MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

TORONTO HYDRO CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011

TABLE OF CONTENTS

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 outcome of outstanding rate applications and other proceedings before the Ontario Energy Board ("OEB"), the Corporation's plans to borrow funds to repay maturing debentures and to finance the investment in LDC's infrastructure, LDC's Conservation and Demand Management ("CDM") programs, the outcome of outstanding proceedings before the Ministry of Finance of Ontario ("Ministry of Finance"), the expected results of legal proceedings, market volatility on the Corporation's consolidated results of operations, performance, business prospects and opportunities, the effect of changes in interest rates on future revenue requirements, the Corporation's conversion to United States Generally Accepted Accounting Principles ("US GAAP") and the changes in accounting estimates. 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 expected impact of the conversion to US GAAP on the Corporation's consolidated financial statements.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, market liquidity and the quality of the underlying assets and financial instruments, the timing and extent of changes in prevailing interest rates, inflation levels, legislative, judicial and regulatory developments that could affect revenues and the results of borrowing efforts.

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

Introduction

The following MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Corporation as at and for the year ended December 31, 2011 (the "Consolidated Financial Statements"). The Consolidated Financial Statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), including accounting principles prescribed by the OEB, and are presented in Canadian dollars (see "Significant Accounting Policies" below).

Business of Toronto Hydro

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

- *LDC* - which distributes electricity and engages in CDM activities; and
- *Toronto Hydro Energy Services Inc. ("TH Energy")* - which provides street lighting services.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, which delivers electricity to approximately 709,000 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 the Province of Ontario ("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 electricity distribution rates charged by LDC and other electricity distributors in Ontario. See note 2 to the Consolidated Financial Statements.

The sole shareholder of the Corporation is the City.

Executive Summary

- Net income was $95.9 million in 2011 compared to $66.1 million in 2010;
- capital expenditures were $437.1 million in 2011 compared to $390.8 million in 2010, with the increase primarily related to reinforcing and maintaining the electricity distribution system of LDC;
- LDC was ordered to file its 2012 electricity distribution rate application using the incentive regulation mechanism framework;
- $300.0 million in 10-year senior unsecured debentures were issued primarily to repay the existing senior unsecured debentures which matured on December 30, 2011; and
- plans to commence reporting under US GAAP in its interim consolidated financial statements for the first quarter of 2012.

Electricity Distribution – Industry Overview

In April 1999, the government of Ontario began restructuring Ontario's electricity industry. Under regulations passed pursuant to the restructuring, LDC and other electricity distributors have been purchasing their electricity from the wholesale market administered by the Independent Electricity System Operator ("IESO") and recovering the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the OEB.

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

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

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

- *Distribution Charges* – Distribution charges are designed to recover the costs incurred by LDC in delivering electricity to customers and the OEB-allowed rate of return. Distribution charges are regulated by the OEB and are comprised of a fixed charge and a usage-based (consumption) charge.
  The volume of electricity consumed by LDC's customers during any period is governed by events largely outside LDC's control (principally, sustained periods of hot or cold weather which increase the consumption of electricity and sustained periods of moderate weather which decrease the consumption of electricity).

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

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

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

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

The Corporation is exempt from tax under the *Income Tax Act* (Canada) ("ITA") if not less than 90% of the capital of the Corporation is owned by the City and not more than 10% of the income of the Corporation is derived from activities carried on outside the municipal geographical boundaries of the City. In addition, the Corporation's subsidiaries are also exempt from tax under the ITA provided that all of their capital is owned by the Corporation and not more than 10% of their respective income is from activities carried on outside the municipal geographical boundaries of the City. A corporation exempt from tax under the ITA is also exempt from tax under the *Taxation Act, 2007* (Ontario) ("TA") and the *Corporations Tax Act* (Ontario) ("CTA").

The Corporation and each of its subsidiaries are Municipal Electricity Utilities ("MEUs") for purposes of the Payment In Lieu of Corporate Taxes ("PILs") regime contained in the *Electricity Act, 1998* (Ontario) ("Electricity Act"). The Electricity Act provides that a MEU that is exempt from tax under the ITA, the CTA and the TA is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TA (for years ending after 2008) or the CTA (for years ending prior to 2009) if it were not exempt from tax. The PILs regime came into effect on October 1, 2001, at which time the Corporation and each of its subsidiaries were deemed to have commenced a new taxation year for purposes of determining their respective liabilities for PILs payments.

The *Green Energy and Green Economy Act, 2009* (Ontario) (the "Green Energy Act") came into force on May 14, 2009. The Green Energy Act, among other things, permits electricity distribution companies to own renewable energy generation facilities, obligates electricity distribution companies to provide priority connection access for renewable energy generation facilities, empowers the OEB to set CDM targets for electricity distribution companies as a condition of license and requires electricity distribution companies to accommodate the development and implementation of a smart grid in relation to their systems.

Selected Consolidated Financial Data

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

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

	2011 $	2010 $	Change $	Change %	2009 $
Revenues	2,809,258	2,611,671	197,587	7.6	2,457,923
Costs					
Purchased power and other	2,238,500	2,062,269	176,231	8.5	1,953,657
Operating expenses	243,547	223,326	20,221	9.1	208,834
Depreciation and amortization	151,022	169,408	(18,386)	(10.9)	162,970
	2,633,069	2,455,003	178,066	7.3	2,325,461
Income before the following:	176,189	156,668	19,521	12.5	132,462
Net financing charges	(75,324)	(71,150)	(4,174)	(5.9)	(70,551)
Gain on disposals of property, plant and equipment ("PP&E")	3,885	3,767	118	3.1	1,013
Change in fair value of investments	-	2,420	(2,420)	(100.0)	(1,049)
Income before provision for PILs	104,750	91,705	13,045	14.2	61,875
Provision for PILs	8,818	25,580	(16,762)	(65.5)	19,742
Net income	95,932	66,125	29,807	45.1	42,133
Basic and fully diluted net income per share	95,932	66,125	29,807	45.1	42,133

As at December 31,
(in thousands of dollars)

	2011 $	2010 $
Consolidated Balance Sheet Data		
Total assets	3,455,777	3,338,614
Current liabilities	448,061	639,751
Long-term liabilities	1,905,468	1,659,484
Total liabilities	2,353,529	2,299,235
Shareholder's equity	1,102,248	1,039,379
Total liabilities and shareholder's equity	3,455,777	3,338,614

Results of Operations – 2011 compared to 2010

Net Income

Net income was $95.9 million in 2011 compared to $66.1 million in 2010. The increase in net income was primarily due to higher net revenues ($21.4 million), lower depreciation expense ($18.4 million) and lower provision for PILs ($16.8 million). These favourable variances were partially offset by higher operating expenses ($20.2 million), higher net financing charges ($4.2 million) and a gain recognized in 2010 in relation with the disposition of the Corporation's long-term investments ($2.4 million).

Net Revenues

Net revenues were $570.8 million in 2011 compared to $549.4 million in 2010 (see "Non-GAAP Financial Measures" below). The increase in net revenues was primarily due to higher regulated distribution revenue at LDC ($26.1 million) partially offset by lower other income ($4.7 million). The increase in distribution revenue was primarily due to the approval by the OEB of a higher revenue requirement balance ($23.6 million) for 2011 to fund LDC's infrastructure modernization program, workforce renewal initiative and incremental maintenance costs (see "Corporate Developments – Distribution Rates for LDC" below). The decrease in other income was primarily due to lower margins in connection with Ontario Power Authority ("OPA") programs and lower late payment charges billed to customers in 2011.

Expenses

Operating expenses were $243.5 million in 2011 compared to $223.3 million in 2010. The increase in operating expenses was primarily due to higher operating labour costs resulting from changes in accounting estimates related to burden rates (see "Changes in Accounting Estimates – Property, Plant and Equipment" below) and higher overall compensation costs due to annual general increase in wages and related benefits ($29.6 million), and higher accounting conversion costs following the decision by the OEB to disallow the recovery of a portion of the costs incurred by the Corporation for its initially planned conversion to International Financial Reporting Standards ("IFRS") as it appeared that such costs were included in prior period electricity distribution rates ($3.0 million). These variances were partially offset by the recognition in 2010 of costs relating to the expected settlement of a class action against LDC ($6.0 million) (see "Legal Proceedings – Christian Helm Class Action" below), the recognition in 2010 of a special charge related to the disallowance by the OEB of a portion of the costs related to the contact voltage remediation activities ($3.8 million) (see "Corporate Developments – Contact Voltage" below) and lower Ontario capital tax expense in 2011 following the elimination of such tax in the second quarter of 2010 ($2.2 million).

Depreciation and amortization expense was $151.0 million in 2011 compared to $169.4 million in 2010. The decrease in depreciation and amortization expense was primarily due to changes in accounting estimates related to useful lives of certain items of PP&E (see "Changes in Accounting Estimates – Property, Plant and Equipment" below). This decrease was partially offset by an increase in depreciation related to the renewal of the regulated electricity distribution infrastructure of LDC. Over the past few years, LDC significantly increased its capital expenditures following the approval by the OEB of higher capital programs aimed at modernizing the electricity infrastructure of LDC (see "Liquidity and Capital Resources – Net Cash Used in Investing Activities" below).

Net Financing Charges

Net financing charges were $75.3 million in 2011 compared to $71.2 million in 2010. The increase in net financing charges was primarily due to higher long-term financing charges from the issuance of senior unsecured debentures in 2011 (see "Corporate Developments – Medium-Term Note Program" below).

Gain on Disposals of PP&E

Gain on disposals of PP&E was $3.9 million in 2011 compared to $3.8 million in 2010. The increase in gain on disposals of PP&E was primarily due to the recognition of gains realized in connection with the disposals of surplus properties at LDC. During 2011, LDC recognized $3.9 million in gain on disposals of surplus properties, of which $1.4 million relates to surplus properties for which the OEB reduced electricity distribution rates in 2010. LDC began recognizing the actual gain 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.

Change in Fair Value of Investments

On October 8, 2010, the Corporation sold all of its long-term investments for cash consideration of $50.4 million. In connection with these investments, the Corporation recognized a gain of $2.4 million in the consolidated statement of income for the year ended December 31, 2010.

Provision for PILs

Provision for PILs was $8.8 million in 2011 compared to $25.6 million in 2010. The decrease in the provision for PILs was primarily due to higher deductions for permanent and temporary differences between accounting and tax treatments mainly related to depreciation and capital cost allowance ($18.5 million) and recoveries resulting from favourable resolution of Ministry of Finance PILs audits of LDC for the 2005 and 2006 taxation years ($2.0 million). The decrease in the provision for PILs was partially offset by the effect of higher income in 2011 ($3.7 million).

Results of Operations – 2010 compared to 2009

Net income was $66.1 million in 2010 compared to $42.1 million in 2009. The increase in net income was primarily due to higher net revenues ($45.1 million), a favourable variance in the fair value of investments ($3.5 million) and a higher gain on disposals of surplus PP&E ($2.8 million). These favourable variances were partially offset by higher operating expenses ($14.5 million), higher depreciation expense ($6.4 million) and higher provision for PILs ($5.8 million). For further details, see the Corporation's 2010 MD&A as filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

Summary of Quarterly Results

The tables below present unaudited quarterly consolidated financial information of the Corporation for 2011 and 2010.

2011 Quarter Ended, (in thousands of dollars)	December 31 $	September 30 $	June 30 $	March 31 $
Revenues	689,624	734,505	683,787	701,342
Costs	648,713	683,433	643,303	657,620
Net income	17,228	28,982	24,270	25,452

2010 Quarter Ended, (in thousands of dollars)	December 31 $	September 30 $	June 30 $	March 31 $
Revenues	656,649	680,504	627,707	646,811
Costs	621,179	631,807	588,828	613,189
Net income	10,048	27,687	15,839	12,551

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 and cooling in the third quarter.

Financial Position

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

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

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Cash and cash equivalents	(175,895)	See "Liquidity and Capital Resources" below.
Investments	34,002	The increase in investments is due to the investment in two floating rate notes in the amounts of $25.0 million and $9.0 million, the first maturing on October 22, 2012 and the second maturing on February 17, 2012, which are guaranteed by a Canadian Schedule I bank.
Accounts receivable, net of allowance for doubtful accounts	14,284	The increase in accounts receivable is primarily due to the timing of the Ontario Clean Energy Benefit Rebate from the IESO, which did not exist in 2010 and the timing of billing and collection activities from large customers.
Unbilled revenue	(25,835)	The decrease in unbilled revenue is primarily due to lower consumption in December 2011 compared to December 2010 and lower energy prices compared to the previous year.
PP&E and intangible assets, net	297,706	The increase in PP&E and intangible assets is primarily due to capital expenditures ($437.1 million) offset by depreciation during the year ($151.0 million).
Regulatory assets	(7,791)	The decrease in regulatory assets is primarily due to the on-going recoveries of charges from customers, partially offset by increases in the retail settlement balances regulated by the OEB.
Future income tax assets	(23,533)	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	38,869	The increase in accounts payable and accrued liabilities is mainly due to timing differences in the settlement of trade payables and consumption and price variances related to electricity payable to the IESO.

Consolidated Balance Sheet Data As at December 31, 2011 compared to December 31, 2010 (in thousands of dollars)		
Balance Sheet Account	**Increase (Decrease) $**	**Explanation of Significant Change**
Deferred revenue	11,941	The increase in deferred revenue is primarily due to a significant balance received in advance from the OPA relating to CDM programs for 2011.
Debentures	53,677	The increase in debentures is primarily due to the issuance of $300.0 million senior unsecured debentures (see "Corporate Developments – Medium-Term Note Program" below), which is partially offset by the repayment of the Corporation's outstanding $245.1 million senior unsecured debentures which matured on December 30, 2011.
Post-employment benefits	9,644	The increase in post-employment benefits is primarily due to higher defined benefit costs.
Regulatory liabilities	(63,426)	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.
Other liabilities	10,667	The increase in other liabilities is primarily due to a capital lease obligation for contact voltage equipment.
Customers' advance deposits	(9,532)	The decrease in customers' advance deposits is primarily due to the reimbursement of customer deposits during the period in compliance with OEB rules and regulations.
Retained earnings	62,869	The increase in retained earnings is due to net income ($95.9 million) offset by dividends paid ($33.1 million).

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

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

Liquidity and Capital Resources Year Ended December 31, (in thousands of dollars)	2011 $	2010 $
Cash and cash equivalents, beginning of year	330,151	211,370
Net cash provided by operating activities	310,348	280,318
Net cash used in investing activities	(497,859)	(347,584)
Net cash provided by financing activities	11,616	186,047
Cash and cash equivalents, end of year	154,256	330,151

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $310.3 million in 2011 compared to $280.3 million in 2010. The increase in net cash provided by operating activities was primarily due to higher net income ($29.8 million), a variance in the aggregate amount of accounts receivable and unbilled revenue due to the timing of billing and collection activities ($22.0 million) and an increase in deferred revenue relating to a significant balance received in advance from the OPA for CDM programs in 2011 ($13.7 million). These variances were partially offset by a decrease in depreciation and amortization ($18.4 million), a variance in PILs receivable ($13.8 million) and a decrease in net change in other assets and liabilities ($6.4 million).

Net Cash Used in Investing Activities

Net cash used in investing activities was $497.9 million in 2011 compared to $347.6 million in 2010. The increase in net cash used in investing activities was primarily due to the net proceeds received in 2010 in connection with the sale of long-term investments ($50.4 million), the net impact of investing excess cash in low-risk floating rate notes ($34.0 million), higher capital expenditures in 2011 ($46.3 million), a higher change in net regulatory assets and liabilities ($15.7 million) primarily related to a higher variance in 2011 of retail settlement balances regulated by the OEB and the impact of the net proceeds received in 2011 on the disposition of surplus properties ($3.9 million).

The increase in regulated capital expenditures at LDC for the year ended December 31, 2011 amounted to $46.3 million. This increase was primarily due to transformer stations ($25.2 million), metering ($10.6 million), customer connections ($9.5 million), and feeders ($2.3 million). These increases were partially offset by a decrease in distribution lines ($4.4 million).

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

Capital Expenditures Year Ended December 31, (in thousands of dollars)	2011 $	2010 $
LDC		
Distribution system	361,851	311,781
Technology assets	33,193	39,556
Other [(1)]	36,139	33,575
	431,183	384,912
Other [(2)]	5,884	5,872
Total Capital Expenditures	437,067	390,784

Notes:

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

The increase in capital expenditures was primarily related to higher investment in electricity distribution assets in connection with LDC's infrastructure renewal program approved by the OEB. For 2011, the OEB approved $378.8 million in regulated capital expenditures for LDC in comparison to $350.0 million for 2010. It should be noted that when considering the changes in accounting estimates implemented prospectively by the Corporation in 2011 (see "Changes in Accounting Estimates – Property, Plant and Equipment" below), the OEB effectively approved an increase of $51.0 million in LDC's regulated capital programs for 2011.

The three most significant capital expenditures incurred by LDC in the current year were related to reinforcing and maintaining the electricity distribution system, primarily by replacing aging assets in order to maintain long-term reliability ($256.6 million in 2011 compared to $246.5 million in 2010), upgrading and investing in new stations to improve supply reliability in the downtown area and to provide capacity for load growth within this area ($32.5 million in 2011 compared to $7.0 million in 2010), and net expenditures related to customer connections primarily due to growth in the condominium market, particularly in the downtown core of the City ($28.4 million in 2011 compared to $18.9 million in 2010).

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $11.6 million in 2011 compared to $186.0 million in 2010. The decrease in net cash provided by financing activities was primarily due to the issuance of $200.0 million of senior unsecured debentures to finance the renewal of LDC's electricity infrastructure in 2010, higher reimbursement of customer deposits in 2011 in compliance with OEB rules and regulations ($20.8 million), and a higher dividend paid with respect to net income for the year ended December 31, 2010, which was paid to the City on March 18, 2011 ($8.1 million). The decrease in net cash provided by financing activities was partially offset by the net effect of the net proceeds received in connection with the issuance of $300.0 million of senior unsecured debentures in 2011 and the repayment of $245.1 million of senior unsecured debentures ($54.9 million).

Summary of Contractual Obligations

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

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

	Total $	2012 $	2013/2014 $	2015/2016 $	After 2016 $
Debentures – principal repayment...	1,470,057	–	470,057	–	1,000,000
Debentures – interest payments.......	631,758	74,905	105,960	91,600	359,293
Operating lease obligations and future commitments........................	76,199	27,715	30,934	12,795	4,755
Capital lease obligations …............	15,277	2,454	4,849	4,594	3,380
Asset retirement obligations...........	5,811	1,320	511	238	3,742
Total contractual obligations and other commitments…......................	2,199,102	106,394	612,311	109,227	1,371,170

Revolving Credit Facility

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

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

As at December 31, 2011, no amounts had been drawn under the Corporation's revolving credit facility and $45.1 million had been drawn on the bilateral facility.

Prudential Requirements and Third Party Credit Support

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

Dividends

The shareholder direction adopted by the City with respect to the Corporation provides that the board of directors of the Corporation will use its best efforts to ensure that the Corporation meets certain financial performance standards, including those relating to the credit rating and dividends. Subject to applicable law, the shareholder direction provides that the Corporation will pay dividends to the City each year amounting to the greater of $25.0 million or 50% of the Corporation's consolidated net income for the year. The dividends are not cumulative and are payable as follows:

- $6.0 million on the last day of each of the first three fiscal quarters during the year;
- $7.0 million on the last day of the fiscal year; and
- the amount, if any, by which 50% of the Corporation's annual consolidated net income for the year exceeds $25.0 million, within ten days after the board of directors of the Corporation approved the Corporation's audited Consolidated Financial Statements for the year.

The board of directors of the Corporation declared and paid dividends totalling $33.1 million in 2011 and $25.0 million in 2010 to the City.

On March 2, 2012, the board of directors of the Corporation declared dividends in the amount of $29.0 million. The dividends are comprised of $23.0 million with respect to net income for the year ended December 31, 2011, payable to the City on March 12, 2012, and $6.0 million with respect to the first quarter of 2012, payable to the City on March 30, 2012.

Credit Rating

The Corporation and the debentures issued under its medium-term note program were rated as follows:

Credit Ratings As at December 31,	
	2011
DBRS Limited	A (high)
Standard & Poor's ("S&P")	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 LDC's electricity distribution rates and other permitted recoveries in the future.

LDC's electricity distribution rates are typically effective from May 1 to April 30 of the following year. Accordingly, LDC's distribution revenue for the first four months of 2011 was based on the electricity distribution rates approved for the May 1, 2010 to April 30, 2011 rate year (the "2010 Rate Year"), and the distribution revenue for the remainder of 2011 and for the first four months of 2012 are and will be based on electricity distribution rates approved for the May 1, 2011 to April 30, 2012 rate year (the "2011 Rate Year").

LDC's electricity distribution rates for the 2010 Rate Year and the 2011 Rate Year were determined through an application under the cost of service framework. The cost of service framework sets electricity distribution rates using a detailed examination of evidence and an assessment of the costs incurred by an electricity distributor to provide its service to its customers.

On April 9, 2010, the OEB issued its decision regarding LDC's electricity distribution rates for the 2010 Rate Year. The decision provided for a distribution revenue requirement and rate base of $518.7 million and $2,140.7 million, respectively. In addition, the decision provided for capital program spending levels and operating, maintenance and administration spending levels of $350.0 million and $204.1 million, respectively.

On July 7, 2011, the OEB issued its decision regarding LDC's electricity distribution rates for the 2011 Rate Year. The decision provided for a distribution revenue requirement and rate base of $522.0 million and $2,298.2 million, respectively. In addition, the decision provided for capital program spending levels and operating, maintenance and administration spending levels of $378.8 million and $238.0 million, respectively.

On August 26, 2011, LDC filed a rate application, following the cost of service framework, with the OEB seeking approval of separate and successive revenue requirements and corresponding electricity distribution rates for three rate years commencing on May 1, 2012, May 1, 2013 and May 1, 2014 (the "2012-2014 Rate Application"). The requested distribution revenue requirements for these rate years were $571.4 million, $639.5 million, and $712.8 million, respectively, and the expected rate bases for these rate years were $2,636.3 million, $3,053.5 million, and $3,503.2 million, respectively.

Pursuant to the incentive regulation mechanism framework, the OEB established, as a preliminary issue in the 2012-2014 Rate Application, that it would consider the question of whether the application filed by LDC was acceptable or whether it should be dismissed. In particular, the OEB established that in order for it to find that LDC's 2012-2014 Rate Application was acceptable, LDC would be required to show why and how LDC cannot adequately manage its resources and financial needs under the incentive regulation mechanism framework. The incentive regulation mechanism framework provides for an annual adjustment to an electricity distributor's rates based on a formulaic calculation with no direct examination of evidence regarding the electricity distributor's actual costs and infrastructure needs.

LDC filed evidence supporting its position for electricity distribution rates to be set under the cost of service framework as part of its 2012-2014 Rate Application. In particular, LDC provided evidence that it cannot adequately manage its resources and financial needs under the incentive regulation mechanism framework. The OEB established a process by which a portion of LDC's evidence was tested during an oral hearing held in November 2011.

On January 5, 2012, the OEB rendered its decision on the preliminary issue and dismissed LDC's cost of service 2012-2014 Rate Application. In its decision, the OEB found that LDC was not permitted to deviate from the standard incentive regulation mechanism framework cycle, and LDC will therefore be required to file its request for electricity distribution rates commencing on May 1, 2012 pursuant to the formulaic adjustment and the incremental capital module provided for under the incentive regulation mechanism framework.

On January 25, 2012, LDC filed with the OEB a motion to review the OEB's January 5, 2012 decision.

On February 6, 2012, LDC filed a notice of appeal with the Ontario Divisional Court regarding the OEB's January 5, 2012 decision.

Pursuant to the OEB's decision of January 5, 2012, LDC is currently preparing an application for electricity distribution rates using the incentive regulation mechanism framework, including the filing of an incremental capital module. The quantum of this application is consistent with the capital program spending levels previously approved by the OEB for the 2011 Rate Year.

Under the incentive regulation mechanism framework, LDC has to significantly reduce its costs structure, and in particular its operating expenses, in order to meet its financial obligations. Accordingly, in the first quarter of 2012, LDC began implementing a restructuring program aimed at reducing its operating costs in the future. The main component of this restructuring program is a workforce reduction plan targeting both union and management employees. As at March 2, 2012, the costs incurred as a result of the restructuring program amounted to approximately $19.3 million, which were mainly related to employee severance and buy-out costs.

The Corporation continues to assess all of the impacts related to the imposition by the OEB of the incentive regulation mechanism framework, which impacts may include additional restructuring costs. The incremental restructuring costs could have a material impact on the Corporation's consolidated financial statements in the future.

Street Lighting Activities

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution licence for a new wholly-owned legal entity to which the Corporation intended to transfer the street lighting assets of TH Energy. Concurrently, the Corporation filed another application with the OEB seeking approval for the merger of LDC and the new legal entity. The main objective of these applications was to transfer the street lighting assets to the regulated electricity distribution activities of LDC to increase the overall safety of the related infrastructure.

On February 11, 2010, the OEB issued its decision in regard to these applications. In its decision, the OEB agreed that, under certain conditions, the treatment of certain types of street lighting assets as regulated assets is justified. The OEB ordered the Corporation to provide a detailed valuation of the street lighting assets and to perform an operational review to determine which street lighting 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.

On August 3, 2011, the OEB issued its final decision allowing the transfer of a portion of the street lighting assets to the new wholly-owned legal entity, and for LDC to amalgamate with the new legal entity.

On January 1, 2012, the Corporation completed the transfer of street lighting assets to LDC for a purchase price of $28.5 million, subject to post closing adjustment and transaction costs.

Medium-Term Note Program

On November 18, 2011, the Corporation issued $300.0 million in 10-year senior unsecured debentures (“Series 7”) which bear interest at the rate of 3.54% per annum and are payable semi-annually in arrears in equal instalments on May 18 and November 18 of each year. The Series 7 debentures mature on November 18, 2021 and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The net proceeds from this issuance were used to repay the $245.1 million senior unsecured debentures of the Corporation which matured on December 30, 2011 and the balance is expected to be used for general corporate purposes.

CDM Activities

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

Effective January 1, 2011, LDC entered into an agreement with the OPA to deliver CDM programs in the amount of approximately $50.0 million extending from January 1, 2011 to December 31, 2014 (the “Master CDM Program Agreement”). As at December 31, 2011, LDC received approximately $19.9 million from the OPA for the delivery of CDM programs under the Master CDM Program Agreement. All programs to be delivered under the Master CDM Program Agreement are fully funded and paid in advance by the OPA. These programs are expected to support the achievement of the mandatory CDM targets described above.

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

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

Special Purpose Charge

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

Contact Voltage

On December 10, 2009, the OEB issued an 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 a second decision in the matter, following further review of costs incurred by LDC. In this 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.

OEB PILs Proceeding

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

LDC has reviewed the balances of its PILs regulatory variance accounts and applied the guidelines provided by the OEB. As at December 31, 2011, LDC estimated its liability at approximately $2.8 million. This balance has been recorded in the Corporation's Consolidated Financial Statements. LDC intends to apply for disposition of this balance in 2012. The amount to be approved by the OEB will be based on the OEB's interpretation and application of its guidelines and the final balance which is yet to be approved by the OEB could differ materially from LDC's estimation of its liability.

Payments in Lieu of Additional Municipal and School Taxes

The Ministry of Finance has issued assessments in respect of payments in lieu of additional municipal and school taxes under section 92 of the Electricity Act 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. The Corporation has worked with the Ministry of Finance to resolve this issue, and as a result the Ministry of Finance issued Ontario Regulation 423/11 on August 31, 2011. The new regulation revoked Ontario Regulation 224/00 and corrected inaccurate information retroactively to 1999.

The balance assessed by the Ministry of Finance on its most recent statement of account amounts to approximately $10.0 million above the balance accrued by the Corporation. While the Corporation expects that reassessments will be issued as a consequence of the change in regulation, there can be no assurance that the Corporation will not have to pay the full assessed balance in the future.

Customer Care and Billing System

On July 6, 2011, LDC implemented a new customer care and billing system for its regulated electricity distribution business. The new system allows for more flexibility for its users and provides better information for the calculation of accounting estimates related to revenue recognition. The system provides an integrated billing platform leveraging the technology of the smart meters installed over the past few years.

Changes to the Corporation's Board of Directors

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

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

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

Legal Proceedings

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

Christian Helm Class Action

On December 6, 2010, a statement of claim in a proposed class action was issued against LDC. The claim seeks general and special damages in the amount of $100.0 million for disgorgement of unjust gains allegedly resulting from the receipt of interest on overdue accounts at a rate exceeding 5% per annum in contravention of the *Interest Act* (Canada) ("Interest Act"). A statement of defence has been filed. Prior to any certification of the action as a class proceeding, cross summary judgment motions were heard in June 2011 to determine whether the Interest Act has been breached. On February 1, 2012, prior to the release of the decisions on the summary judgment motions, the parties reached a settlement of the matter, which settlement now requires court approval. The Settlement Approval Hearing is scheduled for April 30, 2012. If the settlement receives court approval, damages and costs of approximately $6.0 million shall be paid by LDC. In 2010, the Corporation accrued a liability to cover the expected settlement.

If the settlement does not receive court approval, the decision on the cross summary judgment motions will be released. In this event, 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.

2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) ("Class Proceedings Act") seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, a statement of defence and third party claim have been served by LDC and a third party defence and counterclaim against LDC seeking damages in the amount of $51.0 million have been filed. A certification order has been issued. Affidavits of documents have been produced by LDC to the other parties and examinations for discovery have commenced and are continuing. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

On December 20, 2010, LDC was served with a statement of claim by the City seeking damages in the amount of $2.0 million as a result of the fire at 2 Secord Avenue. A statement of defence and third party claim have been served. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

By order of the court, the above actions and a smaller non-class action commenced in April 2009 involving the same incident will be tried at the same time or consecutively.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice under the Class Proceedings Act seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks damages in the amount of $10.0 million from LDC. Both actions are at a preliminary stage and the certification hearing is scheduled for September 2012. Statements of defence to the main action and to the third party claim have not been filed. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with these actions.

Another third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of the fire at 2369 Lakeshore Boulevard West. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks damages in the amount of $0.4 million from LDC. LDC has filed a statement of defence, crossclaim and counterclaim. Examinations for discovery have not taken place but are to be completed by February 29, 2012 pursuant to a court ordered timetable. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with these actions.

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of $2.0 million as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

Adamopoulos

An action was commenced against LDC in November 2004 in the Ontario Superior Court of Justice seeking damages in the amount of $7.8 million as compensation for damages allegedly suffered as a result of a motor vehicle accident involving an LDC vehicle on January 9, 2001. The plaintiff's motion increasing its claim for damages to $23.8 million was granted on July 7, 2010. This matter has been settled and a court order has been issued dismissing the action and all related claims by payment of a total amount of approximately $4.6 million. LDC's liability insurance covered the settlement amount.

Share Capital

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

Transactions with Related Parties

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

Transactions with Related Parties Summary
Year Ended December 31,
(in thousands of dollars)

	2011 $	2010 $
Revenues	147,469	147,399
Operating expenses and capital expenditures	30,582	14,068
Net financing charges	-	7,487
Dividends	33,063	25,000

Transactions with Related Parties Summary
As at December 31,
(in thousands of dollars)

	2011 $	2010 $
Accounts receivable, net of allowance for doubtful accounts	8,412	6,711
Unbilled revenue	8,692	9,830
Other assets	7,279	7,368
Accounts payable and accrued liabilities..	25,085	12,164
Customers' advance deposits..	8,714	10,953

Revenues represent amounts charged to the City primarily for electricity and street lighting 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 which was monetized on April 1, 2010. Dividends represent dividends paid to the City.

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

See note 20 to the Consolidated Financial Statements.

Risk Factors

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

Condition of Distribution Assets

LDC estimates that approximately one-third of its electricity distribution assets are past their expected useful life. LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public will depend on, among other things, the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

Regulatory Developments

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

- the OEB will approve LDC's electricity distribution rates under the incentive regulation mechanism framework, including the incremental capital module, at levels that will permit LDC to carry out its planned capital work programs required to maintain reliable service to its customers and earn the allowed rate of return on the investment in the business;

- the OEB will not set a lower recovery for LDC's cost of capital;

- the full cost of providing service to distribution customers will be permitted to be recovered through LDC's electricity distribution rates;

- the OEB will not permit competitors to provide distribution services in LDC's licensed area, or permit loads within LDC's service area to become electrically served by a means other than through LDC's electricity distribution system;
- the OEB will allow recovery for revenue lost as a consequence of unanticipated effects of CDM;
- parts of LDC's services will not be separated from LDC and opened to competition; or
- regulatory or other changes will not be made to the PILs regime.

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

Information Technology Infrastructure

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

LDC's electricity distribution infrastructure and technology systems are also potentially vulnerable to damage or interruption from cyber attacks, which could have an adverse impact on its operations, financial conditions, brand and reputation. While LDC has implemented protective measures to monitor the risk of a cyber attack and mitigate its effects, there can be no assurance that such protective measures will be completely effective in protecting LDC's electricity distribution infrastructure or assets from a cyber attack or the effects thereof.

Labour Relations

The Corporation's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions to adapt to changing circumstances. The Corporation's ability to make such changes, in turn, will continue to depend in part on its relationship with its labour unions and its ability to develop plans and approaches that are acceptable to its labour unions. There can be no assurance that the Corporation will be able to secure the support of its labour unions.

Natural and Other Unexpected Occurrences

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

Electricity Consumption

LDC's electricity distribution rates are comprised of a fixed charge and a usage-based (consumption) charge. The volume of electricity consumed by LDC's customers during any period is governed by events largely outside LDC's control (e.g., principally sustained periods of hot or cold weather could increase the consumption of electricity, sustained periods of mild weather could decrease the consumption of electricity, and general economic conditions could affect overall electricity consumption). Accordingly, there can be no assurance that LDC will earn the revenue requirement approved by the OEB.

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

Market and Credit Risk

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

LDC is also exposed to fluctuations in interest rates as its regulated rate of return is derived using a formulaic approach, which is based in part on a forecast of long-term Government of Canada bond yields and A-rated Canadian utility bond spreads. LDC estimates that a 1% (100 basis point) reduction in long-term Government of Canada bond yields used to determine its regulated rate of return would reduce LDC's net income, as at December 31, 2011, by approximately $4.6 million.

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. The Corporation estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation, as at December 31, 2011, by approximately $33.1 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2011, by approximately $42.9 million.

Additional Debt Financing

Cash generated from operations, after the payment of expected dividends, will not be sufficient to repay existing indebtedness, fund capital expenditures and meet other obligations. The Corporation relies on debt financing through its Medium-Term Note Program or existing credit facilities to repay existing indebtedness and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be adversely affected by a number of factors, including financial market conditions, the regulatory environment in Ontario, the Corporation's results of operations and financial condition, the ratings assigned to the Corporation and its debentures by credit rating agencies, the current timing of the Corporation's debentures and general economic conditions.

Work Force Renewal

Over the next decade, a significant portion of LDC's employees will become eligible for retirement, including potential retirements occurring in supervisory, trades and technical positions. Accordingly, LDC will be required to attract, train and retain skilled employees. There can be no assurance that LDC will be able to attract and retain the required workforce.

Insurance

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

Credit Rating

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

Conflicts of Interest

The City owns all of the outstanding shares of the Corporation and has the power to determine the composition of the board of directors of the Corporation and influence the Corporation's major business and corporate decisions, including its financing programs and dividend payments. A conflict may arise between the City's role as the sole shareholder of the Corporation and its role as the administrator of the City's budget and other matters for the residents of the City.

Change of Ownership

The City may also decide to sell all or part of the Corporation. In the case of such event, depending on the nature of the transaction, the Corporation's credit ratings could be negatively affected.

Conversion to US GAAP

The Corporation plans to commence reporting under US GAAP in its first quarterly consolidated financial statements in 2012. The Corporation does not believe that the adoption of US GAAP will have a material impact on its consolidated financial statements. However, given that the decision granted by the Canadian securities regulatory authorities only allows for the option to prepare consolidated financial statements in accordance with US GAAP for fiscal years beginning before January 1, 2015, and 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, if the Corporation were to adopt the use of IFRS for fiscal years beginning on or after January 1, 2015, it may have an impact on the Corporation's future financial position and results of operations, which cannot be reasonably quantified at this time.

Real Property Rights

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

LDC Competition

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

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

Non-GAAP Financial Measures

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

Critical Accounting Estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with Canadian GAAP requires management to make estimates and assumptions which affect the reported amounts of assets, liabilities, revenues and costs, and related disclosures of commitments and contingencies. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgments under different assumptions or conditions.

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

Regulatory Assets and Liabilities

Regulatory assets as at December 31, 2011, amounted to $77.3 million and primarily relate to the deferral of smart meters expenditures incurred in 2009 and 2008. Regulatory liabilities as at December 31, 2011, amounted to $210.3 million and primarily relate to future income tax assets payable to customers and retail settlement balances to customers approved by the OEB. These assets and liabilities can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is judged to be probable. In the event that the disposition of these balances was no longer deemed to be probable, the balances would be recorded in the Corporation's consolidated statements of income in the period that the assessment is made.

Environmental Liabilities and Asset Retirement Obligations

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

ARO amounted to $4.9 million as at December 31, 2011 compared to $5.0 million as at December 31, 2010. The Corporation estimates the undiscounted amount of cash flows required over the next one to 45 years to settle the ARO is $5.8 million for 2011 compared to $6.6 million for 2010. Discount rates ranging from 1.39% to 6.60% were used to calculate the carrying value of the ARO as at December 31, 2011 and as at December 31, 2010. No assets have been legally restricted for settlement of the liability.

Employee Future Benefits

Employee future benefits other than pension provided by the Corporation include medical, dental and life insurance benefits, and accumulated sick leave credits. These plans provide benefits to employees when they are no longer providing active service. The accrued benefit obligations and current service cost are calculated by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimate. The assumptions were determined by management recognizing the recommendations of the Corporation's actuaries. There could be no assurance that actual employee's future benefits cost will not differ significantly from the estimates calculated using management's assumptions.

Revenue Recognition

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

Significant Accounting Policies

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

Changes in Accounting Estimates

Property, Plant and Equipment

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 evidence. These changes in estimates have been accounted for on a prospective basis in the Consolidated Financial Statements effective January 1, 2011.

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

The changes discussed above were reflected in the 2011 electricity distribution rates approved by the OEB on July 7, 2011. Accordingly, these changes decreased distribution revenues by approximately $24.6 million, increased operating expenses by approximately $22.0 million, decreased depreciation expenses by approximately $33.0 million and decreased PILs by approximately $13.6 million for the year ended December 31, 2011 and are expected to impact depreciation expenses proportionately in future periods.

See note 3(f) to the Consolidated Financial Statements.

Future Accounting Pronouncements

Adoption of New Accounting Standards

Publicly accountable enterprises in Canada were required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

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

Rate-Regulated Accounting

In accordance with Canadian GAAP, the Corporation currently follows specific accounting policies unique to a rate-regulated business. Under 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 sheets and represent current rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. As at December 31, 2011, the Corporation reported $77.3 million of regulatory assets and $210.3 million of regulatory liabilities.

On July 23, 2009, the International Accounting Standards Board ("IASB") issued an Exposure Draft 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 IASB 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 International Accounting Standard ("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 IASB members remained divided on the issue and determined that the matter could not be resolved quickly. As such, the IASB 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 IASB's work plan.

The Canadian Electricity Association ("CEA") wrote a 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 Accounting Standards Board ("AcSB") granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation due to the uncertainty created by the IASB in regard to RRA. To date, the IASB has not approved any temporary exemption or finalized a RRA standard under IFRS. The Corporation elected to take the optional one-year deferral of its adoption of IFRS; therefore, it continues to prepare its Consolidated Financial Statements in accordance with Canadian GAAP accounting standards in Part V of the Canadian Institute of Chartered Accountants Handbook in 2011.

On October 13, 2011, the CEA wrote a letter to the AcSB in response to the IASB's Request for Views on Agenda Consultation 2011. The CEA strongly believes that the IASB should give priority to a project on the accounting for RRA. The AcSB has also identified RRA as a key priority on the IASB's future projects agenda.

In the absence of a definitive plan to consider the issuance of a RRA standard by the IASB, the Corporation decided to evaluate the option of adopting US GAAP effective January 1, 2012 as an alternative to IFRS. The Corporation's current application of Canadian GAAP for RRA is generally consistent with US GAAP. Under US GAAP, the Corporation's financial reporting is expected to be more comparable with its current Canadian GAAP results than it would be under IFRS and is expected to facilitate comparability with other large North American utilities.

Canadian Securities Legislation

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

On July 21, 2011, the applicable Canadian securities regulatory authorities issued a decision which gave the Corporation the option to prepare its consolidated financial statements in accordance with US GAAP for its fiscal years beginning on or after January 1, 2012, but before January 1, 2015. The decision is similar to that obtained by other Canadian rate-regulated utilities.

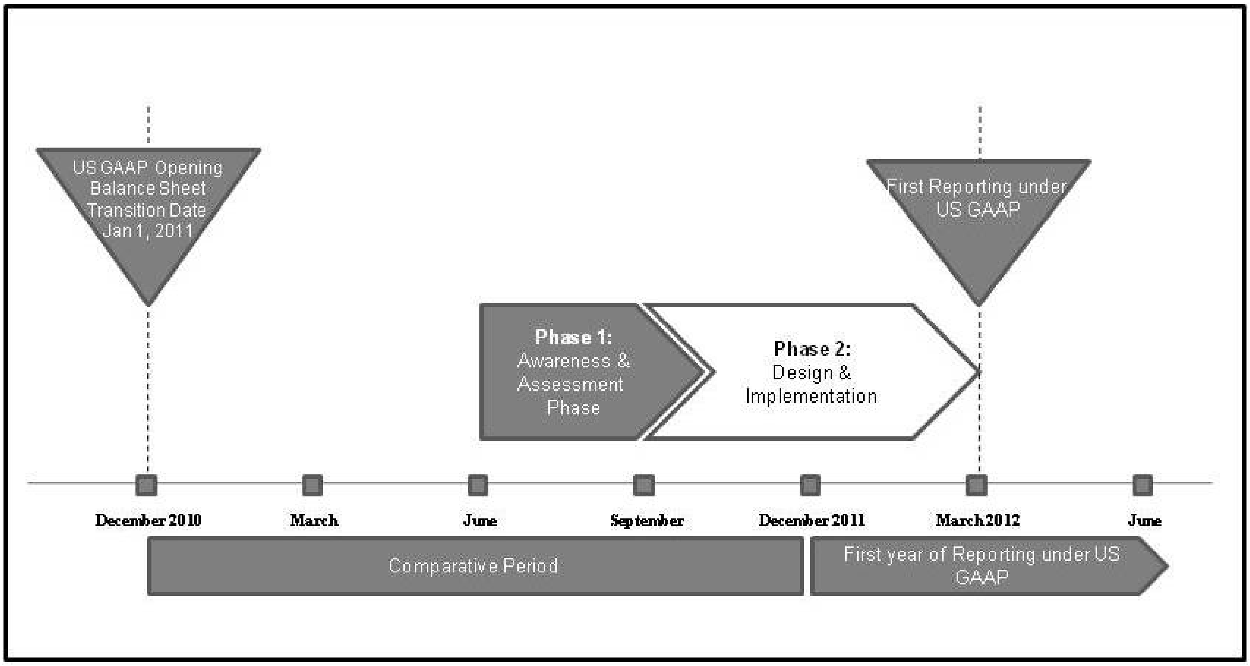
On August 26, 2011, the board of directors of the Corporation approved the adoption of US GAAP for financial reporting purposes for the year beginning on January 1, 2012. Accordingly, the Corporation plans to commence reporting under US GAAP in its first quarterly consolidated financial statements in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

US GAAP Conversion Project

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

The Corporation's project consists of two phases:

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



The Corporation has completed its awareness and initial assessment phase. During the initial assessment it was determined that the areas of accounting differences with the highest potential impact to the Corporation's future financial position and results of operations are employee benefits, PILs, financial instruments, and customers' advance deposits. The Corporation has completed its detailed assessment of accounting and disclosure differences. Based on the results of the assessment, no material differences are expected that would impact the consolidated financial statements on the date of transition to US GAAP and post US GAAP implementation. In parallel, a detailed assessment of the impact of the US GAAP conversion on the Corporation's systems, processes and controls as well as other business, regulatory and tax impacts was also conducted. During the awareness and assessment phase, the Corporation established a communication plan and a staff-training plan.

The design and implementation phase of the project is substantially completed. The activities involved in the design phase include establishing issue-specific working groups in each of the identified risk areas. The working groups are comprised of individuals from finance and operations, among others, establish key milestones such as developing recommendations, analyzing financial system and internal control impacts, developing significant accounting policies, and carrying out ongoing discussions with external consultants and auditors, in each area. Based on the outcomes of each working group, the Corporation is currently determining the final impacts of adopting US GAAP on its 2011 comparative consolidated financial statements.

The roll-out of the required changes takes place during the design and implementation phase and involves the development of new accounting policies, development of accounting manuals and the associated training for the finance and operational teams, testing the effectiveness of the changes made to systems, a simulation of the financial reporting process, preparation of opening balance sheet on transition date and related reconciliations and disclosures. Based on these changes, the Corporation updated its internal control processes and documentation. Changes to accounting policies will result in additional controls and procedures to address reporting on transition date as well as ongoing US GAAP reporting requirements. The Corporation developed and implemented the related controls and procedures to ensure the integrity of internal controls over financial reporting and disclosure controls and procedures. The updated controls and procedures will be evaluated to ensure that they are operating effectively. It is expected that the evaluation will be completed in time such that the Corporation's interim consolidated financial statements for the first quarter of 2012 will be prepared in accordance with US GAAP and applied retrospectively to the Corporation's opening US GAAP consolidated balance sheet as at January 1, 2011.

Key Activities	Current Status
Accounting policies & procedures:	
• High level review of major differences between Canadian GAAP and US GAAP. • Establish issue-specific working groups in the identified risk areas. • Detailed assessment of accounting and disclosure differences and accounting policy choices available. • Develop recommendations and accounting policies through ongoing discussions with external consultants and auditors. • Finalize new accounting policies and accounting manuals. • Continue to monitor ongoing Financial Accounting Standards Board ("FASB") projects and assess potential impacts.	• Completed the detailed assessment of accounting and disclosure differences. • All accounting policies have been developed. • All accounting policies have been approved by senior management and the audit committee. • Accounting policies and procedure manuals continue to be updated based on the FASB project developments and accounting standard updates.
Financial statements preparation:	
• Identify Canadian GAAP to US GAAP financial statement presentation differences and design interim and annual financial statement formats and related notes disclosures. • Assess impacts on comparative information. • Simulate the financial reporting process under US GAAP. • Assess ongoing impacts on the US GAAP financial statements and related disclosures.	• Developed interim and annual consolidated financial statement formats. • Substantially completed all journal entries and related account reconciliations for the comparative period. • Testing of systems related modifications are completed.
Training & communication:	
• Provide training to affected finance and operational teams, management, 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 for key developments in US GAAP and the potential impacts to the Corporation's consolidated financial statements.	• Completed detailed training for resources directly engaged in the changeover and general awareness training to broader group of finance and operation employees. • Completed topic-specific and relevant training to finance and operational teams on all finalized positions. Key areas include employee benefits, PILs, financial instruments, and customers' advance deposits. • Completed awareness and assessment phase closeout training sessions for all key finance and operational teams. • Continue ongoing, periodic internal and external communications on the Corporation's progress on the US GAAP project and direction. • Knowledge transfer is scheduled to roll-out in the first quarter of 2012.
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. • Amended the trust indenture agreement allowing the use of US GAAP for reporting purposes.
Information technology systems:	
• Analysis of financial systems to identify required modifications. • Test the effectiveness of the changes made to financial systems. • Ensure solution captures financial information under Canadian GAAP and US GAAP during the year of transition for comparative reporting purposes.	• Completed preliminary assessment of the IT systems impacts to accommodate the adoption of US GAAP. • Completed the implementation and testing of the required modifications to financial systems.

US GAAP Differences

Based on the results of the detailed assessment performed, the following is a summary of the key accounting areas for which significant Canadian GAAP to US GAAP differences were identified:

Risk Areas	Key Differences Canadian GAAP vs. US GAAP	Potential Key Impacts
Employee Benefits	US GAAP requires the full obligation (funded or unfunded status) of defined benefit plans to be recognized as a liability on the balance sheet and no adjustments are made for minimum funding requirements. Actuarial gains and losses are recognized in Other Comprehensive Income ("OCI") in the period in which they arise and are presented within equity as Accumulated Other Comprehensive Income ("AOCI"). Amounts presented in AOCI are subsequently reclassified to profit or loss, generally using the corridor method. Prior service costs are recognized initially in OCI in the period in which they arise and are presented within equity as AOCI. The liability for an underfunded plan must be classified as a current liability, a non-current liability or both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit payable in the next 12 months exceeds the fair value of plan assets. Based on Accounting Standards Update No. 2011-09 on *Disclosures about an Employer's Participation in a Multi-employer Plan*, the Corporation will be required to disclose additional information on its pension plan.	All unamortized actuarial gains and unamortized prior service costs will be recognized on the consolidated balance sheet resulting in an increase of approximately $30.0 million, as at January 1, 2011, to post-employment benefits liability, with a corresponding reduction to equity presented as AOCI on the consolidated balance sheet. No significant impact to the net asset position is expected on the Corporation's consolidated balance sheet. However, given the nature of the Corporation's rate-regulated operations, the amounts presented in AOCI will be reclassified to a regulatory asset. Actuarial gains and losses and prior service costs will be recognized in OCI and presented within equity as AOCI. Since the corridor method is used under both Canadian GAAP and US GAAP, no differences will arise with respect to the recognition of actuarial gains and losses and prior service costs in profit or loss in a period. A portion of the benefit obligation will be presented as a post-employment benefits current liability on the consolidated balance sheet. The measurement date of the actuarial valuation is required to be as of the reporting date of the Corporation, therefore, a reconciliation for the one day difference may be required.
PILs	US GAAP requires deferred income taxes to be calculated based on enacted tax rates. US GAAP states that the recognition of an investment tax credit ("ITC") as a reduction of income tax expense in the year in which the credit arises is acceptable. US GAAP does not provide specific guidance applicable to government grants.	The calculation of PILs is not expected to be impacted. Certain types of ITCs which are government grants that are refundable in nature will continue to be applied as a reduction against the related expense in the profit or loss. Other ITC's which are non-refundable in nature will be recognized as a reduction of income tax expense.
Financial Instruments	US GAAP requires financing fees to be reported on the balance sheet as a deferred charge; hence, financing fees are presented on a gross basis.	It is expected that financing fees associated with long-term debt will no longer be netted against the principal balance of the related long-term debt. The impact of this change is an increase of approximately $4.9 million, as at January 1, 2011, to deferred charges with a corresponding increase to long-term debt.
Customers' Advance Deposits	Under US GAAP, customers' advance deposits are classified as current liabilities if they are due on demand or will be due on demand within one year from the end of the reporting period. As such, they are classified as a current liability even if refunds of the deposits are not to be expected within that period.	It is expected that there will be a reclassification for customers' advance deposits from non-current to current liability under US GAAP. The impact of this change is an increase of approximately $31.8 million, as at January 1, 2011, to current liabilities with a corresponding decrease to non-current liabilities.

OEB Review Process

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

On August 19, 2011, LDC filed a letter with the OEB stating its intention to adopt US GAAP as the basis for the calculation of electricity distribution rates starting in 2012 in accordance with the guidelines provided by the OEB. In the OEB guidelines, the OEB indicated to Ontario utilities that it would permit the use of US GAAP for the calculation of electricity distribution rates if such utilities receive approval from the Ontario Securities Commission and if it benefits electricity distribution consumers.

On December 21, 2011, the OEB issued a letter requesting comments on the revised AP Handbook. The proposed revisions made in the AP Handbook are primarily to reflect the transition to IFRS. Distributors reporting under an alternative accounting framework will be required to report using the alternative accounting standard, but to also include the accounting procedures or requirements that the OEB has stipulated. On January 30, 2012, LDC provided its comments through a joint submission with the Coalition of Large Distributors as well as its own letter to address its entity-specific issues.

On February 28, 2012, LDC submitted a letter to the OEB requesting a deferral account to record the accounting differences between Canadian GAAP and US GAAP.

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

Selected Annual Information

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2011, 2010 and 2009. This information has been derived from the Consolidated Financial Statements.

Selected Annual Consolidated Financial Information
(in thousands of dollars)

	2011	2010	2009
Year Ended December 31,[(1)]	**$**	**$**	**$**
Net revenues	570,758	549,402	504,266
Operating expenses	243,547	223,326	208,834
Net income	95,932	66,125	42,133
	2011	**2010**	**2009**
As at December 31,	**$**	**$**	**$**
Total assets[(2)]	3,455,777	3,338,614	3,059,227
Total debentures[(2)(3)]	1,463,514	1,409,837	720,475
Promissory note payable	-	-	490,115
Shareholder's equity[(2)]	1,102,248	1,039,379	998,254
Dividends[(4)]	33,063	25,000	25,170

Notes:

(1) See "Results of Operations" for further details on net revenues, operating expenses and net income.
(2) See "Financial Position" for further details of significant changes in assets, debentures and shareholder's equity.
(3) Total debentures include current and long-term debentures.
(4) See "Dividends" for further details.

Additional Information

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

Toronto, Canada

March 2, 2012