used In) Financing Activities

Net cash provided by financing activities was $186.0 million in 2010 compared to net cash used in financing activities of $16.8 million in 2009. The increase in net cash provided by financing activities was primarily due to the issuance by the Corporation of $200.0 million of senior unsecured debentures on May 20, 2010 (see "Corporate Developments – Medium-Term Note Program" below) to finance the renewal of LDC's electricity infrastructure.

Revolving Credit Facility

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

As at December 31, 2010, no amounts have been utilized under the Corporation's revolving credit facility and $46.1 million had been drawn on the $50.0 million bilateral facility in the form of letters of credit, primarily to support LDC's prudential requirements with the IESO.

Prudential Requirements and Third Party Credit Support

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

Investments

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

Initially, 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 note holders. On January 21, 2009, the amended restructuring plan was completed and the Corporation received its replacement notes. The replacement notes received had an aggregate principal amount of $87.7 million. The expected repayment date of the replacement notes was January 22, 2017 and no legal obligation to pay interest on the replacement notes was provided upon issuance.

Prior to their sale, the Corporation valued the investments at fair value on its balance sheets and changes in fair value of investments were recorded to the consolidated statements of income in the period they arose. The fair value of the investments was $47.9 million as at December 31, 2009 and $50.4 million as at September 30, 2010. For the year ended December 31, 2010, the Corporation recognized a gain to the consolidated statements of income of $2.4 million in connection with the sale of these investments.

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 that 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 day of each of the first three fiscal quarters during the year;
- $7 million on the last day of the fiscal year; and
- the amount, if any, by which 50% of the Corporation's annual consolidated net income for the year exceeds $25 million, within ten days after the board of directors of the Corporation approved the Corporation's audited Consolidated Financial Statements for the year.

The board of directors of the Corporation declared and paid dividends totalling $25.0 million in 2010 and $25.2 million in 2009 to the City.

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, payable to the City on March 18, 2011 and $6.0 million with respect to the first quarter of 2011, payable to the City on March 31, 2011.

Credit Rating

As at December 31, 2010, 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 May 20, 2010, the Corporation issued $200.0 million in 30-year senior unsecured debentures ("Series 6") which bear interest at the rate of 5.54% per annum and are payable semi-annually in arrears in equal instalments on May 21 and November 21 of each year. The Series 6 debentures mature on May 21, 2040, and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The net proceeds of this issuance will be used principally to finance regulated capital expenditures of LDC.

Appointments

On March 31, 2010, the City, as sole shareholder of the Corporation, appointed David Williams as an independent director of the Corporation. His appointment is effective to November 30, 2012.

On December 7, 2010, the City, as sole shareholder of the Corporation, appointed three new councillors, Shelley Carroll, Josh Colle, and Ron Moeser as the City's designates on the board of directors of the Corporation to replace Joe Pantalone, Gordon Perks and Bill Saundercook. Their appointments are effective to November 30, 2012.

Resignation

Effective December 2, 2010, William Rupert resigned as an independent director of the Corporation.

Monetization of City Note

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

Distribution Rates for LDC

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. LDC electricity distribution rates are typically effective from May 1 to April 30 of the following year. Accordingly, for the first four months of 2010, distribution revenue was based on the rates approved for 2009. Distribution revenue for the period from May 1, 2010 to December 31, 2010 was based on the distribution rates approved in 2010.

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

LDC was modified to 62.5% debt and 37.5% equity for 2008 and to 60.0% debt and 40.0% equity for 2009 and thereafter.

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

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

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

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

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

On February 9, 2011, LDC filed with the OEB an amendment to its rate application filed on August 23, 2010 to reflect expected changes in accounting estimates used to derive electricity distribution rates. The amended distribution revenue requirement and rate base for the 2011 rate year commencing on May 1, 2011 and ending on April 30, 2012 are $555.4 million and $2,360.5 million, respectively.

Contact Voltage

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

On October 29, 2010, the OEB issued its final decision, following further review of costs incurred by LDC in connection with the contact voltage remediation activities. In its decision, the OEB deemed the balance allowable for recovery at $5.3 million. 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.

Smart Meters

In support of the Province of Ontario's decision to install smart meters throughout Ontario, LDC launched its smart meter project in 2006. The project's objective is to install smart meters and the supporting infrastructure for all residential and commercial customers. LDC installed approximately 674,000 smart meters as at December 31, 2010.

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

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 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 is seeking the OEB's approval to transfer $29.4 million of street lighting assets from TH Energy to LDC. A final decision from the OEB in regard to such transfer is expected before the end of 2011.

Green Energy and Green Economy Act, 2009

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 license to incorporate the implementation of regulations under the Green Energy Act. The amendments require LDC, as a condition of its license, to achieve 1,304 GWh of energy savings and 286 Megawatt ("MW") of summer peak demand savings, over the period beginning January 1, 2011 through December 31, 2014.

CDM Agreements with the Ontario Power Authority

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 delivered during this time were fully funded by the OPA with any advance payments recorded on the Corporation's consolidated balance sheet as a deferred liability. LDC also participated in the initiatives within the City designed to achieve electricity demand reduction up to 300 MW for programs extending from May 7, 2007 to December 31, 2010.

Since the launch of these programs in 2007, LDC has spent a total of $87.1 million on OPA programs ($26.7 million in 2010) and recognized $13.9 million in margin related to such programs ($2.8 million in 2010).

On February 2, 2011, LDC entered into an agreement with the OPA to deliver OPA-funded CDM programs in the amount of approximately $50.0 million from January 1, 2011 to December 31, 2014. All programs to be delivered under this OPA agreement are expected to be fully funded and paid in advance by the OPA.

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 is allowed to recover this balance. The recovery is expected to be achieved over a one-year period, which began on May 1, 2010.

OEB PILs Proceeding

The OEB is conducting a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for all 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 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 $9.4 million as at December 31, 2010. The Corporation has been working with the Ministry of Revenue and the Ministry of Finance to resolve this issue. However, there can be no assurance that the Corporation will not have to pay the full assessed balance in the future.

Enterprise Risk Management Program

In 2010, the Corporation adopted an Enterprise Risk Management Program (the "ERM Program") to provide a consistent and disciplined methodology for the identification, assessment, monitoring and reporting of risks applicable to the Corporation. The ERM Program follows industry best practices and emphasizes a top-down approach to integrate risk management with strategic planning. To ensure strong oversight over the risk management process and alignment with the shareholder direction, a risk governance structure is in place, consisting of regular reporting to the board of directors, and regular meetings of an executive risk oversight committee.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various litigation and claims with customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy.

Christian Helm Class Action

On December 6, 2010, a Statement of Claim in a proposed class action was issued against LDC. The Claim seeks general and special damages in the amount of $100.0 million for disgorgement of unjust gains allegedly resulting from the receipt of interest on overdue accounts at a rate exceeding 5% per annum in contravention of the Interest Act, R.S.C. 1985, c. I-15. A statement of defence has been filed. Prior to any certification of the action as a class proceeding, cross summary judgment motions are scheduled to be heard on June 16 and 17, 2011 to determine whether the Interest Act has been breached. If the court finds a breach of the Interest Act, subject to appeals, the proceeding will continue, and LDC will rely on other defences. While LDC believes it has a defence to this Claim, there is no guarantee that it will be successful in defending the action and therefore, the outcome of this proceeding could have a material impact on the Corporation consolidated financial statements and results of operations.

Late Payment Charges Class Action

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

The July 22, 2010 court order formalized a settlement pursuant to which the defendant MEUs will pay the amount of $17.0 million plus costs and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. LDC's share of the settlement amount was expected to be $7.8 million, payable on June 30, 2011. Under the settlement, all of the MEUs involved in the settlement, including LDC, have requested an order from the OEB allowing for the future recovery from customers of all costs related to the settlement. LDC has accrued a liability and a corresponding regulatory asset in the amount of $7.8 million. On February 22, 2011, the OEB issued its final decision allowing for LDC to recover the settlement amount of $7.5 million from customers over the period commencing May 1, 2011 and ending April 30, 2013.

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.

On December 20, 2010, LDC was served with a Statement of Claim by the City seeking damages in the amount of $2.0 million as a result of the fire at 2 Secord Avenue. 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.

2369 Lakeshore Boulevard West

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

Another third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action also added LDC as a defendant. The main action seeks damages in the amount of $0.4 million from LDC. Both actions are at a preliminary stage. Although a third party claim and the Statement of Claim in the main action have been served on LDC, statements of defence to the main action and the third party claim have not been filed. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with these actions.

Adamopoulos v. LDC

An action was commenced against LDC in November 2004 in the Ontario Superior Court of Justice seeking damages in the amount of $7.8 million as compensation for damages allegedly suffered as a result of a motor vehicle accident involving an LDC vehicle on January 9, 2001. This action is at an intermediate stage. The plaintiff's motion increasing its claim for damages to $23.8 million was granted on July 7, 2010. The trial in this action is scheduled for May 2011. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

Share Capital

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

Transactions with Related Parties

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

LDC provided electricity to the City in the amount of $122.5 million at prevailing market prices and normal trade terms in 2010, compared to $112.6 million in 2009. Included in "Unbilled revenue", as at December 31, 2010, is a balance amounting to $9.8 million receivable from the City related to the provision of electricity for the previous months, compared to $9.7 million as at December 31, 2009.

LDC provided relocation services related to the City in the amount of $1.5 million in 2010, compared to $0.9 million in 2009. Included in LDC's "Accounts receivable, net of allowance for doubtful accounts", as at December 31, 2010, is $3.4 million receivable from the City related to relocation services and other construction activities, compared to $1.2 million as at December 31, 2009.

LDC and TH Energy provided energy management services, street lighting services and consolidated billing services to the City amounting to $19.4 million in 2010, compared to $21.0 million in 2009. Included in LDC's and TH Energy's "Accounts receivable, net of allowance for doubtful accounts", as at December 31, 2010, is $3.0 million receivable from the City related to these services, compared to $5.0 million as at December 31, 2009.

LDC purchased road cut and other services of $7.9 million from the City in 2010, compared to $6.9 million in 2009. Included in LDC's "Accounts payable and accrued liabilities", as at December 31, 2010, is $11.6 million payable to the City related to services received from the City, compared to $5.5 million as at December 31, 2009.

LDC and TH Energy paid property tax expenses to the City of $6.2 million in 2010, compared to $6.3 million in 2009.

LDC received funds in advance from the City for future expansion projects amounting to $13.3 million in 2010 compared to $14.2 million in 2009.

As at December 31, 2010, the outstanding principal with respect to the City Note was $nil compared to $490.1 million as at December 31, 2009. The Corporation paid interest of $7.5 million in 2010 on the City Note, compared to $45.0 million in 2009 (see "Corporate Developments – Monetization of City Note" above).

See note 11 and note 19 to the Consolidated Financial Statements.

Risk Factors

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

Condition of Distribution Assets

LDC estimates that approximately one-third of its distribution assets are past their expected useful life. LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public 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.

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 CDM;
- 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 also 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.

Information Technology Infrastructure

The Corporation'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.

Labour Relations

The Corporation's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions to adapt to changing circumstances. The Corporation's ability to make such changes, in turn, will continue to depend in part on its relationship with its labour unions and 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.

Natural and Other Unexpected Occurrences

LDC's operations are exposed to the effects of natural and other unexpected occurrences such as severe or unexpected weather conditions, terrorism, cyber attacks and pandemics. Although LDC's facilities and operations are constructed, operated and maintained to withstand such occurrences, there can be no assurance that they will successfully do so in all circumstances. Any major damage to LDC's facilities or interruption of LDC's operations arising from these occurrences could result in lost revenues and repair costs that are substantial in amount. Although the Corporation has insurance, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC would 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.

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 (e.g., principally sustained periods of hot or cold weather could increase the consumption of electricity, sustained periods of mild weather could decrease the consumption of electricity, and general economic conditions could affect overall electricity consumption). Accordingly, there can be no assurance that LDC will earn the revenue requirement approved by the OEB.

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

Market and Credit Risk

The Corporation 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 and A-rated Canadian utility bond spreads. 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 $4.6 million.

The Corporation is also exposed to fluctuations 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, 2010, by $27.1 million, and a 1% (100 basis points) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2010, by $35.1 million.

Additional 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 its Medium-Term Note Program or existing credit facilities to repay existing indebtedness and fund capital expenditures. 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 9 years, approximately 700 LDC employees will be eligible for retirement. This number represents approximately 40% of LDC's current workforce (with a significant number of potential retirements occurring in supervisory trades and technical positions). Accordingly, LDC will be required to attract, train and retain skilled employees. There can be no assurance that LDC will be able to attract and retain the required workforce.

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.

Credit Rating

Should the Corporation's credit rating from both credit rating agencies fall below "A"(minus) (S&P) and "A"(low) (DBRS), the Corporation and its subsidiary companies may be required to post additional collateral with the IESO.

Conflicts of Interest and Change of Ownership

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 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 also decide to sell all or part of the Corporation; however the Corporation is not aware of any plan or decision by the City to do so. 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 the Corporation.

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.

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. 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 compliance costs.

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 judgments on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgments under different assumptions or conditions.

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

Regulatory Assets and Liabilities

Regulatory assets as at December 31, 2010, amounted to $85.1 million and primarily relate to the deferral of smart meters expenditures incurred in 2009 and 2008. Regulatory liabilities as at December 31, 2010, amounted to $304.0 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 Corporation’s consolidated statements of operations.

Environmental Liabilities and Asset Retirement Obligations

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 and asset retirement obligations (“ARO”) 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.

ARO amounted to $5.0 million as at December 31, 2010 compared to $7.6 million as at December 31, 2009. The Corporation estimates the undiscounted amount of cash flows required over the next one to fifty years to settle the ARO is $6.6 million for 2010 compared to $9.3 million for 2009. Discount rates ranging from 1.39% to 6.60% were used to calculate the carrying value of the ARO liabilities as at December 31, 2010 and as at December 31, 2009. No assets have been legally restricted for settlement of the liability.

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.

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 date of the Consolidated Financial Statements and the reported amounts of revenues and expenses for the year. 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 Consolidated Financial Statements.

Changes in Accounting Standards

Financial Instruments – Recognition and Measurement

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

Future Accounting Pronouncements

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("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, with the remaining standards to be adopted at the change over date.

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

Consolidated Financial Statements. The Corporation believes that the impact on its financial statements could be material.

Rate-Regulated Accounting

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 that otherwise expected under Canadian GAAP in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These timing differences are recorded as regulatory assets and regulatory liabilities on the Corporation's consolidated balance sheet and represent current rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. As at December 31, 2010, the Corporation reported $85.1 million of regulatory assets and $304.0 million of regulatory liabilities.

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

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

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

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

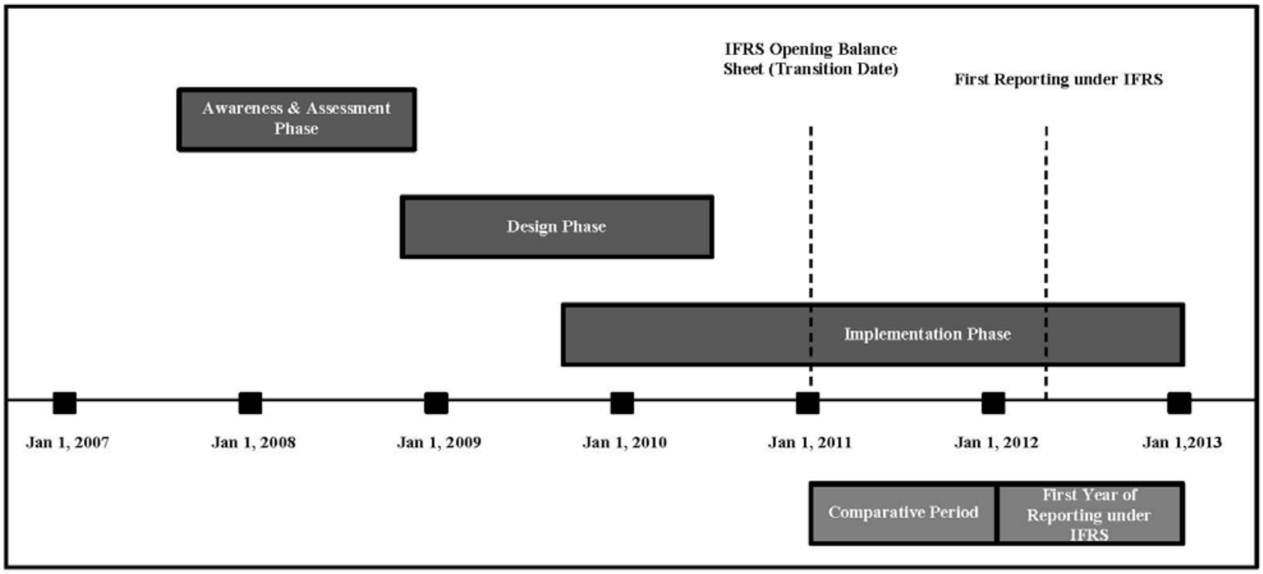
As a result of these developments related to RRA under IFRS and the uncertainty as discussed below regarding the impact of IFRS on the OEB electricity distribution rates application process, the Corporation cannot reasonably quantify the full impact that adopting IFRS would have on its future financial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

IFRS Conversion Project

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

The Corporation's project consists of three phases:

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



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

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

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

As a result of electing the one-year deferral, the Corporation has revised its project plan to reflect the necessary work involved in determining the impacts of adopting IFRS at the new adoption date of January 1, 2012.

The following table provides certain key activities of the changeover plan and an assessment of the Corporation's progress at this time. This information reflects the Corporation's most recent assumptions and expectations. Circumstances may arise such as changes in IFRS, regulations, or economic conditions, which would affect these assumptions or expectations.

Key Activities	Status
Accounting policies & procedures:	
• High level review of major differences between Canadian GAAP and IFRS • Establish issue-specific working groups in the identified risk areas • Detailed assessment of accounting and disclosure differences, accounting policy choices and IFRS 1 elections available • Develop recommendations and accounting policies through ongoing discussions with external auditors • Finalize new accounting policies and accounting manuals	• All accounting policy positions (with the exception of those that are impacted by RRA) have been developed. Further updates will be required due to the one-year deferral • The majority of the accounting policies have been approved by senior management and the audit committee • Final approval of the remaining policies (those impacted by RRA) will be finalized in 2011 in accordance with the one-year deferral • Continue to monitor ongoing IASB projects and assess potential impacts • Accounting policies and procedure manuals continue to be updated based on the IASB project developments
Financial statements preparation:	
• Identify Canadian GAAP to IFRS financial statements presentation differences and design interim and annual financial statements formats and related notes disclosures • Simulate the financial reporting process under IFRS • Prepare the opening balance sheet on the date of transition and IFRS 1 related reconciliations and disclosures • Assess ongoing impacts on the IFRS financial statements and related disclosures	• Developed financial statements formats • Final testing of system related modifications to IFRS generated financial statements • Preparation of the opening balance sheet on transition date is in progress (with the exception of items that are impacted by RRA) • Obtained approval from senior management and Audit Committee over the design of the first IFRS annual and interim financial statements
Training & communication:	
• Provide training to affected finance and operational teams, management and the board of directors, and relevant committees thereof, including the audit committee • Develop and execute staff training plan, and roll out communication initiatives • Continue to update audit committee and senior management on a quarterly basis for key developments in IFRS and the potential impacts to the Corporation's financial statements	• Completed detailed training for resources directly engaged in the changeover and general awareness training to broader group of finance employees • Completed topic-specific and relevant training to finance and operational teams on all finalized positions. Key areas include PP&E, employee benefits, provisions, capital contributions, borrowing costs and financial statement presentation • Completed awareness and assessment phase and design phase closeout training sessions for all key finance and operational staff • Continue ongoing, periodic internal and external communications on the Corporation's progress on the IFRS project and direction, including the effects of the changeover given the one-year deferral • Extended and refined staff training plans as a result of the one-year deferral
Business impacts:	
• Evaluate impacts and implement necessary changes to debt covenants, internal performance measures, contracts and processes	• Impacts to debt covenants, regulatory and other business processes were identified and assessed throughout the development of accounting policies. Such impacts will be reassessed in light of the one-year deferral. Further next steps may be required depending on the reassessment.
Information technology systems:	
• Analysis of financial system to identify required modifications • Test the effectiveness of the changes made to systems • Ensure solution captures financial information under Canadian GAAP and IFRS during the year of transition for comparative reporting purposes	• Completed system changes for reporting purposes including subledger configurations for derecognition and depreciation on a component level. Further changes to information systems are largely dependent upon future changes to IFRS standards such as RRA • Completed the majority of the modifications to the system to accommodate the new transition date of January 1, 2011 and began to accumulate IFRS data for reporting comparative information • Continue to implement remaining required modifications to financial systems

Key Activities	Status
Control environment:	
• Detailed assessment of the impact of IFRS conversion on people, systems, processes and internal controls • Analyze and update internal control processes and documentation • Implement related controls and procedures to ensure the integrity and effectiveness of internal controls over financial reporting (“ICFR”) and disclosure controls and procedures (“DC&P”)	• Based on the accounting policies and procedures developed, the Corporation continues to evaluate and document the impacts on new and existing controls to ensure the integrity and effectiveness of ICFR and DC&P • Additional controls may be required to address first-time IFRS adoption and new processes implemented to support ongoing IFRS reporting requirements. These controls will be implemented and tested on a timely basis for reporting under IFRS in 2012.

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

Areas of IFRS	Summary of Exemption Available	Policy Selection
IAS 16 PP&E (“IAS 16”)	The rate-regulated deemed cost exemption permits rate-regulated entities adopting IFRS for the first time to elect to use the previous GAAP carrying amount of certain items of PP&E and intangible assets at the date of transition to IFRS as deemed cost. The fair value or revaluation as deemed cost exemption permits the cost of an item of PP&E to be measured based at deemed cost, which can be fair value at the date of transition.	The Corporation plans to elect (1) the rate-regulated deemed cost exemption for regulated eligible assets and (2) the fair value deemed cost exemption for its unregulated assets.
IAS 19 Employee Benefits (“IAS 19”)	The “corridor” approach defers the recognition of some actuarial gains and losses. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition into a recognized and an unrecognized portion. However, the Corporation may elect to recognize all cumulative actuarial gains and losses in retained earnings at the date of transition. Also, for its defined benefit plans, the Corporation may disclose the information required by IAS 19 (i.e. previous four annual periods) as the amounts are determined prospectively from the date of transition.	The Corporation plans to elect the exemption to recognize all cumulative actuarial losses in retained earnings at the date of transition. The Corporation plans to elect the disclosure exemption and thereby plans to disclose four years of comparative information required by IAS 19.
IAS 39 Financial Instruments Recognition and Measurement (“IAS 39”)	IAS 39 does not permit the reclassification of a financial instrument after it has been designated as a financial asset or liability at fair value through profit or loss. Despite this requirement, an entity is permitted to re-designate, at the date of transition to IFRS any financial instrument as at fair value through profit or loss provided certain criteria of IAS 39 are met (i.e. this exemption allows the Corporation to reclassify its portfolio on the date of transition).	The Corporation has concluded that the cash equivalents portfolio meets the designation requirements of IAS 39. The Corporation plans to elect the exemption to re-designate the cash equivalent portfolio from held-to-maturity to fair value through profit or loss.
IAS 37 Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”)	IFRS 1 includes an elective exemption that allows a first-time adopter to re-measure the amount of the decommissioning provision capitalized in PP&E using a simplified method.	The Corporation plans to elect to re-measure its decommissioning provisions on the date of transition using a simplified method.

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

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

Risk Areas	Key Differences Canadian GAAP vs. IFRS	Potential Key Impacts
RRA	There is currently no specific RRA standard or guidance under IFRS. Under CGAAP, the timing and recognition of certain expenses and revenues may differ from that otherwise expected in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures.	The impact of RRA on the Corporation's consolidated financial statements cannot reasonably be estimated given the uncertainties discussed above. If regulatory assets and liabilities are not allowed to be recognized under IFRS, it could result in significant derecognition of regulatory assets and liabilities upon first-time adoption of IFRS, which would be recorded to retained earnings. On a go-forward basis, this may distort the economic substance of the financial results of the Corporation and create severe earnings volatility in the statement of comprehensive income, which would not be reflective of the true economic performance for a reporting period.
IAS 1 Presentation of Financial Statements ("IAS 1")	IAS 1 states that a liability is presented as current if: (i) an entity does not have an unconditional right to defer its settlement for at least twelve months after the reporting period; and (ii) a liability is payable upon demand.	Based on preliminary assessments, it is expected that there will be an increase in customer advance deposits being reclassified from non-current to current liability under IFRS.

Risk Areas	Key Differences Canadian GAAP vs. IFRS	Potential Key Impacts
IAS 12 Income Taxes ("IAS 12")	Canadian GAAP and IAS 12 are similar in that they are based on the balance sheet liability approach whereby an entity recognizes deferred tax liabilities for taxable temporary differences, and deferred tax assets for deductible temporary differences, unused losses and tax credit carry-forwards.	The impact of IAS 12 on the Corporation's consolidated financial statements cannot reasonably be estimated until greater clarity is provided by the IASB on the future direction of RRA and until final accounting policy decisions are made under other standards.
IAS 16	IAS 16 requires that an item of PP&E be separated into components when those parts are significant in relation to the total cost of the item. Each component is depreciated over its estimated useful life, and derecognized separately. Costs that are not directly attributable to items of PP&E (such as administration and other general overhead costs) cannot be capitalized under IAS 16. IAS 16 also requires that items of PP&E be derecognized as soon as they are taken out of service.	The Corporation has componentized its items of PP&E, and assessed the respective useful lives following a detailed review of all its assets. The revised useful lives of the assets are generally longer which could reduce depreciation in the future. A review of the cost capitalization policy under IFRS has been completed by the Corporation. At this point it is expected that less costs would be capitalized under IFRS. The Corporation will be derecognizing all items of PP&E as soon as they are taken out of service.
IAS 19	IAS 19 provides guidance on all employee benefits, unlike Canadian GAAP which focuses on employee future benefits. Short term benefits that accumulate are recognized even when the benefit is non-vested. Post-employment defined benefit plans are subject to different accounting treatments related to the attribution method and the attribution period under IFRS. Actuarial gains and losses are permitted to be recognized directly in equity or through earnings using the corridor method or another systematic method that allows for faster recognition through earnings, and amortized over the expected remaining working lives of the employees.	Based on preliminary assessments, the impact on the date of transition as a result of the adoption of IAS 19 (including the IFRS 1 exemption discussed above) is an expected increase to liabilities with a corresponding decrease to opening retained earnings.
IAS 23	The core principle of IAS 23 is that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset forms part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.	Based on preliminary assessments, it is expected that additional borrowing costs would be capitalized as a result of adoption of IAS 23.
IAS 37	IAS 37 requires the use of a risk-free rate to discount provisions, whereas Canadian GAAP requires the use of a credit-adjusted risk-free rate.	Based on preliminary assessments, the impact on the date of transition as a result of measurement differences (including the IFRS 1 exemption discussed above) is an increase to decommissioning provisions, a decrease to PP&E, and a decrease to opening retained earnings.
IFRIC 18	IFRIC 18 does not allow for the netting of capital contributions received against items of PP&E.	Based on preliminary assessments, there will be a reclassification between PP&E, and unearned revenue liability. Presentation differences will have no impact on the net income reported.

OEB Review Process

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

The OEB issued its Report of the Board – *Transition to IFRS* on July 28, 2009, which contained recommendations on how regulatory reporting requirements should change in response to IFRS. The Corporation continues to evaluate the potential impacts of the recommendations as several issues, such as the treatment of accounting differences as deferral or variance accounts and the timing of the amendments to the AP Handbook, were not addressed in the Report of the Board.

The OEB has initiated a second phase in its transition project, which involves amending certain regulatory instruments. On February 24, 2010, the OEB issued a letter titled *Accounting for Overhead Costs Associated with*

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

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

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

Consolidated Financial Statements and Non-controlling Interests

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

Financial Instruments – Recognition and Measurement

In June 2009, the CICA amended Handbook Section 3855 to clarify when an embedded prepayment option is separated from its host debt instrument for accounting purposes. This amendment applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Corporation has determined that this amendment will have no impact on its consolidated results of operations or 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 CICA 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. The Corporation has determined that these amendments will have no impact on its consolidated results of operations or 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 distribution revenue, the Corporation's plans to borrow funds to repay maturing debentures and finance the investment in LDC's infrastructure, the impact of current economic conditions and financial market volatility on the Corporation's consolidated 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 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 and the impact of the conversion 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, market liquidity and the quality of the underlying assets and financial instruments, the timing and extent of changes in prevailing interest rates, inflation levels, legislative, judicial and regulatory developments that could affect revenues, and the results of borrowing efforts.

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

Additional Information

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

Toronto, Canada

March 11, 2011