MANAGEMENT’S DISCUSSION AND ANALYSIS
MARCH 31, 2011

TORONTO HYDRO CORPORATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE INTERIM PERIOD ENDED
MARCH 31, 2011**

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Forward-Looking Information

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

The forward-looking information in the MD&A includes, but is not limited to, statements regarding Toronto Hydro-Electric System Limited's ("LDC") distribution revenue, the Corporation's plans to borrow funds to repay maturing debentures and finance the investment in LDC's infrastructure, the potential transfer of street lighting activities from Toronto Hydro Energy Services Inc. ("TH Energy"), the outcome of outstanding proceedings before the Ontario Energy Board ("OEB"), the effect of changes in interest rates on future revenue requirements, the changes in accounting estimates for the Corporation and the Corporation's conversion to International Financial Reporting Standards ("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.

Introduction

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

- the unaudited interim consolidated financial statements and accompanying notes of the Corporation as at and for the three-month period ended March 31, 2011 (the "Interim Consolidated Financial Statements");

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

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

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

Business of Toronto Hydro Corporation

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

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

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, which delivers electricity to approximately 703,000 customers located in the City of Toronto (the "City"). LDC is the largest municipal electricity distribution company in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB which has broad powers relating to licensing, standards of conduct and service and the regulation of rates charged by LDC and other electricity distributors in Ontario. See note 2 to the Annual Consolidated Financial Statements.

Selected Interim Consolidated Financial Data

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

Interim Consolidated Statement of Income Data
Three months ended March 31
(in thousands of dollars, except for per share amounts, unaudited)

	2011 $	2010 $	Change $	Change %
Revenues	701,342	646,811	54,531	8.4
Costs				
Purchased power and other	561,265	519,723	41,542	8.0
Operating expenses	62,883	53,780	9,103	16.9
Depreciation and amortization	33,472	39,686	(6,214)	(15.7)
	657,620	613,189	44,431	7.2
Income before the following:	43,722	33,622	10,100	30.0
Net financing charges	(18,896)	(16,620)	(2,276)	(13.7)
Gain on disposals of property, plant and equipment ("PP&E")	2,964	684	2,280	333.3
Income before provision for Payments In Lieu of Corporate Taxes ("PILs")	27,790	17,686	10,104	57.1
Provision for PILs	2,338	5,135	(2,797)	(54.5)
Net income	25,452	12,551	12,901	102.8
Basic and fully diluted net income per share	25,452	12,551	12,901	102.8

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

	As at March 31 2011 $	As at December 31 2010 $
Total assets	3,371,140	3,338,614
Current liabilities	674,837	640,385
Long-term liabilities	1,645,535	1,658,850
Total liabilities	2,320,372	2,299,235
Shareholder's equity	1,050,768	1,039,379
Total liabilities and shareholder's equity	3,371,140	3,338,614

Results of Operations

Net Income

Net income for the three months ended March 31, 2011 was $25.5 million compared to $12.6 million for the comparable period in 2010. The increase in net income was primarily due to higher net revenues ($13.0 million), lower depreciation expense ($6.2 million), lower provision for PILs ($2.8 million) and higher gain on disposals of surplus PP&E ($2.3 million). These favourable variances were partially offset by higher operating expenses ($9.1 million) and higher net financing charges ($2.3 million).

Net Revenues

Net revenues for the three months ended March 31, 2011 were $140.1 million compared to $127.1 million for the comparable period in 2010 (see "Non-GAAP Financial Measures" below). The increase in net revenues was primarily due to higher regulated distribution revenue at LDC ($14.1 million) partially offset by lower other income ($1.1 million). The increase in distribution revenue was primarily due to the approval by the OEB of higher distribution rates effective May 1, 2010 to fund LDC's infrastructure renewal program and incremental maintenance costs ($9.2 million) (see "Corporate Developments – Distribution Rates for LDC" below) and higher consumption in 2011 (6,642 Gigawatt-Hour ("GWh") in 2011 compared to 6,500 GWh in 2010) ($5.2 million). The decrease in other income was primarily due to lower margins recognized in connection with Ontario Power Authority ("OPA") CDM programs in 2011.

Expenses

Operating expenses for the three months ended March 31, 2011 were $62.9 million compared to $53.8 million for the comparable period in 2010. The increase in operating expenses was primarily due to changes in accounting estimates related to burden rates ($5.3 million) (see "Changes in Accounting Estimates" below) and higher compensation costs mainly due to annual general increase in wages and related benefits ($4.3 million).

Depreciation and amortization expense for the three months ended March 31, 2011 was $33.5 million compared to $39.7 million for the comparable period in 2010. The decrease in depreciation and amortization expense was primarily due to changes in accounting estimates related to useful lives of PP&E ($10.3 million) (see "Changes in Accounting Standards and Estimates – Property, Plant and Equipment" below). This decrease was partially offset by an increase in depreciation related to the renewal of the regulated electricity distribution infrastructure of LDC. Over the past few years, LDC significantly increased its capital expenditures following the approval by the OEB of higher capital programs aimed at modernizing the electricity infrastructure of LDC ($3.5 million) (see "Liquidity and Capital Resources – Net Cash Used in Investing Activities" below).

Net Financing Charges

Net financing charges for the three months ended March 31, 2011 were $18.9 million compared to $16.6 million for the comparable period in 2010. The increase in net financing charges was primarily due to higher long-term financing charges in 2011 from the issuance of debentures on May 20, 2010 to finance LDC's expanded capital program.

Gain on Disposals of PP&E

The increase of $2.3 million in the gain on disposals of PP&E for 2011 compared to 2010 was mainly due to the recognition of gains realized in connection with the disposals of surplus properties at LDC. During 2011, LDC recognized $3.0 million in gain on disposals of surplus properties, of which $1.0 million related to surplus properties for which the OEB reduced electricity distribution rates in 2010. LDC began recognizing the actual gains realized on the sale of these properties over a one-year period from May 1, 2010 to mirror the actual timing of the reduction in 2010 electricity distribution rates.

Provision for PILs

Provision for PILs for the three months ended March 31, 2011 was $2.3 million compared to $5.1 million for the comparable period in 2010. The decrease in the provision for PILs was primarily due to higher temporary differences not benefited in LDC and the benefit of lower statutory tax rates in 2011.

Quarterly Results of Operations

The table below presents unaudited quarterly consolidated financial information of the Corporation for the eight quarters from June 30, 2009 to March 31, 2011.

Quarterly Results
(in thousands of dollars, unaudited)

	March 31 2011 $	December 31 2010 $	September 30 2010 $	June 30 2010 $
Revenues	701,342	656,649	680,504	627,707
Costs	657,620	621,179	631,807	588,828
Net income	25,452	10,048	27,687	15,839

	March 31 2010 $	December 31 2009 $	September 30 2009 $	June 30 2009 $
Revenues	646,811	632,979	639,692	573,085
Costs	613,189	597,001	602,162	539,126
Net income	12,551	8,941	11,831	14,375

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

Financial Position

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

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

Balance Sheet Account	Increase (Decrease) ($)	Explanation of Significant Change
Cash and cash equivalents	(134,056)	Refer to "Liquidity and Capital Resources" below.
Accounts receivable, net of allowance for doubtful accounts	56,310	The increase in accounts receivable was primarily due to seasonality, the timing of billing and collection activities from large customers and the timing of the Ontario Clean Energy Benefit Rebate from the Independent Electricity System Operator ("IESO"), which did not exist in 2010.
Investments	50,017	The increase in investments was due to Corporation investing in two $25.0 million floating rate notes, the first maturing on May 27, 2011 and the second maturing on November 16, 2011, which are guaranteed by two Canadian Schedule I banks.
PP&E and intangible assets, net	66,925	The increase in PP&E and intangible assets was primarily due to capital expenditures ($100.4 million) offset by depreciation during the period ($33.5 million).
Regulatory assets	(4,055)	The decrease in regulatory assets is primarily due to the on-going collection of the Special Purpose Charge ("SPC") from customers.
Future income tax assets	(4,688)	The decrease in future income tax assets is primarily due to a decrease in the net deductible temporary differences between tax and accounting values of PP&E.
Accounts payable and accrued liabilities	34,913	The increase in accounts payable and accrued liabilities is mainly due to a timing difference in the settlement of electricity payable to the IESO and higher energy prices.
Regulatory liabilities	(10,441)	The decrease in regulatory liabilities is primarily due to the net disposition of retail settlement balances to customers approved by the OEB and a reduction of future income tax assets payable to customers.
Customer advance deposits	(5,275)	The decrease in customer's advance deposits was primarily due to the reimbursement of customer deposits during the period in compliance with OEB rules and regulations.
Retained earnings	11,389	The increase in retained earnings was due to net income ($25.5 million) offset by dividends paid ($14.1 million), for the reporting period.

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

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

The Corporation does not believe that equity contributions from the City, its sole shareholder, will constitute a source of capital. 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
Three months ended March 31
(in thousands of dollars, unaudited)

	2011 $	2010 $
Cash and cash equivalents, beginning of period	330,151	211,370
Net cash provided by operating activities	36,665	82,892
Net cash used in investing activities	(149,852)	(76,741)
Net cash used in financing activities	(20,869)	(5,413)
Cash and cash equivalents, end of period	196,095	212,108

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2011 was $36.7 million compared to $82.9 million for the comparable period in 2010. The decrease in net cash provided by operating activities was primarily due to a variance in the aggregate amount of accounts receivable and unbilled revenue due to the timing of billing and collection activities ($71.0 million), a variance in PILs receivable ($8.4 million), a decrease in depreciation and amortization ($6.2 million) and an increase in gain on disposals of PP&E ($2.3 million). These variances were partially offset by an increase in accounts payable and accrued liabilities primarily due to a timing difference in the settlement of electricity payable to the IESO along with higher energy prices in 2011 ($28.6 million) and higher net income ($12.9 million).

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months ended March 31, 2011 was $149.9 million compared to $76.7 million for the comparable period in 2010. The increase in net cash used in investing activities was primarily due to the purchase of investments ($50.0 million) and higher capital expenditures ($27.8 million), partially offset by a higher change in net regulatory assets and liabilities ($3.3 million) primarily related to a higher variance in 2011 of retail settlement balances regulated by the OEB and by the impact of the net proceeds received in 2011 on the disposition of surplus properties ($1.4 million).

The increase in capital expenditures at LDC for the three months ended March 31, 2011 amounted to $27.3 million and was primarily due to higher investment in electricity distribution assets in connection with LDC's infrastructure renewal program approved by the OEB ($24.3 million) and higher vehicle expenditures in 2011 ($3.0 million). The following table summarizes the Corporation's capital expenditures for the periods indicated.

Capital Expenditures
Three months ended March 31
(in thousands of dollars, unaudited)

	2011 $	2010 $
LDC		
Distribution system	86,879	62,159
Technology assets	5,871	6,329
Other (1)	5,782	2,703
	98,532	71,191
Other (2)	1,816	1,336
Total Capital Expenditures	100,348	72,527

Notes:

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

Net Cash Used in Financing Activities

Net cash used in financing activities for the three months ended March 31, 2011 was $20.9 million compared to $5.4 million for the comparable period in 2010. The increase in net cash used in financing activities was primarily due to higher amount of dividends paid with respect to net income for the year ended December 31, 2010, which was paid to the City on March 18, 2011 and higher reimbursement of customer deposits in 2011 in compliance with OEB rules and regulations.

Summary of Contractual Obligations

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

Summary of Contractual Obligations and Other Commitments
As at March 31, 2011
(in thousands of dollars, unaudited)

	Total $	2011 $	2012/2013 $	2014/2015 $	After 2015 $
Debentures – principal repayment	1,415,114	245,057	470,057	–	700,000
Debentures – interest payments	588,123	66,642	112,295	70,360	338,826
Operating lease obligations and future commitments	38,728	7,065	13,137	10,917	7,609
Asset retirement obligations	5,673	530	1,225	317	3,601
Total contractual obligations and other commitments	2,047,638	319,294	596,714	81,594	1,050,036

Revolving Credit Facility

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

As at March 31, 2011, $nil had been utilized under the Corporation's revolving credit facility and $46.1 million had been drawn on the bilateral facility.

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

Prudential Requirements and Third Party Credit Support

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

Dividends

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

On May 24, 2011, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect to the second quarter of 2011. The dividend is payable on June 30, 2011.

Credit Rating

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

Credit Rating		
	As at March 31 2011	**As at December 31 2010**
DBRS Limited	A (high)	A (high)
Standard & Poor's	A	A

Corporate Developments

Distribution Rates for LDC

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

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

On 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 May 1, 2011 and ending April 30, 2012. The requested distribution revenue requirement and rate base for this period were $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 were $555.4 million and $2,360.5 million, respectively.

On March 29, 2011, the OEB accepted a settlement proposal agreed to by LDC and other parties for the 2011 rate year commencing on May 1, 2011 and ending on April 30, 2012. The settlement proposal provides for a distribution revenue requirement and rate base of $521.8 million and $2,298.2 million, respectively and a ROE of 9.58% for 2011.

Contact Voltage

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

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

Street Lighting Activities

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution 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.

CDM Agreements

On February 2, 2011, LDC entered into a new agreement with the OPA to deliver CDM programs in the amount of approximately $50.0 million extending from January 1, 2011 to December 31, 2014. All programs to be delivered under this 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 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 Municipal Electricity Utilities ("MEUs"). The current proceeding is expected to provide direction regarding the interpretation of the rules issued by the OEB. The outcome of this proceeding could have a material impact on the financial position of the Corporation.

Payments in Lieu of Additional Municipal and School Taxes

The Ministry of Revenue has issued assessments in respect of payments in lieu of additional municipal and school taxes under 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 $9.6 million as at March 31, 2011. The Corporation has been working with the Ministry of Revenue and the Ministry of Finance to resolve this issue. However, there can be no assurance that the Corporation will not have to pay the full assessed balance in the future.

Legal Proceedings – Late Payment Charges Class Action

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

The July 22, 2010 court order formalized a settlement pursuant to which the defendant MEUs will pay the amount of $17.0 million plus costs and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. Under the settlement, all of the MEUs involved in the settlement, including LDC, requested an order from the OEB allowing for the future recovery from customers of all costs related to the settlement. On February 22, 2011, the OEB issued its final decision allowing for LDC to recover its share of the settlement in the amount of $7.5 million from customers over the period commencing May 1, 2011 and ending April 30, 2013. As at March 31, 2011, LDC's accrued liability and corresponding regulatory asset amounted to $7.5 million.

Share Capital

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

Transactions with Related Parties

The City is the sole shareholder of the Corporation. Subsidiaries of the Corporation provide certain services to the City at commercial and regulated rates, including electricity, street lighting and energy management services. All transactions with the City are conducted at prevailing market prices and normal trade terms.

Additional information with respect to related party transactions between the Corporation and its subsidiaries, as applicable, and the City is set out below.

Transactions with Related Parties Summary Three months ended March 31 (in thousands of dollars, unaudited)		
	2011 $	**2010 $**
Revenues	38,911	38,729
Operating expenses and capital expenditures	4,312	2,306
Net financing charges	–	7,487

Transactions with Related Parties Summary (in thousands of dollars, unaudited)		
	As at March 31 2011 $	**As at December 31 2010 $**
Accounts receivable, net of allowance for doubtful accounts	4,978	6,345
Unbilled revenue	12,151	9,830
Other assets	7,346	7,368
Accounts payable and accrued liabilities	12,214	11,606
Customers' advance deposits	13,758	11,512

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

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

See note 13 to the Interim Consolidated Financial Statements.

Non-GAAP Financial Measures

The Corporation's MD&A presents a certain non-Generally Accepted Accounting Principles ("GAAP") financial measure, net revenue. This measure does not have any standard meaning prescribed by Canadian GAAP and is not necessarily comparable to similarly titled measures of other companies. The Corporation uses this measure to assess its performance and to further make operating decisions. The definition of net revenues is as follows: revenue minus the cost of purchased power and other.

Significant Accounting Policies

The Interim Consolidated Financial Statements of the Corporation have been prepared in accordance with Canadian GAAP including accounting principles prescribed by the OEB in the handbook "Accounting Procedures Handbook for Electric Distribution Utilities" ("AP Handbook") and are presented in Canadian dollars. In preparing the Interim Consolidated Financial Statements, management makes estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Interim Consolidated Financial Statements and the reported amounts of revenues and expenses for the period.

Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy, the Ministry of Finance, or the Ministry of Revenue. The significant accounting policies of the Corporation are summarized in note 3 to the Annual Consolidated Financial Statements and in note 3 to the Interim Consolidated Financial Statements.

Changes in Accounting Estimates

Property, Plant and Equipment – Changes in Estimates

Effective January 1, 2011, the Corporation revised its estimates of useful lives of certain items of PP&E following a detailed review and analysis supported by external third-party evidences. These changes in estimates have been accounted for on a prospective basis in the consolidated financial statements effective January 1, 2011. It is estimated that these changes in estimates will increase PP&E and decrease depreciation expense by approximately $35.7 million for the year ended December 31, 2011.

Effective January 1, 2011, the Corporation revised its estimates of burden rates of certain items of PP&E following a detailed review and analysis of all the components included in such burden rates. These changes in estimates of burden rates include changes in the allocation of engineering and administration costs, changes in the calculation of standard labour rates, changes in the calculation of materials handling costs, and changes in the calculation of vehicle hire rates. These changes in estimates have been accounted for on a prospective basis in the consolidated financial statements effective January 1, 2011. It is estimated that these changes in estimates will decrease PP&E and increase operating expenses by approximately $22.0 million for the year ended December 31, 2011.

See note 3 to the Interim Consolidated Financial Statements.

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 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 changeover 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 consolidated 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 those otherwise expected under Canadian GAAP in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These timing differences are recorded as regulatory assets and regulatory liabilities on the Corporation's consolidated balance sheet and represent current rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. As at March 31, 2011, the Corporation reported $81.1 million of regulatory assets and $263.3 million of regulatory liabilities.

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

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

On September 10, 2010, the AcSB granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation. This decision came in light of the uncertainty created by the IASB in regard to RRA. 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 consolidated 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 Canadian Institute of Chartered Accountants Handbook for 2011.

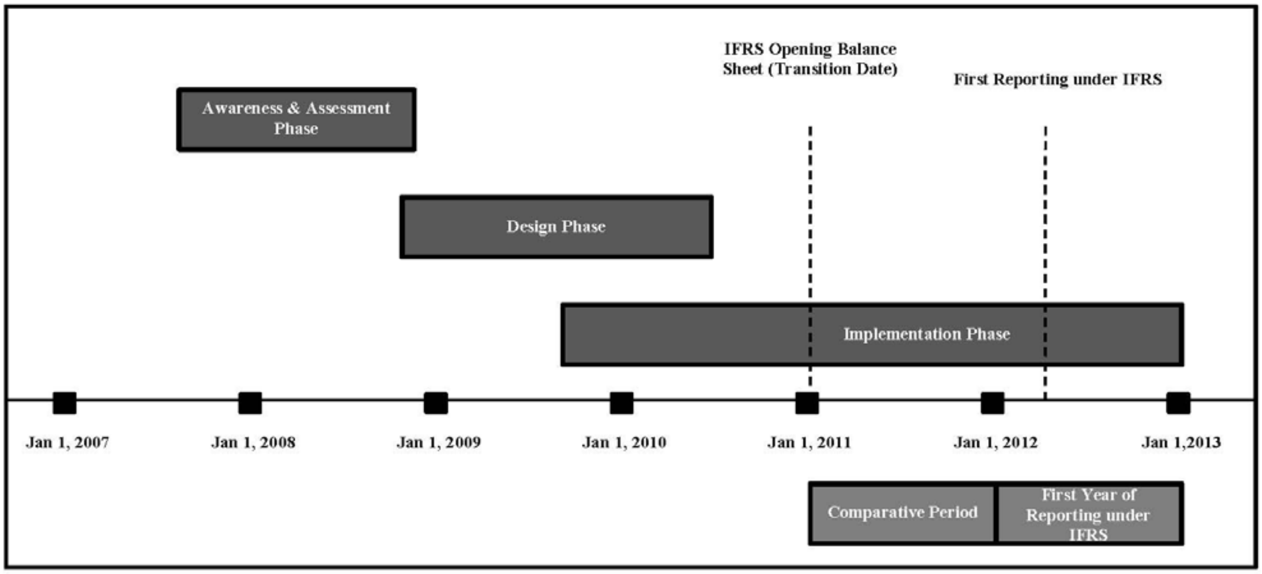
As a result of these developments related to RRA under IFRS and the uncertainty as discussed below regarding the impact of IFRS on the OEB electricity distribution rates application process, the Corporation cannot reasonably quantify the full impact that adopting IFRS would have on its future financial position and results of operations at this time. However, the Corporation believes that the impact on its consolidated financial statements could be material. 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 impact.

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 determined the projected impact of adopting IFRS on its consolidated 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 impact 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 • Continue discussions with external auditors and legal counsel to assess regulatory assets and liabilities using the underlying principles within the standards of IFRS
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 and financial statement note disclosures 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 consolidated financial statements • Preparation for the opening balance sheet external audit (with the exception of items that are impacted by RRA) • Began the assessment of the IFRS differences for the first quarter comparative
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, key financial ratios, 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. Under both deemed cost exemptions, the impact of these changes are decreases to the cost and accumulated depreciation by the same amount. The accumulated depreciation will be reset to nil while the net book values will not be affected.
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 impact of this change is an increase to post-employment benefit liabilities in respect of previously unrecognized net actuarial losses and a corresponding decrease to opening retained earnings. 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. The impact of electing the exemption is an increase to decommissioning provision, a decrease to retained earnings, and a decrease to property, plant and equipment.

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 Canadian GAAP, 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.
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.

Risk Areas	Key Differences Canadian GAAP vs. IFRS	Potential Key Impacts
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. A review of the cost capitalization policy under IFRS has been completed by the Corporation. No material differences are expected on transition due to the Corporation's changes in accounting estimates for useful lives and burden rates. The Corporation will be derecognizing all items of PP&E as soon as they are taken out of service.
IAS 17 Leases ("IAS 17")	IAS 17 requires the leases of land to be classified as finance leases when substantially all of the risks and rewards incidental to ownership of the land have been transferred to the Corporation for the term of each of the leases.	Based on preliminary assessments, the Corporation's land leases will be classified as finance leases in accordance with IAS 17. Since the leases were prepaid at inception, the expected impact on the date of transition as a result of the adoption of IAS 17 is an increase to PP&E with a corresponding decrease to prepaid expenses. On a go-forward basis, the balance will remain within PP&E, and the associated depreciation will be recognized through earnings. The project on IAS 17 is scheduled to be released in the latter half of 2011. Once the amended standard is issued, the Corporation will review the requirements and assess the implications accordingly.
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 expected impact on the date of transition as a result of the adoption of IAS 19 (including the IFRS 1 exemption discussed above) is an increase to liabilities with a corresponding decrease to opening retained earnings. On a go-forward basis, changes in the liability will be recognized through earnings. The project on IAS 19 is scheduled to be published in May 2011. Once the amended standard is issued, the Corporation will review the requirements and assess the implications accordingly.
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. On a go-forward basis, changes in the liability as a result of the difference in the discount rate used under IAS 37 will be recognized through PP&E and 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. There has been no further development in this quarter. 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. 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.

On March 31, 2011, the OEB issued a staff discussion paper on the *Transition to IFRS – Implementation in an Incentive Regulation Mechanism ("IRM") Environment*, with a letter requesting comments from all interested stakeholders by May 5, 2011. The staff discussion paper was the result of numerous discussions held by the IRM working group and included staff recommendations on how IFRS should be implemented together with the IRM rate-setting process.

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.

Additional Information

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

Toronto, Canada

May 25, 2011