TORONTO HYDRO Corporation

CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

INTERIM CONSOLIDATED BALANCE SHEETS

[in thousands of dollars, unaudited]

	As at March 31, 2011 $	As at December 31, 2010 $
ASSETS		
Current		
Cash and cash equivalents	**196,095**	330,151
Accounts receivable, net of allowance for doubtful accounts *[note 11[b]]*	**225,298**	168,988
Unbilled revenue *[note 11[b]]*	**284,298**	287,893
Payments in lieu of corporate taxes receivable	**9,624**	6,729
Inventories	**7,435**	7,501
Prepaid expenses	**7,022**	4,048
Investments *[note 3[c]]*	**50,017**	-
Total current assets	**779,789**	805,310
Property, plant and equipment, net *[note 4]*	**2,182,818**	2,128,777
Intangible assets, net *[note 5]*	**98,880**	85,996
Regulatory assets *[note 6]*	**81,058**	85,113
Other assets	**7,383**	7,518
Future income tax assets *[note 6]*	**221,212**	225,900
Total assets	**3,371,140**	3,338,614
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities *[note 11[b]]*	**408,456**	373,543
Other liabilities	**18,725**	20,367
Deferred revenue	**2,599**	1,418
Debentures *[note 8]*	**245,057**	245,057
Total current liabilities	**674,837**	640,385
Long-term liabilities		
Debentures *[note 8]*	**1,164,967**	1,164,780
Post-employment benefits *[note 9]*	**172,276**	169,897
Regulatory liabilities *[note 6]*	**263,265**	273,706
Asset retirement obligations	**4,840**	5,005
Customers' advance deposits	**40,187**	45,462
Total long-term liabilities	**1,645,535**	1,658,850
Total liabilities	**2,320,372**	2,299,235
Contingencies and subsequent events *[notes 14 and 17]*		
Shareholder's equity		
Share capital *[note 12]*	**567,817**	567,817
Retained earnings	**482,951**	471,562
Total shareholder's equity	**1,050,768**	1,039,379
Total liabilities and shareholder's equity	**3,371,140**	3,338,614

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF INCOME

[in thousands of dollars, except for per share amounts, unaudited]

	Three months ended March 31, 2011 $	Three months ended March 31, 2010 $
Revenues	**701,342**	646,811
Costs		
Purchased power and other	**561,265**	519,723
Operating expenses	**62,883**	53,780
Depreciation and amortization	**33,472**	39,686
	657,620	613,189
Income before the following:	**43,722**	33,622
Net financing charges	**(18,896)**	(16,620)
Gain on disposals of property, plant and equipment *[note 4]*	**2,964**	684
Income before provision for payments in lieu of corporate taxes	**27,790**	17,686
Provision for payments in lieu of corporate taxes	**2,338**	5,135
Net income for the period	**25,452**	12,551
Basic and fully diluted net income per share	**25,452**	12,551

INTERIM CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

[in thousands of dollars, unaudited]

	Three months ended March 31, 2011 $	Three months ended March 31, 2010 $
Retained earnings, beginning of period	**471,562**	430,437
Net income for the period	**25,452**	12,551
Dividends *[note 12]*	**(14,063)**	(6,000)
Retained earnings, end of period	**482,951**	436,988

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of dollars, unaudited]

	Three months ended March 31, 2011 $	Three months ended March 31, 2010 $
OPERATING ACTIVITIES		
Net income for the period	**25,452**	12,551
Adjustments for non-cash items		
Depreciation and amortization	**33,472**	39,686
Net change in other assets and liabilities	**(214)**	(399)
Payments in lieu of corporate taxes	**(2,895)**	5,550
Post-employment benefits	**2,379**	1,983
Future income taxes	**(291)**	194
Gain on disposals of property, plant and equipment *[note 4]*	**(2,964)**	(684)
Changes in non-cash working capital balances		
Increase in accounts receivable	**(56,310)**	(17,780)
Decrease in unbilled revenue	**3,595**	36,019
Decrease (increase) in inventories	**66**	(349)
Increase in prepaid expenses	**(2,974)**	(2,896)
Increase in accounts payable and accrued liabilities	**35,137**	6,538
Increase in deferred revenue	**2,212**	2,479
Net cash provided by operating activities	**36,665**	82,892
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(82,956)**	(66,617)
Purchase of intangible assets	**(17,392)**	(5,910)
Purchase of investments	**(50,027)**	-
Net change in regulatory assets and liabilities	**(1,631)**	(4,931)
Proceeds on disposal of property, plant and equipment	**2,154**	717
Net cash used in investing activities	**(149,852)**	(76,741)
FINANCING ACTIVITIES		
Dividends paid *[note 12]*	**(14,063)**	(6,000)
Increase (decrease) in customers' advance deposits	**(6,806)**	587
Net cash used in financing activities	**(20,869)**	(5,413)
Net increase (decrease) in cash and cash equivalents during the period	**(134,056)**	738
Cash and cash equivalents, beginning of period	**330,151**	211,370
Cash and cash equivalents, end of period	**196,095**	212,108
Supplementary cash flow information		
Total interest paid	**32**	7,496
Payments in lieu of corporate taxes	**5,524**	-

The accompanying notes are an integral part of the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2011

1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of Toronto Hydro Corporation [the "Corporation"] have been prepared in accordance with Canadian generally accepted accounting principles ["GAAP"] with respect to the preparation of interim financial information. Accordingly, the disclosures in these statements do not conform in all respects to the requirements of Canadian GAAP for annual consolidated financial statements. These financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements of the Corporation for the year ended December 31, 2010, except as disclosed in note 3, and should be read in conjunction with those statements.

2. REGULATION

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the Ontario Energy Board ["OEB"] and interested stakeholders, may affect distribution rates and other permitted recoveries in the future.

a) Electricity Distribution Rates

Toronto Hydro-Electric System Limited ["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 $518,700,000 and $2,140,700,000, 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 $578,400,000 and $2,346,300,000, 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 $555,400,000 and $2,360,500,000, 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 $521,800,000 and $2,298,196,000, respectively and a ROE of 9.58% for 2011.

b) 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 $9,050,000.

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 $5,296,000. 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 $3,754,000 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.

c) 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 Toronto Hydro Energy Services Inc. ["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 $29,418,000 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.

d) Conservation and Demand Management Agreements

On February 2, 2011, LDC entered into a new agreement with the Ontario Power Authority ["OPA"] to deliver Conservation and Demand Management programs in the amount of approximately $50,000,000 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.

[all tabular amounts in thousands of dollars, unaudited]

3. ACCOUNTING POLICIES

a) Use of Estimates

The preparation of the Corporation's unaudited interim consolidated financial statements in accordance with Canadian GAAP requires management to make 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 period. The estimates are based 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. Significant areas requiring the use of management estimates relate to unbilled revenue, regulatory assets and liabilities, environmental liabilities and asset retirement obligations, employee future benefits, and revenue recognition. 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.

b) 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 property, plant and equipment 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 property, plant and equipment and decrease depreciation expense by approximately $35,700,000 for the year ended December 31, 2011.

Depreciation is provided on a straight-line basis over the estimated service lives at the following annual rates:

	Previous	Revised
Distribution lines	2.5% to 25.0%	1.7% to 5.0%
Transformers	3.3% to 4.0%	3.3% to 5.0%
Stations	2.5% to 6.7%	2.5% to 10.0%
Meters	2.9% to 6.7%	2.5% to 6.7%
Buildings	2.0%	1.3% to 5.0%
Rolling stock	12.5% to 33.3%	12.5% to 25.0%

Effective January 1, 2011, the Corporation revised its estimates of burden rates of certain items of property, plant and equipment 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 property, plant and equipment and increase operating expenses by approximately $22,000,000 for the year ended December 31, 2011.

c) Investments

Investments with terms to maturity of greater than 90 days from their date of acquisition and classified as held to maturity are included in current assets.

d) 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.

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.

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 International Accounting Standards Board ["IASB"] in regard to the rate-regulated project which is assessing the potential recognition of regulatory assets and regulatory liabilities under IFRS. 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 rate-regulated accounting ["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 ["CICA"] Handbook for 2011.

As a result of these developments related to RRA under IFRS and the uncertainty 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. Although the Corporation has completed a detailed assessment of the accounting and disclosure differences between Canadian GAAP and IFRS, in light of the one-year deferral, this assessment will be revisited due to changes to standards during this period. The Corporation will continue to analyze existing IFRS guidance with respect to the recognition and measurement of regulatory assets and liabilities and actively monitor IASB developments with respect to RRA and non-RRA IFRS developments and their potential impacts.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2011

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

	March 31 2011			December 31 2010		
	Cost $	**Accumulated depreciation $**	**Net book value $**	**Cost $**	**Accumulated depreciation $**	**Net book value $**
Land	**9,545**	**—**	**9,545**	9,560	—	9,560
Distribution lines	**2,635,832**	**1,397,577**	**1,238,255**	2,608,555	1,384,876	1,223,679
Transformers	**615,197**	**346,205**	**268,992**	609,702	341,706	267,996
Stations	**260,769**	**130,453**	**130,316**	259,337	128,254	131,083
Meters	**219,579**	**117,043**	**102,536**	214,859	114,808	100,051
Buildings	**152,461**	**57,310**	**95,151**	151,543	55,609	95,934
Rolling stock	**73,731**	**43,270**	**30,461**	74,635	43,559	31,076
Other capital assets	**60,644**	**37,727**	**22,917**	59,049	35,462	23,587
Equipment and tools	**42,048**	**30,224**	**11,824**	41,604	29,732	11,872
Computer hardware	**41,262**	**32,235**	**9,027**	40,634	31,228	9,406
Communications	**26,986**	**21,610**	**5,376**	26,818	21,013	5,805
Construction in progress	**258,418**	**—**	**258,418**	218,728	—	218,728
	4,396,472	**2,213,654**	**2,182,818**	4,315,024	2,186,247	2,128,777

For the three months ended March 31, 2011, allowance for funds used during construction in the amount of $526,000 [three months ended March 31, 2010 - $165,000] was capitalized to property, plant and equipment and credited to interest expense.

As at March 31, 2011, the net book value of stranded meters related to the deployment of smart meters amounting to $22,421,000 [December 31, 2010 - $23,120,000] is included in property, plant and equipment. In the absence of rate regulation, property, plant and equipment would have been $22,421,000 lower as at March 31, 2011 [December 31, 2010 - $23,120,000].

For the three months ended March 31, 2011, the Corporation recognized $2,964,000 [three months ended March 31, 2010 - $684,000] in gain on disposals of surplus properties, of which $1,031,000 [three months ended March 31, 2010 - $nil] 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[all tabular amounts in thousands of dollars, unaudited]

March 31, 2011

5. INTANGIBLE ASSETS, NET

Intangible assets consist of the following:

	March 31 2011			December 31 2010		
	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Computer software	**177,262**	**133,788**	**43,474**	172,709	129,301	43,408
Contributions	**2,043**	**545**	**1,498**	2,043	524	1,519
Software in development	**39,922**	**—**	**39,922**	39,191	—	39,191
Contributions for work in progress	**13,986**	**—**	**13,986**	1,878	—	1,878
	233,213	**134,333**	**98,880**	215,821	129,825	85,996

For the three months ended March 31, 2011, the Corporation acquired $4,553,000 of intangible assets subject to amortization [three months ended March 31, 2010 - $nil] and acquired $12,839,000 of intangible assets not subject to amortization [three months ended March 31, 2010 - $5,910,000].

For the three months ended March 31, 2011, allowance for funds used during construction in the amount of $440,000 [three months ended March 31, 2010 - $368,000] was capitalized to intangible assets and credited to interest expense.

6. REGULATORY ASSETS AND LIABILITIES

Regulatory assets consist of the following:

	March 31 2011 $	December 31 2010 $
Smart meters	**66,246**	67,719
Late payment penalties settlement	**7,526**	7,750
IFRS conversion project	**6,112**	6,089
Special purpose charge variance	**1,174**	3,555
	81,058	85,113

[all tabular amounts in thousands of dollars, unaudited]

Regulatory liabilities consist of the following:

	March 31 2011 $	December 31 2010 $
Future income taxes	**219,591**	224,570
Regulatory assets recovery account	**33,284**	40,275
Payments in Lieu of Corporate Taxes variances	**5,696**	5,675
Settlement variances	**3,506**	2,277
Other	**1,188**	909
	263,265	273,706

For the three months ended March 31, 2011, LDC disposed of approved net regulatory liabilities amounting to $7,125,000 through permitted distribution rate adjustments [three months ended March 31, 2010 - $2,089,000].

The regulatory assets and liabilities of the Corporation are as follows:

a) Smart Meters

The smart meters regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario. In connection with this initiative, the OEB ordered LDC to record all future expenditures and related revenues to a regulatory asset account and allowed LDC to keep the net book value of the stranded meters in its rate base.

The Corporation has incurred costs amounting to $nil for the three months ended March 31, 2011 [three months ended March 31, 2010 - $4,387,000]. As at March 31, 2011, smart meter capital expenditures, net of accumulated depreciation, totalling $63,998,000 have been recorded to regulatory assets [December 31, 2010 - $65,588,000]. These expenditures would otherwise have been recorded as property, plant and equipment and intangible assets under Canadian GAAP for unregulated businesses. In the absence of rate regulation, property, plant and equipment and intangible assets would have been $58,268,000 and $5,730,000 higher, respectively, as at March 31, 2011 [December 31, 2010 - $59,416,000 and $6,172,000, respectively].

For the three months ended March 31, 2011, smart meter operating expenses of $nil [three months ended March 31, 2010 - $924,000], and smart meter depreciation expense of $1,590,000 [three months ended March 31, 2010 - $1,212,000] were deferred which would have been expensed under Canadian GAAP for unregulated businesses. In the absence of rate regulation, for the three months ended March 31, 2011, operating expenses would have been $nil higher [three months ended March 31, 2010 - $924,000 higher], and depreciation expense would have been $1,590,000 higher [three months ended March 31, 2010 - $1,212,000 higher].

For the three months ended March 31, 2011, smart meter customer revenues of $1,481,000 were deferred [three months ended March 31, 2010 - $1,414,000]. In the absence of rate regulation, for the three months ended March 31, 2011, revenue would have been $1,481,000 higher [three months ended March 31, 2010 - $1,414,000 higher].

b) Late Payment Penalties Settlement

The late payment penalties settlement account relates to the settlement costs accrual associated with the late payment charges class action *[note 14[a]]*. All of the Municipal Electricity Utilities ["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's accrued liability and corresponding regulatory asset amounted to $7,526,000, as at March 31, 2011 [December 31, 2010 - $7,750,000]. In the absence of rate regulation, operating expenses for the three months ended March 31, 2011, would have been $nil [three months ended March 31, 2010 - $7,750,000 higher].

c) IFRS Conversion Project

This regulatory asset account includes the costs incurred by LDC for its conversion to IFRS up to December 31, 2010. These costs have been recorded to regulatory assets as LDC expects to obtain recovery of these costs in the future. LDC has applied for recovery of these costs and is currently awaiting the OEB's final decision. The costs incurred for the conversion to IFRS subsequent to December 31, 2010 are now included in LDC's distribution rates. Under Canadian GAAP for unregulated businesses, these costs would have been recorded to operating expenses. In the absence of rate regulation, for the three months ended March 31, 2011, operating expenses would have been $nil [three months ended March 31, 2010 - $982,000 higher].

d) Special Purpose Charge Variance

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 $9,698,000 for its apportioned share of the total provincial amount of the SPC of $53,695,000 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.

As at March 31, 2011, the balance in the account consists of LDC's assessment of $9,698,000 less the recoveries received from customers. In the absence of rate regulation, revenue for the three months ended March 31, 2011, would have been $2,356,000 higher [three months ended March 31, 2010 - $nil].

e) Future Income Taxes

This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of future tax assets.

LDC accounts for the differences between its financial statement carrying value and tax basis of assets and liabilities following the liability method in accordance with CICA Handbook Section 3465 – "Income Taxes". As at March 31, 2011, LDC has recorded a future income tax asset and a corresponding regulatory liability of $219,591,000 [December 31, 2010 - $224,570,000] with respect to its rate-regulated activities. The future income tax asset and the corresponding regulatory liability as at December 31, 2010, have been recast, to reflect an adjustment of $30,247,000 resulting from a change in methodology used to determine the timing differences between the tax value and book value of the assets for accounting purposes.

f) Regulatory Assets Recovery Account

The Regulatory Assets Recovery Account ["RARA"] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and related rates.

On April 16, 2009, the OEB approved disposition of regulatory liabilities of $7,582,000, for amounts arising from the extended effectiveness of certain rate riders into the 2008 rate year, over a one-year period commencing May 1, 2009 and ending April 30, 2010.

On April 9, 2010, the OEB approved the disposition of net regulatory liabilities of $68,140,000, consisting of credit balances for settlement variances and Payments in Lieu of Corporate Taxes ["PILs"] variances of $58,225,000 and $11,900,000, respectively, and intangible assets debit balance of $1,985,000, over a two-year period commencing May 1, 2010 and ending April 30, 2012.

On October 29, 2010, the OEB approved disposition of regulatory assets of $5,296,000, for amounts in connection with the contact voltage remediation activities, for the period commencing November 1, 2010 and ending April 30, 2012 *[note 2[b]]*.

g) PILs Variances

As at March 31, 2011, LDC has accumulated a PILs variance amount representing differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in the rate adjustment model totalling an over-recovery of $5,696,000 [December 31, 2010 - $5,675,000].

h) Settlement Variances

This account is comprised of the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by LDC. The settlement variances relate primarily to service charges, non-competitive electricity charges, imported power charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electric Distribution Utilities".

The balance for settlement variances continues to be calculated and attract carrying charges in accordance with the OEB's direction. For the three months ended March 31, 2011, settlement variances of $7,644,000 were disposed through rate adjustments [three months ended March 31, 2010 - $nil].

7. CREDIT FACILITIES

On May 3, 2010, the Corporation renewed its revolving credit facility ["Revolving Credit Facility"], for a two-year term, expiring on May 3, 2012, pursuant to which the Corporation may borrow up to $400,000,000, of which up to $140,000,000 is available in the form of letters of credit. Additionally, the Corporation is a party to a bilateral facility for $50,000,000 for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the Independent Electricity System Operator.

[all tabular amounts in thousands of dollars, unaudited]

As at March 31, 2011, no amounts had been utilized under the Corporation's Revolving Credit Facility [December 31, 2010 - $nil]. As at March 31, 2011, no amounts had been drawn for working capital purposes [December 31, 2010 - $nil].

As at March 31, 2011, $46,077,000 had been drawn on the bilateral facility [December 31, 2010 - $46,077,000].

8. DEBENTURES

Debentures consist of the following:

	March 31 2011 $	December 31 2010 $
Senior unsecured debentures		
Series 1 – 6.11% due May 7, 2013	**223,950**	223,838
Series 2 – 5.15% due November 14, 2017	**248,830**	248,793
Series 3 – 4.49% due November 12, 2019	**248,580**	248,546
Series 4 – 6.11% due December 30, 2011	**245,057**	245,057
Series 5 – 6.11% due May 6, 2013	**245,057**	245,057
Series 6 – 5.54% due May 21, 2040	**198,550**	198,546
Total debentures	**1,410,024**	1,409,837
Less: Current portion of debentures	**245,057**	245,057
Long-term portion of debentures	**1,164,967**	1,164,780

All debentures of the Corporation ranks equally.

The Corporation may redeem some or all of the debentures (other than the Series 4 debentures) at any time prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest up to but excluding the date fixed for redemption. Also, the Corporation may, at any time and from time to time, purchase debentures for cancellation, in the open market, by tender or by private contract, at any price. The debentures contain certain 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.

9. EMPLOYEE FUTURE BENEFITS

a) Pension

For the three months ended March 31, 2011, the Corporation's Ontario Municipal Employees Retirement System current service pension costs were $4,204,000 [three months ended March 31, 2010 - $3,203,000].

b) Employee future benefits other than pension

For the three months ended March 31, 2011, the Corporation recognized periodic benefit costs of $4,285,000 [three months ended March 31, 2010 - $3,770,000] of which $1,544,000 [three months ended March 31, 2010 - $1,596,000] were capitalized as part of property, plant and equipment, resulting in $2,741,000 [three months ended March 31, 2010 - $2,174,000] charged to operations.

10. CAPITAL DISCLOSURES

The Corporation's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain and improve the regulated electricity distribution system of LDC;
- ensure compliance with covenants related to its credit facilities and senior unsecured debentures;
- maintain an A- credit rating as required under its shareholder direction; and
- align its capital structure for regulated activities of LDC with the debt to equity structure deemed by the OEB.

As at March 31, 2011, the Corporation's definition of capital includes shareholder's equity and long-term debt which includes the current portion of long-term debt, and has remained unchanged from December 31, 2010. As at March 31, 2011, shareholder's equity amounted to $1,050,768,000 [December 31, 2010 - $1,039,379,000] and long-term debt, including the current portion of long-term debt, amounted to $1,410,024,000 [December 31, 2010 - $1,409,837,000]. The Corporation's capital structure as at March 31, 2011 is 57% debt and 43% equity [December 31, 2010 - 58% debt and 42% equity]. There were no changes in the Corporation's approach to capital management during the period.

As at March 31, 2011, the Corporation is subject to debt agreements that contain various covenants. The Corporation's unsecured debentures limit consolidated funded indebtedness to a maximum of 75% of total consolidated capitalization. As at March 31, 2011, the consolidated funded indebtedness to consolidated capitalization ratio was 57% [December 31, 2010 - 57%].

The Corporation's Revolving Credit Facility limits the debt to capitalization ratio to a maximum of 75%. As at March 31, 2011, the debt to capitalization ratio was 58% [December 31, 2010 - 58%].

The Corporation's long-term debt agreements also include negative covenants such as limitations on funded indebtedness, limitations on designated subsidiary indebtedness, restrictions on mergers and dispositions of designated subsidiaries. As at March 31, 2011, and as at December 31, 2010, the Corporation was in compliance with all covenants included in its long-term debt agreements and short-term Revolving Credit Facility.

[all tabular amounts in thousands of dollars, unaudited]

11. FINANCIAL INSTRUMENTS

a) *Recognition and measurement*

The measurement of each financial instrument depends on the balance sheet classification elected by the Corporation. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

The Corporation's carrying value and fair value of financial instruments consist of the following:

	March 31 2011 $		December 31 2010 $	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	**196,095**	**196,095**	330,151	330,151
Accounts receivable, net of allowance for doubtful accounts	**225,298**	**225,298**	168,988	168,988
Unbilled revenue	**284,298**	**284,298**	287,893	287,893
Investments	**50,017**	**50,017**	—	—
Accounts payable and accrued liabilities	**408,456**	**408,456**	373,543	373,543
Customers' advance deposits	**57,446**	**57,446**	64,252	64,252
Senior unsecured debentures				
Series 1 – 6.11% due May 7, 2013	**223,950**	**241,740**	223,838	245,310
Series 2 – 5.15% due November 14, 2017	**248,830**	**269,480**	248,793	273,725
Series 3 – 4.49% due November 12, 2019	**248,580**	**256,037**	248,546	259,777
Series 4 – 6.11% due December 30, 2011	**245,057**	**253,150**	245,057	255,199
Series 5 – 6.11% due May 6, 2013	**245,057**	**263,266**	245,057	267,177
Series 6 – 5.54% due May 21, 2040	**198,550**	**210,150**	198,546	217,188

b) *Risk Factors*

The Corporation's activities provide for a variety of financial risks, particularly credit risk, interest rate risk and liquidity risk.

Credit risk

Financial instruments are exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation monitors and limits its exposure to credit risk on a continuous basis. The Corporation provides reserves for credit risks based on the financial condition and short and long-term exposures to counterparties.

The Corporation's credit risk associated with accounts receivable is primarily related to electricity bill payments from LDC customers. LDC has approximately 703,000 customers, the majority of which are residential. LDC collects security deposits from customers in accordance with direction provided by the OEB. As at March 31, 2011, LDC held security deposits in the amount of $57,446,000 [December 31, 2010 - $64,252,000].

[all tabular amounts in thousands of dollars, unaudited]

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the consolidated statements of income. Subsequent recoveries of receivables previously provisioned are credited to the consolidated statements of income.

Credit risk associated with accounts receivable is as follows:

	March 31 2011 $	December 31 2010 $
Total accounts receivable	**236,721**	180,900
Less: Allowance for doubtful accounts	**(11,423)**	(11,912)
Total accounts receivable, net	**225,298**	168,988
Of which:		
Outstanding for not more than 30 days	**192,110**	147,457
Outstanding for more than 30 days but not more than 120 days	**32,956**	21,635
Outstanding for more than 120 days	**11,655**	11,808
Less: Allowance for doubtful accounts	**(11,423)**	(11,912)
Total accounts receivable, net	**225,298**	168,988

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings but are unbilled at period-end. As at March 31, 2011, total unbilled revenue was $284,298,000 [December 31, 2010 - $287,893,000]. Unbilled revenue outstanding is considered current.

As at March 31, 2011, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties. The Corporation's maximum exposure to credit risk is equal to the carrying value of its financial assets.

Interest rate risk

The Corporation is exposed to interest rate risk in holding certain financial instruments. The Corporation attempts to minimize interest rate risk by issuing long-term fixed rate debt, and by extending or shortening the term of its short-term money market investments by assessing the monetary policy stance of the Bank of Canada, while ensuring that all payment obligations are met on an ongoing basis. Short-term borrowings under the Corporation's Revolving Credit Facility *[note 7]* may expose the Corporation to fluctuations in short-term interest rates.

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 $4,600,000.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
[all tabular amounts in thousands of dollars, unaudited]

March 31, 2011

Liquidity risk

The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest expense. The Corporation has access to credit facilities and monitors cash balances daily to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due. Liquidity risks associated with financial commitments are as follows:

March 31, 2011			
	Due within 1 year $	**Due between 1 year and 5 years $**	**Due after 5 years $**
Financial liabilities			
Accounts payable and accrued liabilities	**408,456**	—	—
Senior unsecured debentures			
Series 1 – 6.11% due May 7, 2013	—	**225,000**	—
Series 2 – 5.15% due November 14, 2017	—	—	**250,000**
Series 3 – 4.49% due November 12, 2019	—	—	**250,000**
Series 4 – 6.11% due December 30, 2011	**245,057**	—	—
Series 5 – 6.11% due May 6, 2013	—	**245,057**	—
Series 6 – 5.54% due May 21, 2040	—	—	**200,000**
	653,513	**470,057**	**700,000**

12. SHARE CAPITAL

As at March 31, 2011, the Corporation had 1,000 [December 31, 2010 - 1,000] common shares issued and outstanding at a stated value of $567,817,000 [December 31, 2010 - $567,817,000]. The Corporation is authorized to issue an unlimited number of common shares.

Dividends

On March 11, 2011, the board of directors of the Corporation declared dividends in the amount of $14,063,000. The dividends are comprised of $8,063,000 with respect to net income for the year ended December 31, 2010, which was paid to the City of Toronto [the "City"] on March 18, 2011 and $6,000,000 with respect to the first quarter of 2011, which was paid to the City on March 31, 2011.

[all tabular amounts in thousands of dollars, unaudited]

13. RELATED PARTIES

For the Corporation, transactions with related parties include transactions with the City. All transactions with the City are conducted at prevailing market prices and normal trade terms.

Transactions with Related Parties Summary	Three months ended March 31 2011 $	Three months ended March 31 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	March 31 2011 $	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.

14. CONTINGENCIES

a) 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. The Corporation and its subsidiaries are subject to various legal actions that arise in the normal course of business and if damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under their liability insurance which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions.

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 $100,000,000 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's 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 $500,000,000 and $64,000,000, 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 $17,000,000 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 $7,526,000 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 $7,526,000.

b) 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.

c) 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 $9,600,000 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.

15. SEASONAL OPERATIONS

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.

16. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the March 31, 2011 interim consolidated financial statements.

17. SUBSEQUENT EVENTS

a) Extension of Credit 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 $400,000,000.

b) Dividends

On May 24, 2011, the board of directors of the Corporation declared a dividend in the amount of $6,000,000 with respect to the second quarter of 2011. The dividend is payable on June 30, 2011.