TORONTO HYDRO CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE INTERIM PERIOD ENDED MARCH 31, 2010

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

- the unaudited interim consolidated financial statements and accompanying notes of Toronto Hydro Corporation (the "Corporation") as at and for the three-month period ended March 31, 2010 (the "Interim Consolidated Financial Statements");

- the audited consolidated financial statements and accompanying notes of the Corporation as at and for the year ended December 31, 2009 (the "Annual Consolidated Financial Statements"); and

- management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2009 (including the sections entitled "Electricity Distribution – Industry Overview", "Summary of Quarterly Results", "Liquidity and Capital Resources", "Corporate Developments", "Legal Proceedings", "Share Capital", "Transactions with Related Parties", "Risk Factors", "Critical Accounting Estimates", and "Significant Accounting Policies" which remain substantially unchanged as at the date hereof except as noted below or as updated by the Interim Consolidated Financial Statements).

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

Business of Toronto Hydro

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

- *Toronto Hydro-Electric System Limited* ("LDC") - which distributes electricity and engages in Conservation and Demand Management ("CDM") activities; and

- *Toronto Hydro Energy Services Inc.* ("TH Energy") - which provides street lighting services.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, which delivers electricity to approximately 695,000 customers located in the City of Toronto (the "City"). LDC is the largest municipal electricity distribution company in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the Ontario Energy Board (the "OEB") which has broad powers relating to licensing, standards of conduct and service and the regulation of rates charged by LDC and other electricity distributors in Ontario. See note 2 to the Annual Consolidated Financial Statements.

Selected Interim Consolidated Financial Data

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

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

	2010 $	2009 $	Change $	Change %
Revenues	647,495	612,167	35,328	5.8
Costs				
Purchased power and other	519,723	487,636	32,087	6.6
Operating expenses	53,780	58,826	(5,046)	(8.6)
Depreciation and amortization	39,686	40,728	(1,042)	(2.6)
	613,189	587,190	25,999	4.4
Income before interest, change in fair value of investments, and provision for Payments In Lieu of Corporate Taxes ("PILs")	34,306	24,977	9,329	37.4
Interest income	235	942	(707)	(75.1)
Interest income (expense)				
Long-term debt	(16,948)	(17,885)	937	5.2
Other interest	93	(482)	575	119.3
Change in fair value of investments	-	2,145	(2,145)	(100.0)
Income before provision for PILs	17,686	9,697	7,989	82.4
Provision for PILs	5,135	2,729	2,406	88.2
Income from continuing operations	12,551	6,968	5,583	80.1
Income from discontinued operations – net of tax	-	18	(18)	(100.0)
Net income	12,551	6,986	5,565	79.7
Basic and fully diluted net income per share from continuing operations	12,551	6,968	5,583	80.1
Basic and fully diluted net income per share from discontinued operations	-	18	(18)	(100.0)
Basic and fully diluted net income per share	12,551	6,986	5,565	79.7

Interim Consolidated Balance Sheet Data (in thousands of dollars, unaudited)	As at March 31 2010 $	As at December 31 2009 $
Total assets	3,083,307	3,059,227
Current liabilities	355,046	336,739
Long-term liabilities	1,723,456	1,724,234
Total liabilities	2,078,502	2,060,973
Shareholder's equity	1,004,805	998,254
Total liabilities and shareholder's equity	3,083,307	3,059,227

Results of Operations

Net Income

Net income for the three months ended March 31, 2010 was $12.6 million compared to $7.0 million for the comparable period in 2009. The increase in net income was primarily due to lower operating expenses ($5.0 million), higher net revenues ($3.3 million), lower depreciation expense ($1.0 million), and lower net interest expense ($0.8 million). These favourable variances were partially offset by higher provision for PILs in 2010 ($2.4 million) and an increase in the fair value of investments recorded in 2009.

Net Revenues

Net revenues (revenues minus the cost of purchased power and other) for the three months ended March 31, 2010 were $127.8 million compared to $124.5 million for the comparable period in 2009. The increase in net revenues was primarily due to higher other regulated income ($2.5 million) and higher regulated distribution revenue ($0.8 million). The increase in other regulated income was primarily due to higher customer connection activities in 2010 ($1.0 million) and higher gains on disposal of surplus properties for 2010 ($0.6 million). The increase in distribution revenue was primarily due to the approval by the OEB of higher distribution rates effective May 1, 2009 ($2.0 million). This favourable variance was partially offset by lower consumption in 2010 (6,500 GWh in 2010 compared to 6,662 GWh in 2009) ($1.2 million), mainly due to the continuing impact of the general slow down in the economy and mild weather conditions for 2010.

Expenses

Operating expenses for the three months ended March 31, 2010 were $53.8 million compared to $58.8 million for the comparable period in 2009. The decrease in operating expenses was primarily due to the costs incurred by LDC in 2009 in relation with the contact voltage issue ($7.6 million) (see "Corporate Developments – Contact Voltage" below), partially offset by higher compensation costs ($3.0 million) from hiring new employees as part of the workforce renewal strategy and annual general wage increases.

Depreciation and amortization expense for the three months ended March 31, 2010 was $39.7 million compared to $40.7 million for the comparable period in 2009. The decrease in depreciation and amortization expense was primarily due to assets being fully depreciated at the end of 2009 mainly in the street lighting and information technology areas.

Net Interest Expense

Net interest expense for the three months ended March 31, 2010 was $16.6 million compared to $17.4 million for the comparable period in 2009. The decrease in net interest expense was primarily due to lower interest expense on long-term debt, as the interest rate of 4.49% on the debentures issued in November 2009 to fund the City Promissory Note scheduled repayment of December 2009 was lower than the interest rate of 6.11% on the City Promissory Note.

Change in Fair Value of Investments

The fair value of investments remained constant as at March 31, 2010 compared to December 31, 2009 at $47.9 million. The increase in the fair value of investments recorded in the three months ended March 31, 2009, was primarily due to the favourable impact of the restructuring of the Asset Backed Commercial Paper notes in January 2009. At that time, the Corporation increased the value of its investments by $2.1 million mainly to reflect the cash received upon completion of the restructuring.

Provision for PILs

The provision for PILs for the three months ended March 31, 2010 was $5.1 million compared to $2.7 million for the comparable period in 2009. The increase in the provision for PILs was primarily due to higher earnings before tax in 2010.

Quarterly Results of Operations

The table below presents unaudited quarterly consolidated financial information of the Corporation for the eight quarters from June 30, 2008 to March 31, 2010.

Quarterly Results
(in thousands of dollars, unaudited)

	March 31 2010 $	December 31 2009 $	September 30 2009 $	June 30 2009 $
Revenues	647,495	634,041	639,692	575,771
Costs	613,189	597,108	602,167	541,051
Income from continuing operations	12,551	9,398	11,826	14,621
Net income	12,551	8,941	11,831	14,375

	March 31 2009 $	December 31 2008 $	September 30 2008 $	June 30 2008 $
Revenues	612,167	586,608	633,236	568,354
Costs	587,190	555,502	588,766	533,758
Income from continuing operations	6,968	4,688	11,029	9,654
Net income	6,986	4,820	126,623	15,077

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

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

The Corporation does not believe that equity contributions from the City, its sole shareholder, will constitute a source of capital. In addition, the Corporation is not aware of any plans or decisions by the City to permit the Corporation to sell equity to the public or to other investors.

Liquidity and Capital Resources
Three months ended March 31
(in thousands of dollars, unaudited)

	2010 $	2009 $
Cash and cash equivalents, beginning of period	211,370	340,492
Net cash provided by operating activities	83,448	56,136
Net cash used in investing activities	(77,458)	(75,433)
Net cash used in financing activities	(5,413)	(15,103)
Net cash provided by (used in) discontinued operations	161	(172)
Cash and cash equivalents, end of period	212,108	305,920

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2010 was $83.4 million compared to $56.1 million for the comparable period in 2009. The increase in net cash provided by operating activities was primarily due to timing variances and higher energy prices in electricity payables ($10.7 million), higher income from continuing operations ($5.6 million), a variance in the aggregate of accounts receivable and unbilled revenue due to higher energy prices and the timing of billing and collection activities ($5.4 million), and a variance in PILs receivable ($4.5 million).

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months ended March 31, 2010 was $77.5 million compared to $75.4 million for the comparable period in 2009. The increase in net cash used in investing activities was primarily due to an increase in capital expenditures in 2010 ($24.9 million) and the accumulated cash in conduits trusts received by the Corporation in 2009 in connection with the restructuring of its investments ($2.7 million) (see “Liquidity and Capital Resources – Investments” below). These variances were partially offset by a lower reduction of regulatory assets and liabilities in 2010 ($25.6 million) primarily related to higher payments to customers in 2009 of retail settlement variances regulated by the OEB.

The increase in regulated capital expenditures at LDC for the three months ended March 31, 2010 amounted to $24.9 million and was primarily due to higher investment in electricity distribution assets in connection with LDCs infrastructure renewal program approved by the OEB in 2008.

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

	2010 $	2009 $
Capital Expenditures from Continuing Operations		
LDC - Regulated		
Distribution System	62,159	38,074
Technology assets	6,329	6,722
Other (1)	2,703	1,514
	71,191	46,310
Other (2)	1,336	1,322
Total Capital Expenditures	72,527	47,632

Notes:

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

Net Cash Used in Financing Activities

Net cash used in financing activities for the three months ended March 31, 2010 was $5.4 million compared to $15.1 million for the comparable period in 2009. The decrease in net cash used in financing activities was primarily due to higher reimbursement of customer deposits in 2009 in compliance with OEB rules and regulations.

Revolving Credit Facility

The Corporation was a party to a revolving credit facility pursuant to which the Corporation could borrow up to $500.0 million, of which up to $175.0 million was available in the form of letters of credit. As at March 31, 2010, no borrowings for working capital were outstanding and letters of credit in the amount of $45.1 million had been issued primarily to support the prudential requirements of LDC with the Independent Electricity System Operator ("IESO").

On May 3, 2010, the Corporation renewed its revolving credit facility, for a two-year term, expiring on May 3, 2012, pursuant to which the Corporation may borrow up to $400.0 million, of which up to $140.0 million is available in the form of letters of credit. Additionally, the Corporation also negotiated a bilateral facility for $50.0 million for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO, which on the renewal date, was drawn on to replace the $45.1 million in letters of credit issued under the previous syndicated facility (see notes 7 and 18c to the Interim Consolidated Financial Statements).

Prudential Requirements and Third Party Credit Support

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

Investments

As at March 31, 2010, the Corporation continues to hold the following investments (listed by distribution of class) that were issued upon the 2009 completion of the restructuring of the non-bank sponsored commercial paper:

Master Asset Vehicle II	Amount	Percent of Total
Class A-1	$36.9 million	42.1%
Class A-2	$34.5 million	39.3%
Class B	$6.3 million	7.2%
Class C	$2.4 million	2.7%
Ineligible Asset Tracking ("IAT") notes	$7.6 million	8.7%
Total	$87.7 million	100.0%
Fair value as at March 31, 2010	$47.9 million	54.6%

At the time of issuance, DBRS Limited ("DBRS") issued an "A" credit rating to the Class A-1 and A-2 notes; the Class B, C and IAT notes were unrated. On August 11, 2009, DBRS downgraded the rating of the Class A-2 notes from A to BBB (low). The "legal final maturity" of the notes is July 15, 2056. However, the expected repayment date for the restructured Class A-1 and Class A-2 notes is January 22, 2017.

Although there have been some isolated transactions subsequent to January 21, 2009, there are currently no active market quotations available for the investments. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the investments. The Corporation uses a mark-to-model valuation technique that incorporated available information and market data. The valuation technique used by the Corporation to estimate the fair value of its investments in the restructured notes as at March 31, 2010, incorporated a discounted cash flow model considering the best available public information regarding market conditions, including the ratings assigned by DBRS regarding the Class A-1 and Class A-2 notes, and other factors that a market participant would consider to evaluate such investments. The Corporation may change its valuation methodology to a mark-to-market valuation in the future as a more robust market for these notes develops.

A weighted average interest rate of 1.19% was used to determine the expected interest income on the restructured notes, except for the IAT notes, for which a weighted average interest rate of 1.89% was used. These rates were based on a forecast of 90-day Bankers' Acceptance ("BA") rates less 50 basis points from 2010 through 2017, except for the IAT notes for which a discount rate based on forecast 90-day BA rate plus 20 basis points was used. To derive a net present value of the principal and future cash flows, the restructured notes were discounted using an interest rate spread over forecast BA rates ranging from 340 basis points to 1,600 basis points over a seven-year period. On a weighted average basis, the interest rates used to discount the notes ranged from 4.31% to 16.91%.

The discount rates vary by each of the different replacement long-term notes issued as each is expected to have a different risk profile. The discount rates used to value the notes include a risk premium factor that incorporates current indicative credit default swap spreads, an estimated liquidity premium, and a premium for credit losses.

Based on the assumptions described above, the discounted cash flows resulted in an estimated fair value of the Corporation's investment in the restructured notes of $47.9 million as at March 31, 2010.

A sensitivity analysis was also conducted to examine the impact of an increase or a decrease in the overall weighted average discount rate. Based on the Corporation's mark-to-model valuation, a variation of 1% (100 basis points) would reduce or increase the estimated fair value of the restructured notes by approximately $3.6 million.

The estimation by the Corporation of the fair value of the restructured notes, as at March 31, 2010 is subject to significant risks and uncertainties, including the timing and amount of future cash flows, market liquidity and the quality of the underlying assets and financial instruments. Accordingly, there can be no assurance that the

Corporation's assessment of the estimated fair value of the restructured notes will not change materially in subsequent periods.

The on-going market uncertainty regarding the investments described above has had no significant impact on the Corporation's operations. The Corporation has sufficient cash to fund all of its on-going liquidity and capital expenditure requirements and is in compliance with the financial covenants under the terms of its outstanding indebtedness.

Dividends

On March 5, 2010, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect to the first quarter of 2010, which was paid on March 31, 2010.

On May 26, 2010, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect of the second quarter of 2010. The dividend is payable on June 30, 2010.

Credit Rating

As at March 31, 2010, the Corporation and the Corporation's debentures were rated "A"(high) by DBRS and "A" by Standard & Poor's.

Corporate Developments

Medium-Term Note Program

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

Monetization of City Note

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

Distribution Rates for LDC

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect the distribution rates and other permitted recoveries in the future. LDC electricity distribution rates are typically effective from May 1 to April 30 of the following year. Accordingly, for the first four months of 2010, distribution revenue is based on the rates approved for 2009.

On May 15, 2008, the OEB issued its decision regarding LDC's electricity distribution rates application for 2008 and 2009. In its decision, the OEB approved LDC's 2008 base distribution revenue requirement and rate base of $473.0 million and $1,968.9 million, respectively. As part of the decision, the deemed debt to equity structure of LDC was modified to 62.5% debt and 37.5% equity for 2008, and to 60.0% debt and 40.0% equity for 2009 and thereafter.

In its decision on LDC's electricity distribution rates for 2008 and 2009, the OEB ordered that 100% of the net after-tax gains on the sale of certain LDC properties should be deducted from the revenue requirement recovered through distribution rates. The OEB deemed this amount to be $10.3 million (the "deemed amount"). On June 16, 2008, LDC filed an appeal with the Divisional Court of Ontario (the "Divisional Court") seeking to overturn the gain on sale aspects of the OEB decision and also sought and obtained a stay order with respect to the deduction of the deemed amount from the revenue requirement recovered through rates. On April 30, 2009, the Divisional Court denied the appeal by LDC. LDC filed a motion with the Court of Appeal for leave to appeal that decision of the Divisional Court. The requested leave was denied on September 14, 2009. LDC filed a notice of clarification with the OEB with respect to the timing and the quantum of the expected reduction in distribution revenue. The OEB indicated that it intends to provide a final ruling on this issue as part of LDC's electricity distribution rates decision for 2010.

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

On December 11, 2009, the OEB issued revised cost of capital guidelines for implementation in 2010. Under the new guidelines, the ROE formula will be adjusted periodically to reflect the forecast long Canada bond yield and A-rated Canadian utility bond spreads. At the date of issuance of the new guidelines, the impact of the changes would have increased LDC's ROE from 8.01% to 9.75%.

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

Contact Voltage

On December 10, 2009, the OEB issued its decision in regards to the costs incurred in the first quarter of 2009 for remediation of safety issues on LDC's electricity distribution infrastructure. The decision provides for the recovery of $9.1 million.

Smart Meters

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010, LDC launched its smart meter project in 2006. The project objective is to install smart meters and the supporting infrastructure by the end of 2010 for all residential and commercial customers. LDC had installed approximately 637,500 smart meters as at March 31, 2010.

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

CDM Agreements

In May 2007, LDC entered into agreements with the Ontario Power Authority ("OPA") to deliver OPA-funded CDM programs in the amount of approximately $60.0 million during the years from 2007 to 2010. All programs are fully funded by the OPA with any advance payments recorded on the consolidated balance sheet as a deferred liability.

Since the launch of these programs in 2007, LDC has spent a total of $62.5 million on OPA programs ($2.1 million in 2010) and recognized $11.6 million in margin related to such programs ($0.5 million in 2010).

Street Lighting Activities

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution license for a new wholly-owned legal entity to which the Corporation intends 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 is 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 regards to these applications. In its decision, the OEB agreed, that under certain conditions, the treatment of certain types of street lighting assets as regulated assets is justified. The OEB ordered the Corporation to provide a detailed valuation of the street lighting assets and to perform an operational review to determine which assets could become regulated assets. The Corporation is currently evaluating the impact of this decision on its regulated and unregulated businesses and whether to transfer all or a portion of the street lighting assets to LDC in the future. In any event, the Corporation has begun a detailed asset and financial valuation of the street lighting assets, and expects to have this comprehensive review completed by the end of 2010.

OEB PILs Proceeding

The OEB is conducting a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for all Municipal Electric Utilities ("MEUs"). The current proceeding is expected to provide direction regarding the interpretation of the rules issued by the OEB. The outcome of this proceeding could have a material impact on the financial position of the Corporation.

Payments in Lieu of Additional Municipal and School Taxes

The Ministry of Revenue has issued assessments in respect of payments in lieu of additional municipal and school taxes under s.92 of the *Electricity Act, 1998* that are in excess of the amounts LDC believes are payable. The dispute arose as a result of inaccurate information incorporated into Ontario Regulation 224/00, correction of which has been requested by LDC.

The balance assessed by the Ministry of Revenue above the balance accrued by the Corporation amounts to $8.8 million as at March 31, 2010. The Corporation has been working with the Ministry of Revenue and the Ministry of Finance to resolve this issue. However, there can be no assurance that the Corporation will not have to pay the full assessed balance in the future.

Legal Proceedings

Late Payment Charges Class Action

On April 22, 2004, in a decision in a class action commenced against The Consumers' Gas Company Limited (now Enbridge Gas Distribution Inc., hereinafter referred to as "Enbridge"), the Supreme Court of Canada (the "Supreme Court") ruled that Enbridge was required to repay the portion of certain late payment charges collected by it from its customers that were in excess of the interest limit stipulated in section 347 of the *Criminal Code*. Although the claim related to charges collected by Enbridge after the enactment of section 347 of the *Criminal Code* in 1981, the Supreme Court limited recovery to charges collected after the action was initiated in 1994. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for a determination of the plaintiffs' damages. The parties reached a settlement of this class action. The Ontario Superior Court of Justice has approved this settlement.

On February 4, 2008, the OEB, in response to an application filed by Enbridge, ruled that all of Enbridge's costs related to settlement of the class action lawsuit, including legal costs, settlement costs and interest, are recoverable from ratepayers.

LDC was not a party to the Enbridge class action. It is, however, subject to the two class actions described below in which the issues are analogous.

The first is an action commenced in April 1994 against a predecessor of LDC and other Ontario MEUs under the *Class Proceedings Act, 1992* (Ontario) seeking $500.0 million in restitution for late payment charges collected by them from their customers that were in excess of the interest limit stipulated in section 347 of the *Criminal Code*. This action is at a preliminary stage. Pleadings have closed but the classes have not been certified. After the release by the Supreme Court of its 2004 decision in the Enbridge case, the plaintiffs in this proposed class action indicated their intention to proceed with the litigation.

The second is an action commenced in November 1998 against a predecessor of LDC under the *Class Proceedings Act, 1992* (Ontario) seeking $64.0 million in restitution for late payment charges collected by it from its customers that were in excess of the interest limit stipulated in section 347 of the *Criminal Code*. This action is also at a preliminary stage. Pleadings have closed but, as in the first action, the classes have not been certified.

The claims made against LDC and the definition of the plaintiff classes are identical in both actions. As a result, any damages payable by LDC in the first action would reduce the damages payable by LDC in the second action, and vice versa. The determination of whether the late payment charges collected by LDC from its customers were in excess of the interest limit stipulated in section 347 of the *Criminal Code* is fact specific in each circumstance.

On January 15, 2010, a conditional settlement was reached for both actions against LDC pursuant to which the defendant MEUs would pay the amount of $17.0 million plus costs and taxes in settlement of all claims. The amount allocated to each MEU will be its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the *Criminal Code*. It is anticipated that LDC's share of the settlement amount will be approximately $7.75 million. The settlement is conditional upon court approval. The court application to obtain approval for the settlement is scheduled for July 16, 2010. If the settlement is approved, all the MEUs involved in the settlement, including LDC, will request an order from the OEB allowing for the future recovery from customers of all costs related to the proposed settlement. LDC has accrued a liability and a corresponding regulatory asset in the amount of $7.75 million. Based on the decision of the OEB in respect of Enbridge's application for recovery of costs related to its settlement, LDC believes that the OEB will allow such future recovery. However, there is no guarantee that the OEB will allow for total or partial recovery of such costs in the future. If the OEB denies such recovery, it will have an adverse material impact on the consolidated results of operations and financial position of the Corporation in the future.

2 Secord Avenue

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

Another action was commenced against LDC in February 2009 in the Ontario Superior Court of Justice seeking damages in the amount of $20.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, a statement of defence has been filed, and a certification order issued. Affidavits of Documents have been produced by LDC to the other parties and examinations for discovery have commenced and are continuing. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

By order of the court, these two actions, together with a third smaller non-class action commenced in April 2009 involving the same incident, will be tried at the same time or consecutively. Consequently, documentary discovery and examinations for discovery will be joined for all three actions.

3650 Kingston Road

An action was commenced against LDC in March 2009 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in the electrical room at 3650 Kingston Road on March 19, 2009. A statement of claim was served on LDC. The proceedings of other parties to the action revealed that the damages are likely to have been caused by a party other than LDC. As a result, LDC brought a successful motion to have LDC dismissed from the action. LDC awaits the issued and entered Dismissal Order. Accordingly, this action will not have a material effect on the financial performance of the Corporation.

2369 Lakeshore Boulevard West

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

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

Adamopolous v. LDC

An action was commenced against LDC in November 2004 in the Ontario Superior Court of Justice seeking damages in the amount of $7.8 million as compensation for damages allegedly suffered as a result of a motor vehicle accident involving an LDC vehicle on January 9, 2001. This action is at an intermediate stage. The plaintiff now seeks to amend its claim, increasing its claim for damages to $23.0 million. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

Share Capital

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

Transactions with Related Parties

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

LDC provided electricity to the City in the amount of $34.8 million in the first quarter of 2010, compared to $27.8 million in the first quarter of 2009. Included in "Unbilled Revenue", as at March 31, 2010, is a balance amounting to $11.0 million receivable from the City related to the provision of electricity for the previous months, compared to $9.7 million as at December 31, 2009.

LDC and TH Energy provided energy management services, street lighting services and consolidated billing services to the City amounting to $4.7 million in the first quarter of 2010, compared to $6.0 million in the first quarter of 2009. Included in LDC's and TH Energy's "Accounts receivable, net of allowance for doubtful accounts", as at March 31, 2010, is $3.0 million receivable from the City related to these services compared to $5.0 million as at December 31, 2009.

LDC purchased road cut and other services of $1.6 million from the City in the first quarter of 2010, compared to $0.8 million in the first quarter of 2009. Included in "Accounts payable and Accrued liabilities", as at March 31, 2010, is $6.2 million payable to the City related to services received from the City compared to $5.5 million as at December 31, 2009.

LDC and TH Energy paid property tax expenses to the City of $1.0 million in the first quarter of 2010, and in the first quarter of 2009.

As at March 31, 2010, the outstanding principal with respect to the City Note was $490.1 million compared to $490.1 million as at December 31, 2009. The Corporation paid interest of $7.5 million on the City Note in the first quarter of 2010, compared to $11.2 million in the first quarter of 2009 (see "Corporate Developments – Monetization of City Note" above).

See notes 8 and 13 to the Interim Consolidated Financial Statements.

Considerations Related to Current Economic Conditions

Electricity Consumption

Economic conditions could lead to lower overall electricity consumption, particularly in the commercial customer segments, which is estimated to be the most sensitive to economic changes. Lower electricity consumption from commercial customers may negatively impact LDC's revenue. On an annual basis, a decrease of 1% in electricity consumption would reduce net revenue by approximately $3.3 million.

Interest Rates

Changes in interest rates will impact the calculation of LDC's revenue requirements filed with the OEB. The first component impacted by interest rates is the ROE. Under the OEB's revised Cost of Capital formula, the approved adjustment formula for calculating ROE will increase or decrease by 50% of the change between the current Long Canada Bond Forecast and the risk free rate established at 4.25% and 50% of the change between the market-quoted Canadian A-rated utility bond spread and the initial spread set at 1.42%. The Corporation estimates that a 1% (100 basis points) decrease in the forecast long-term Government of Canada bond yield, with no corresponding decrease in the A-rated utility spread used in the current OEB formula to determine LDC's ROE would reduce net income by approximately $6.0 million.

The second component of revenue requirement which would be impacted by interest rates is the recovery of financing costs. The difference between actual interest rates on new debt issuances and those approved by the OEB may negatively impact the Corporation's results of operations.

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 a Medium-Term Note Program or its revolving credit facility to repay existing indebtedness and fund capital expenditures. However, given the recent and on-going turmoil on financial markets, there can be no assurance that the Corporation will be able to arrange long-term debt financing, nor renew short-term financing facilities with similar terms in the future.

Significant Accounting Policies

The Interim Consolidated Financial Statements of the Corporation have been prepared in accordance with Canadian GAAP including accounting principles prescribed by the OEB in the handbook “Accounting Procedures Handbook for Electric Distribution Utilities” (“AP Handbook”) and are presented in Canadian dollars. In preparing the unaudited Interim Consolidated Financial Statements, management makes estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the Interim Consolidated Financial Statements and the reported amounts of revenues and expenses for the periods covered thereby. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy, the Minister of Finance, or the Minister of Revenue. The significant accounting policies of the Corporation are summarized in note 4 to the Annual Consolidated Financial Statements and in note 3 to the Interim Consolidated Financial Statements.

Changes in Accounting Standards

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

Future Accounting Pronouncements

International Financial Reporting Standards (“IFRS”): On February 13, 2008, the Accounting Standards Board of Canada confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP prior to 2011, with the remaining standards to be adopted at the change over date. The Corporation has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its Consolidated Financial Statements. At this time, the impact on the Corporation’s future financial position and results of operations is not reasonably determinable or estimable mainly due to the uncertainty related to rate-regulated accounting. However, the Corporation believes that the impact on its financial statements could be material.

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

The Corporation’s project consists of 3 phases: (1) awareness and assessment; (2) design; and (3) implementation. The Corporation completed its awareness and initial assessment during the second quarter of 2008, which involved a high level review of the major differences between Canadian GAAP and IFRS. During the initial assessment it was determined that the areas of accounting differences with the highest potential impact to the Corporation are rate-regulated accounting, accounting for property, plant and equipment, PILs, employee future benefits, as well as initial adoption of IFRS under the provisions of IFRS 1, *First-time Adoption of IFRS* (“IFRS 1”). The Corporation next completed a detailed assessment which involved detailed systematic gap analyses of accounting and disclosure differences between Canadian GAAP and IFRS, and conducted an analysis of the available accounting policy choices to be made to address these differences and options available under IFRS 1. In parallel, a detailed assessment of the impact of the IFRS 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 Corporation extended the design phase of the project given the uncertainty with respect to the accounting for rate-regulated activities. The design phase involves establishing issue-specific working groups in each of the identified risk areas. The working groups have established key milestones which include developing recommendations, analyzing financial system and internal control impacts, developing significant accounting policies, and carrying out ongoing discussions with external auditors, in each area. Based on the outcomes of each working group, the Corporation is determining the projected impacts of adopting IFRS on its financial statements after considering the options available under IFRS 1. Although the impact of the adoption of IFRS on the Corporation's financial position and results of operations is not yet reasonably determinable or estimable, the Corporation believes that the impact could be material and expects a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS. Accordingly, the Corporation has designed the systems to provide the additional information required to compile the required information and make these disclosures. Furthermore, as a result of the work performed in the design phase, the Corporation has identified and developed new business processes and modifications to existing business processes. The Corporation continues to roll out its communication initiatives during this phase and has begun to execute against the staff-training plan that was established during the awareness and assessment phase, as scheduled in the project plan. Training on the systems and process changes are incorporated as part of the implementation phase.

In conjunction with the design phase of the project, the Corporation is working steadily through the implementation phase. The roll-out of the designed changes developed in the design phase takes place during the implementation phase and involves the development of new accounting policies and accounting manuals and the associated training for the finance team, testing the effectiveness of the changes made to systems, a simulation of the financial reporting process, preparation of opening balance sheet on transition date and related reconciliations, assessing the ongoing impacts on the IFRS financial statements and related disclosures. Other activities that take place in this phase include implementation of possible changes to debt covenants, internal performance measures, contracts and processes, and carrying ongoing discussions with its external auditors.

The Corporation continues to roll-out business process changes developed in the design phase and training finance and operation teams. Based on these process changes, the Corporation is updating internal control processes and documentation. Changes to accounting policies will result in additional controls and procedures to address reporting on transition date as well as ongoing IFRS reporting requirements. The Corporation is in the process of developing and implementing 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.

On July 23, 2009, the International Accounting Standards Board ("IASB") issued an Exposure Draft ("ED") proposing accounting requirements for rate-regulated activities. The IASB received a significant number of comment letters with diverging opinions. The Board held a meeting on February 17, 2010 to discuss the summary analysis of the comments letters received. During this meeting, the IASB directed the IASB Staff to continue its research and analysis on the project and to focus on the key issue of whether regulatory assets and regulatory liabilities exist in accordance with the current *Framework for the Preparation and Presentation of Financial Statements* and whether they are similar to other current standards. The IASB Staff will present their analysis to the IASB in the near term together with an amended timetable for the project. In light of these developments, a final standard is not likely to be issued in 2010. The IASB is expected to reconvene the discussion in the second quarter of 2010. On April 28, 2010, the Canadian Electricity Association ("CEA"), in which the Corporation is an active member, has requested a temporary exemption to the IASB allowing for the recognition of regulatory assets and liabilities until a formal accounting standard for rate-regulated activities is adopted.

If a standard is not available in time for transition and the temporary exception requested above is not granted, there could be significant volatility in the Corporation's statement of comprehensive income since under current IFRS some or all regulatory assets and liabilities might not be recognized on the balance sheet. The Corporation will continue to monitor the rate-regulated activities project developments for further guidance, and evaluate the impacts on its systems, processes and controls.

In addition to the issues described above regarding rate-regulated accounting, the Corporation has identified the following areas as having the potential to materially impact the consolidated financial statements upon conversion to IFRS:

- IAS 16, *Property, Plant and Equipment* ("IAS 16") requires that an item of property, plant and equipment be separated into components when those parts are significant in relation to the total cost of the item. Each component is depreciated and derecognized separately. Costs that are not directly attributable to items of property, plant and equipment (such as administration and other general overhead costs) cannot be capitalized under IAS 16. In addition, IAS 16 requires that items of property, plant and equipment be derecognized from an entity's books and records as soon as they are taken out of service. Differences also exist as it relates to the capitalization of borrowing costs in accordance with IAS 23, *Borrowing Costs*. An IFRS 1 exemption is now available allowing entities with operations subject to rate-regulation to elect to use the previous GAAP carrying amount of items of property, plant and equipment as the deemed cost at the date of transition to IFRS, which the Corporation expects to elect. As the Corporation expects to elect the deemed cost exemption it will not be permitted to elect the IFRS 1 exemption offered for the application of borrowing costs in accordance with IAS 23. The impacts of these differences on the Corporation's consolidated financial statements cannot reasonably be estimated until greater clarity is provided by the IASB on the future direction of the ED on accounting for rate-regulated activities and until final accounting policy decisions are made with respect to these standards.

- Canadian GAAP and IAS 12, *Income Taxes* are similar in that they are based on the balance sheet liability approach whereby an entity recognizes deferred tax liabilities for taxable temporary differences, and deferred tax assets for deductible temporary differences, unused losses and tax credit carry-forwards. The impact of IAS 12 on the Corporation's consolidated financial statements cannot reasonably be estimated until greater clarity is provided by the IASB on the future direction of the ED on accounting for rate-regulated activities and until final accounting policy decisions are made under other standards.

- IAS 19, *Employee Benefits* provides guidance on all employee benefits, unlike Canadian GAAP which focuses on employee future benefits. Post-employment defined benefit plans are subject to different accounting treatments under IFRS. Actuarial gains and losses are permitted to be recognized directly in equity or through earnings using a similar corridor method, amortized over the expected remaining working lives of the employees. An IFRS 1 is available to provide an option to recognize immediately in retained earnings all cumulative actuarial gains and losses existing as at the date of transition to IFRS. The Corporation expects to elect this exemption, however the quantification on the Corporation's consolidated financial statements cannot reasonably be estimated at this time.

- In general, a first-time adopter is required to apply the IFRS standards retrospectively and recognize any consequential adjustments in retained earnings. Several mandatory and optional exemptions to the retrospective application are available. The Corporation has considered the impacts of IFRS 1 and an initial assessment has been made as to which exemptions would be elected upon transition. In addition to the IFRS 1 discussed above with respect to IAS 16 and 19, the Corporation expects to elect the exemptions with respect to the designation of the cash equivalent portfolio from held to maturity to fair value in accordance with IAS 39, *Financial Instruments Recognition and Measurement* which will be changed through the profit and loss designation, and the application of IFRIC 4, *Determining whether an Arrangement contains a Lease* which eliminates the need to reassess any arrangements entered into subsequent to January 1, 2005. The impact of these differences on the Corporation's consolidated financial statements cannot reasonably be estimated until greater clarity is provided by the IASB on the future direction of the ED on accounting for rate-regulated activities and until final accounting policy decisions are made with respect to the related standards.

The OEB issued its Report of the Board – *Transition to IFRS* on July 28, 2009, which contains recommendations on how regulatory reporting requirements should change in response to IFRS. The Corporation continues to evaluate the potential impacts of the recommendations contained in the Report of the Board on both the activities of LDC and its IFRS transition plan.

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

Capital Work which provides guidance regarding the overhead capitalization for regulatory reporting purposes. The OEB will require overhead costs to be capitalized in accordance with IFRS for regulatory reporting purposes. Specific alternative treatment for regulatory purposes is available where the OEB authorizes such treatment. In addition, the OEB has engaged a third party consultant to complete a depreciation study on property, plant and equipment. The OEB released the draft report on April 30, 2010 and has requested that utilities comment on the findings. The Corporation is currently in the process of reviewing this report.

In addition to the ED on accounting for rate-regulated activities, the IASB has a number of on-going projects on its agenda. As accounting standards, exposure drafts and interpretations change prior to transition, the Corporation will actively monitor these developments and the impact that any resulting IFRS changes may have on its anticipated accounting policies, financial position or results of operations. The Corporation has and will continue to adjust its implementation plan for these changes.

Consolidated Financial Statements and Non-controlling Interests: In January 2009, the CICA issued Handbook Section 1601 – "Consolidated Financial Statements" ("Handbook Section 1601"). This section along with the new Handbook Section 1602 – "Non-controlling Interests" ("Handbook Section 1602"), replace Handbook Section 1600 – "Consolidated Financial Statements" and establish standards for the preparation of consolidated financial statements. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted as of the beginning of a fiscal year. The Corporation has determined that these standards will have no impact on the classification or valuation of its Consolidated Financial Statements.

Financial Instruments – Recognition and Measurement: In June 2009, the CICA amended Handbook Section 3855 to clarify when an embedded prepayment option is separated from its host debt instrument for accounting purposes. This amendment applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Corporation expects this amendment will have no impact on its results of operations and financial position.

Comprehensive Revaluation of Assets and Liabilities: In August 2009, the CICA amended Handbook Section 1625 – "Comprehensive Revaluation of Assets and Liabilities" to be consistent with Handbook Section 1582 – "Business Combinations", Handbook Section 1601 and Handbook Section 1602, which were issued in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Corporation expects these amendments will have no impact on its results of operations and financial position.

Forward-Looking Information

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

The forward-looking information in the MD&A includes, but is not limited to, statements regarding LDC's 2009 base distribution revenue, the Corporation's plans to borrow to repay the Amended and Restated City Note, the impact of current economic conditions and financial market volatility on the Corporation's results of operations, performance, business prospects and opportunities, the potential transfer of street lighting activities from TH Energy, the outcome of outstanding proceedings before the OEB, the estimated fair value of the Corporation's investments, the effect of changes in interest rates on future revenue requirements, and the Corporation's conversion to IFRS. The statements that make up the forward-looking information are based on assumptions that include, but are not limited to, the future course of the economy and financial markets, the receipt of applicable regulatory approvals and requested rate orders, the receipt of favourable judgments, the level of interest rates, the

Corporation's ability to borrow, the fair market value of the Corporation's investments, and the impact of IFRS on the Corporation's Consolidated Financial Statements.

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

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

Additional Information

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

Toronto, Canada

May 27, 2010