MANAGEMENT’S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

TORONTO HYDRO Corporation

TORONTO HYDRO CORPORATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE INTERIM PERIOD ENDED SEPTEMBER 30, 2011**

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Forward-Looking Information

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

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

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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 unaudited interim consolidated financial statements and accompanying notes of the Corporation as at and for the three-month period and the nine-month period ended September 30, 2011 (the "Interim Consolidated Financial Statements");

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

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

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

The Corporation's Interim Consolidated Financial Statements and Annual Consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are presented in Canadian dollars (see "Significant Accounting Policies" below).

Business of Toronto Hydro Corporation

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

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

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, which delivers electricity to approximately 707,000 customers located in the City of Toronto (the "City"). LDC is the largest municipal electricity distribution company in Canada and distributes approximately 19% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB which has broad powers relating to licensing, standards of conduct and service and the regulation of rates charged by LDC and other electricity distributors in Ontario. See note 2 to the Annual Consolidated Financial Statements.

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Selected Interim Consolidated Financial Data

Interim Consolidated Statement of Income Data
Three months ended September 30
(in thousands of dollars, except for per share amounts, unaudited)

	2011 $	**2010 $**	**Change $**	**Change %**
Revenues	734,505	680,504	54,001	7.9
Costs				
Purchased power and other	586,111	533,289	52,822	9.9
Operating expenses	59,170	57,103	2,067	3.6
Depreciation and amortization	38,152	41,415	(3,263)	(7.9)
	683,433	631,807	51,626	8.2
Income before the following:	51,072	48,697	2,375	4.9
Net financing charges	(18,856)	(18,513)	(343)	(1.9)
Gain on disposals of property, plant and equipment (“PP&E”)	303	1,127	(824)	(73.1)
Change in fair value of investments	-	2,420	(2,420)	(100.0)
Income before provision for payments in lieu of corporate taxes (“PILs”)	32,519	33,731	(1,212)	(3.6)
Provision for PILs	3,537	6,044	(2,507)	(41.5)
Net income	28,982	27,687	1,295	4.7
Basic and fully diluted net income per share	28,982	27,687	1,295	4.7

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Interim Consolidated Statement of Income Data
Nine months ended September 30
(in thousands of dollars, except for per share amounts, unaudited)

	2011 $	2010 $	Change $	Change %
Revenues	2,119,634	1,955,022	164,612	8.4
Costs				
Purchased power and other	1,695,524	1,546,933	148,591	9.6
Operating expenses	181,794	165,624	16,170	9.8
Depreciation and amortization	107,038	121,267	(14,229)	(11.7)
	1,984,356	1,833,824	150,532	8.2
Income before the following:	135,278	121,198	14,080	11.6
Net financing charges	(55,818)	(52,672)	(3,146)	(6.0)
Gain on disposals of PP&E	5,020	2,673	2,347	87.8
Change in fair value of investments	-	2,420	(2,420)	(100.0)
Income before provision for PILs	84,480	73,619	10,861	14.8
Provision for PILs	5,776	17,542	(11,766)	(67.1)
Net income	78,704	56,077	22,627	40.3
Basic and fully diluted net income per share	78,704	56,077	22,627	40.3

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

	As at September 30 2011 $	As at December 31 2010 $
Total assets	3,387,978	3,338,614
Current liabilities	673,373	639,751
Long-term liabilities	1,622,585	1,659,484
Total liabilities	2,295,958	2,299,235
Shareholder’s equity	1,092,020	1,039,379
Total liabilities and shareholder’s equity	3,387,978	3,338,614

Results of Operations

Net Income

Net income for the three months and the nine months ended September 30, 2011 was $29.0 million and $78.7 million compared to $27.7 million and $56.1 million for the comparable periods in 2010.

The increase in net income for the three months ended September 30, 2011 was primarily due to lower depreciation expense ($3.3 million), lower provision for PILs ($2.5 million) and higher net revenues ($1.2 million). These favourable variances were partially offset by a gain recognized in 2010 in relation with the disposition of the Corporation's investments in Asset Backed Commercial Paper ("ABCP") ($2.4 million) and higher operating expenses ($2.1 million).

The increase in net income for the nine months ended September 30, 2011 was primarily due to higher net revenues ($16.0 million), lower depreciation expense ($14.2 million), lower provision for PILs ($11.8 million) and higher gain on disposals of surplus properties ($2.3 million). These favourable variances were partially offset by higher operating expenses ($16.2 million), higher net financing charges ($3.1 million) and a gain recognized in 2010 in relation with the disposition of the Corporation's investments in ABCP ($2.4 million).

Net Revenues

Net revenues for the three months and the nine months ended September 30, 2011 were $148.4 million and $424.1 million compared to $147.2 million and $408.1 million for the comparable periods in 2010 (see "Non-GAAP Financial Measures" below).

The increase in net revenues for the three months ended September 30, 2011 was primarily due to higher regulated distribution revenue at LDC. The increase in distribution revenue was primarily due to the approval by the OEB of higher revenue requirement balance to fund LDC's infrastructure modernization program, workforce renewal initiative and incremental maintenance costs (see "Corporate Developments – Distribution Rates for LDC" below).

The increase in net revenues for the nine months ended September 30, 2011 was primarily due to higher regulated distribution revenue at LDC ($18.7 million) partially offset by lower other income ($2.7 million). The increase in distribution revenue was primarily due to the approval by the OEB of higher revenue requirement balance ($16.4 million) to fund LDC's infrastructure modernization program, workforce renewal initiative and incremental maintenance costs (see "Corporate Developments – Distribution Rates for LDC" below) and higher consumption of electricity in 2011 (19,425 Gigawatt-Hour ("GWh") in 2011 compared to 19,386 GWh in 2010) ($3.5 million). The decrease in other income was primarily due to lower income related to late payment charges and lower margins in connection with Ontario Power Authority ("OPA") programs in 2011.

Expenses

Operating expenses for the three months and nine months ended September 30, 2011 were $59.2 million and $181.8 million compared to $57.1 million and $165.6 million for the comparable periods in 2010.

The increase in operating expenses for the three months ended September 30, 2011 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 ($8.7 million). These variances were partially offset by 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).

The increase in operating expenses for the nine months ended September 30, 2011 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 ($22.2 million) and higher accounting conversion costs ($3.0 million) following the decision by the OEB to disallow the recovery of a portion of the costs incurred by the Corporation for its conversion to IFRS as it appears that such costs were included in prior period electricity distribution rates. These variances were partially offset by 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 ($1.6 million).

Depreciation and amortization expense for the three months and the nine months ended September 30, 2011 was $38.2 million and $107.0 million compared to $41.4 million and $121.3 million for the comparable periods in 2010.

The decrease in depreciation and amortization expense for the three months and the nine months ended September 30, 2011 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 for the three months and the nine months ended September 30, 2011 were $18.9 million and $55.8 million compared to $18.5 million and $52.7 million for the comparable periods in 2010.

The increase in net financing charges for the nine months ended September 30, 2011 was primarily due to higher long-term financing charges in 2011 from the issuance of $200.0 million of senior unsecured debentures on May 20, 2010 to finance LDC's expanded capital program.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and the nine months ended September 30, 2011 were $0.3 million and $5.0 million compared to $1.1 million and $2.7 million for the comparable periods in 2010.

The increase in gain on disposals of PP&E for the nine months ended September 30, 2011 was primarily due to the recognition of gains realized in connection with the disposals of surplus properties at LDC. During 2011, LDC recognized $5.0 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 gains realized on the sale of these properties over a one-year period from May 1, 2010 to mirror the actual timing of the reduction in 2010 electricity distribution rates.

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 three and nine months ended September 30, 2010.

Provision for PILs

Provision for PILs for the three months and the nine months ended September 30, 2011 were $3.5 million and $5.8 million compared to $6.0 million and $17.5 million for the comparable periods in 2010.

The decrease in the provision for PILs for the three months ended September 30, 2011 was primarily due to higher deductions for permanent and temporary differences between accounting and tax treatments mainly related to depreciation and capital cost allowance ($2.2 million).

The decrease in the provision for PILs for the nine months ended September 30, 2011 was primarily due to higher deductions for permanent and temporary differences between accounting and tax treatments mainly related to depreciation and capital cost allowance ($12.8 million) and recoveries resulting from favourable resolution of Ministry of Finance tax audits of LDC for 2005 and 2006 taxation years ($2.0 million). These decreases in the provision for PILs were partially offset by the effect of higher income in 2011 ($3.1 million).

Quarterly Results of Operations

The table below presents unaudited quarterly consolidated financial information of the Corporation for the eight quarters including and immediately preceding September 30, 2011.

Quarterly Results
(in thousands of dollars, unaudited)

	September 30 2011 $	June 30 2011 $	March 31 2011 $	December 31 2010 $
Revenues	734,505	683,787	701,342	656,649
Costs	683,433	643,303	657,620	621,179
Net income	28,982	24,270	25,452	10,048

	September 30 2010 $	June 30 2010 $	March 31 2010 $	December 31 2009 $
Revenues	680,504	627,707	646,811	632,979
Costs	631,807	588,828	613,189	597,001
Net income	27,687	15,839	12,551	8,941

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

Financial Position

The following table outlines the significant changes in the consolidated balance sheets between September 30, 2011 and December 31, 2010.

Interim Consolidated Balance Sheet Data
As at September 30, 2011 compared to December 31, 2010
(in thousands of dollars, unaudited)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Cash and cash equivalents	(176,198)	See "Liquidity and Capital Resources" below.

Interim Consolidated Balance Sheet Data
As at September 30, 2011 compared to December 31, 2010
(in thousands of dollars, unaudited)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Investments	34,008	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 November 16, 2011 and the second maturing on February 17, 2012, which are guaranteed by two Canadian Schedule I banks.
Accounts receivable, net of allowance for doubtful accounts	51,980	The increase in accounts receivable is primarily due to seasonality, the timing of billing and collection activities from large customers and the timing of the Ontario Clean Energy Benefit Rebate from the Independent Electricity System Operator ("IESO"), which did not exist in 2010.
Unbilled revenue	(45,685)	The decrease in unbilled revenue is primarily due to lower energy prices compared to previous year and lower consumption in September 2011 compared to December 2010.
PP&E and intangible assets, net	212,671	The increase in PP&E and intangible assets is primarily due to capital expenditures ($306.8 million) offset by depreciation during the period ($107.0 million).
Regulatory assets	(12,638)	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	(18,409)	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	16,233	The increase in accounts payable and accrued liabilities is mainly due to an increase in the interest accrual for the debentures due to timing differences.
Deferred revenue	15,239	The increase in deferred revenue is primarily due to a significant balance received in advance from the OPA relating to CDM programs for 2011.
Post-employment benefits	7,135	The increase in post-employment benefits is primarily due to higher defined benefit costs.

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Interim Consolidated Balance Sheet Data
As at September 30, 2011 compared to December 31, 2010
(in thousands of dollars, unaudited)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Regulatory liabilities	(48,455)	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	11,090	The increase in other liabilities is primarily due to a capital lease obligation for contact voltage equipment.
Customers' advance deposits	(6,829)	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	52,641	The increase in retained earnings is due to net income ($78.7 million) offset by dividends paid ($26.1 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, 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.

Interim Consolidated Statement of Cash Flows
(in thousands of dollars, unaudited)

	Three months Ended September 30		Nine months Ended September 30	
	2011 $	2010 $	2011 $	2010 $
Cash and cash equivalents, beginning of period	119,738	405,450	330,151	211,370
Net cash provided by operating activities	143,445	79,999	209,537	216,278
Net cash used in investing activities	(108,857)	(109,554)	(353,600)	(246,545)
Net cash provided by (used in) financing activities	(373)	(4,391)	(32,135)	190,401
Cash and cash equivalents, end of period	153,953	371,504	153,953	371,504

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months and the nine months ended September 30, 2011 was $143.4 million and $209.5 million compared to $80.0 million and $216.3 million for the comparable periods in 2010.

The increase in net cash provided by operating activities for the three months ended September 30, 2011 was primarily due to a variance in the aggregate amount of accounts receivable and unbilled revenue due to the timing of billing and collection activities ($54.1 million), an increase in deferred revenue relating to cash received in advance from the OPA for CDM programs in 2011 ($9.1 million), a variance in PILs receivable ($7.1 million), a gain recognized in 2010 regarding the disposition of investments in ABCP ($2.4 million) and higher net income ($1.3 million). These variances were partially offset by a decrease in accounts payable and accrued liabilities primarily due to timing of payments to suppliers ($7.9 million) and a decrease in depreciation and amortization ($3.3 million).

The decrease in net cash provided by operating activities for the nine months ended September 30, 2011 was primarily due to a decrease in accounts payable and accrued liabilities primarily due to timing of payments to suppliers ($16.7 million), a decrease in depreciation and amortization ($14.2 million), a variance in PILs receivable ($9.6 million), a variance in the aggregate amount of accounts receivable and unbilled revenue due to the timing of billing and collection activities ($6.3 million) and an increase in gain on disposals of PP&E ($2.3 million). These variances were partially offset by higher net income ($22.6 million), an increase in deferred revenue relating to cash received in advance from the OPA for CDM programs in 2011 ($16.1 million) and a gain recognized in 2010 regarding the disposition of investments in ABCP ($2.4 million).

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months and the nine months ended September 30, 2011 was $108.9 million and $353.6 million compared to $109.6 million and $246.5 million for the comparable periods in 2010.

The decrease in net cash used in investing activities for the three months ended September 30, 2011 was primarily due to a lower change in net regulatory assets and liabilities ($11.9 million) primarily related to a higher variance in 2011 of retail settlement balances regulated by the OEB, partially offset by higher capital expenditures ($11.1 million).

The increase in net cash used in investing activities for the nine months ended September 30, 2011 was primarily due to higher capital expenditures ($62.0 million), the impact of investing excess cash in low-risk floating rate notes ($34.0 million), a higher change in net regulatory assets and liabilities ($6.6 million) primarily related to a higher variance in 2011 of retail settlement balances regulated by the OEB and by the impact of the net proceeds received in 2011 on the disposition of surplus properties ($4.5 million).

The increase in regulated capital expenditures at LDC for the three months and the nine months ended September 30, 2011 amounted to $10.8 million and $61.2 million, respectively.

The increase in capital expenditures for the three months and the nine months ended September 30, 2011 was primarily due 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.

For the nine months ended September 30, 2011, the increase in capital expenditures was primarily related to distribution lines ($21.1 million), transformer stations ($15.7 million), metering ($6.8 million), customer connections ($5.5 million), and feeders ($5.3 million).

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

Capital Expenditures (in thousands of dollars, unaudited)				
	Three months Ended September 30		Nine months Ended September 30	
	2011 $	2010 $	2011 $	2010 $
LDC				
Distribution system	87,359	78,155	265,027	208,242
Technology assets	7,238	9,672	21,900	23,370
Other [(1)]	6,035	2,028	15,738	9,905
	100,632	89,855	302,665	241,517
Other [(2)]	969	620	4,131	3,346
Total Capital Expenditures	101,601	90,475	306,796	244,863

Notes:

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

Net Cash Provided by (Used in) Financing Activities

Net cash used in financing activities for the three months and the nine months ended September 30, 2011 was $0.4 million and $32.1 million compared to net cash used in financing activities for the three months ended September 30, 2010 of $4.4 million and net cash provided by financing activities for the nine months ended September 30, 2010 of $190.4 million.

The variance in net cash used in financing activities for the three months ended September 30, 2011 compared to the same period in 2010 was primarily due to an increase in customer deposits in 2011 in compliance with OEB rules and regulations ($4.0 million).

The variance in net cash used in financing activities for the nine months ended September 30, 2011 compared to the same period in 2010 was primarily due to the issuance by the Corporation of $200.0 million of senior unsecured debentures on May 20, 2010 to finance the renewal of LDC's electricity distribution infrastructure, higher reimbursement of customer deposits in 2011 in compliance with OEB rules and regulations ($16.0 million) and higher dividends 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).

Summary of Contractual Obligations

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

TORONTO HYDRO Corporation

Summary of Contractual Obligations and Other Commitments
As at September 30, 2011
(in thousands of dollars, unaudited)

	Total $	2011[1] $	2012/2013 $	2014/2015 $	After 2015 $
Debentures – principal repayment...	1,415,114	245,057	470,057	–	700,000
Debentures – interest payments.......	548,684	27,204	112,295	70,360	338,825
Operating lease obligations and future commitments….....................	42,338	1,933	15,924	13,443	11,038
Capital lease obligations …............	15,827	613	4,881	4,704	5,629
Asset retirement obligations...........	5,409	176	1,368	190	3,675
Total contractual obligations and other commitments….....................	2,027,372	274,983	604,525	88,697	1,059,167

[1]The amounts disclosed represent the balances due over the period October 1, 2011 to December 31, 2011.

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 one-year term, expiring on May 3, 2013. The extension maintained the level of credit available at $400.0 million.

As at September 30, 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

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

On May 24, 2011, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect to the second quarter of 2011, which was paid to the City on June 30, 2011.

On August 25, 2011, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect to the third quarter of 2011, which was paid to the City on September 30, 2011.

On November 22, 2011, the board of directors of the Corporation declared a dividend in the amount of $7.0 million with respect to the fourth quarter of 2011. The dividend is payable on December 30, 2011.

Credit Rating

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

Credit Ratings		
	As at September 30 2011	**As at December 31 2010**
DBRS Limited	A (high)	A (high)
Standard & Poor's	A	A

Corporate Developments

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 of this issuance will be used to repay the Corporation's outstanding $245.1 million senior unsecured debentures which mature on December 30, 2011 and the balance will be used for general corporate purposes.

Distribution Rates for LDC

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

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

On July 7, 2011, the OEB issued its final decision regarding electricity distribution rates of LDC for the 2011 rate year commencing on May 1, 2011 and ending on April 30, 2012. The decision rendered by the OEB was substantially aligned with a settlement proposal agreed to by LDC and other parties on March 29, 2011. The final decision provided for a distribution revenue requirement and rate base of $522.0 million and $2,298.2 million, respectively, and a ROE of 9.58% for 2011. The increase in revenue requirement is being recovered over a nine month period which commenced on August 1, 2011.

On August 26, 2011, LDC filed a rate application, following the cost of service model, with the OEB seeking approval of separate and successive revenue requirements and corresponding rates for three rate years commencing on May 1, 2012, May 1, 2013 and May 1, 2014. The requested distribution revenue requirements for these rate years are $571.4 million, $639.5 million, and $712.8 million, respectively, and the rate bases for these rate years are $2,636.3 million, $3,053.5 million, and $3,503.2 million, respectively. The expected ROE for these three rate years, based on the rate application, is 9.58%. It should be noted that the revenue requirements for each rate year will be adjusted to reflect the allowed ROE once the OEB issues its final decision regarding electricity distribution rates.

As part of its 2012, 2013 and 2014 electricity distribution rates application, LDC is seeking approval for the disposition of the remaining smart meter deferral balances related to 2008, 2009 and 2010. In its filing, LDC

requested the elimination of all the smart meter rate riders and the transfer of $59.2 million from regulatory assets to PP&E, representing the expected increase in rate base related to the smart meters. LDC also requested that a balance of $20.0 million related to stranded meters, currently included in PP&E and rate base, be transferred to a regulatory asset account for recovery over a period of 36 months. LDC expects that the OEB will provide final direction regarding these balances as part of the 2012 electricity distribution rate setting process.

On October 4, 2011, the OEB issued a procedural order outlining the process it intends to follow in regard to the methodology to be used for the calculation and the approval of LDC's future electricity distribution rates, in particular around the appropriateness of imposing a third generation incentive rate mechanism framework to LDC. Under such framework, electricity distribution rates are derived from a static formula without consideration for the actual infrastructure needs.

LDC has filed its 2012, 2013, and 2014 electricity distribution rate application using the cost of service framework. LDC has put forward arguments supporting its position to use the cost of service framework when considering its planned capital investment requirements. The cost of service framework sets electricity distribution rates using forecasted expenditures required to maintain an appropriate level of service to customers.

The Corporation believes that the imposition of the third generation incentive rate mechanism framework could have a material adverse effect on its consolidated financial statements in the future. A final decision from the OEB regarding this issue is expected in the fourth quarter of 2011.

Contact Voltage

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

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

Street Lighting Activities

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution 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 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 street lighting assets in the amount of $28.9 million to the wholly-owned entity, and for LDC to amalgamate with the new legal entity. The transfer of the street lighting assets is expected to be completed within a period of 18 months as directed by the

OEB. The Corporation does not believe such transfer will have a material impact on its financial position and results of operations.

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 *Ontario Energy Board Act, 1998*, directed the OEB to establish CDM targets to be met by electricity distributors. Accordingly, on November 12, 2010, the OEB amended LDC's distribution licence to require LDC, as a condition of its licence, to achieve 1,304 GWh 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 September 30, 2011, LDC has 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 programs amounting to $50.7 million. On July 12, 2011, the OEB issued its decision regarding 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 as being uneconomic, and would not be implemented. Accordingly, LDC will 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 *Ontario Energy Board Act, 1998*, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed LDC the amount of $9.7 million for its apportioned share of the total provincial amount of the SPC of $53.7 million in accordance with the rules set out in Ontario Regulation 66/10 (the "SPC Regulation"). In accordance with Section 9 of the SPC Regulation, LDC was allowed to recover this balance. The recovery was completed as at April 30, 2011.

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 Municipal Electricity Utilities ("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.

Following this decision, the OEB expects all the other electricity distributors to apply for final disposition of their balances following the guidelines established in the decision mentioned above.

LDC has reviewed the balances of its regulatory variance accounts and applied the guidelines provided by the OEB. As at September 30, 2011, LDC estimated its liability at approximately $2.8 million. This balance has been recorded in the Corporation's consolidated financial statements. LDC has applied for disposition of this balance as part of its 2012 electricity distribution rates application. 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, 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.

The balance assessed by the Ministry of Finance above the balance accrued by the Corporation amounts to approximately $10.0 million as at September 30, 2011. 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. 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. Finally, the new system ensures conformance with all the Ontario market rules requirements.

Legal Proceedings

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). 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* (Canada) has been breached. A decision on the cross summary judgment motions is pending. If the court finds a breach of the *Interest Act* (Canada), 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) 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 counter claim 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.

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. The statement of claim has been served on LDC, a statement of defence has been filed, and a certification order issued. This action was dismissed on August 22, 2011 without costs as the Plaintiffs in this action will be represented in the above class action.

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

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 has 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.

Adamopoulos v. LDC

An action was commenced against LDC in November 2004 in the Ontario Superior Court of Justice seeking damages in the amount of $7.8 million as compensation for damages allegedly suffered as a result of a motor vehicle accident involving an LDC vehicle on January 9, 2001. 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 will cover the settlement amount.

Share Capital

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

Transactions with Related Parties

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

Transactions with Related Parties Summary
(in thousands of dollars, unaudited)

	Three months Ended September 30		Nine months Ended September 30	
	2011 $	2010 $	2011 $	2010 $
Revenues	33,645	33,561	105,251	109,540
Operating expenses and capital expenditures	6,177	4,126	15,513	9,702
Net financing charges	–	–	–	7,487

Transactions with Related Parties Summary
(in thousands of dollars, unaudited)

	As at September 30 2011 $	As at December 31 2010 $
Accounts receivable, net of allowance for doubtful accounts	5,324	6,711
Unbilled revenue	9,210	9,830
Prepaid expenses	1,489	–
Other assets	7,301	7,368
Accounts payable and accrued liabilities	20,602	12,164
Customers' advance deposits	10,097	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.

Accounts receivable, net of allowance for doubtful accounts represent receivables from the City primarily for the sale of electricity and street lighting services. Unbilled revenue represents receivables from the City related to the provision of electricity not yet billed. Prepaid expenses represent prepayments of property taxes to the City. 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 distribution assets. Customers' advance deposits represent funds received from the City for future expansion projects.

See note 13 to the Interim Consolidated Financial Statements.

Non-GAAP Financial Measures

The Corporation's MD&A 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.

Significant Accounting Policies

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

Changes in Accounting Estimates

Property, Plant and Equipment – Changes in Estimates

Effective January 1, 2011, the Corporation revised its estimates of useful lives of certain items of PP&E following a detailed review and analysis supported by external third-party 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, it is estimated that these changes will decrease distribution revenues by approximately $24.6 million, increase operating expenses by approximately $22.0 million, decrease depreciation expenses by approximately $33.0 million and decrease PILs by approximately $13.6 million for the year ended December 31, 2011.

See note 3 to the Interim 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 rate-regulated accounting ("RRA"), the timing and recognition of certain expenses and revenues may differ from those otherwise expected under Canadian GAAP in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These timing differences are recorded as regulatory assets and regulatory liabilities on the Corporation's consolidated balance sheet and represent current rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. As at September 30, 2011, the Corporation reported $72.5 million of regulatory assets and $225.3 million of regulatory liabilities.

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

The Canadian Electricity Association ("CEA") wrote a 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, 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 could be more stable and comparable with its current Canadian GAAP results than it would have been under IFRS and is expected to facilitate the comparability with other large North American utilities.

Canadian Securities Legislation

Acknowledging the significance of the RRA issue, the Ontario Securities Commission ("OSC") communicated that the CSA would grant exemptive relief to rate-regulated utilities to adopt US GAAP.

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 SEC registrant.

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 financial 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.

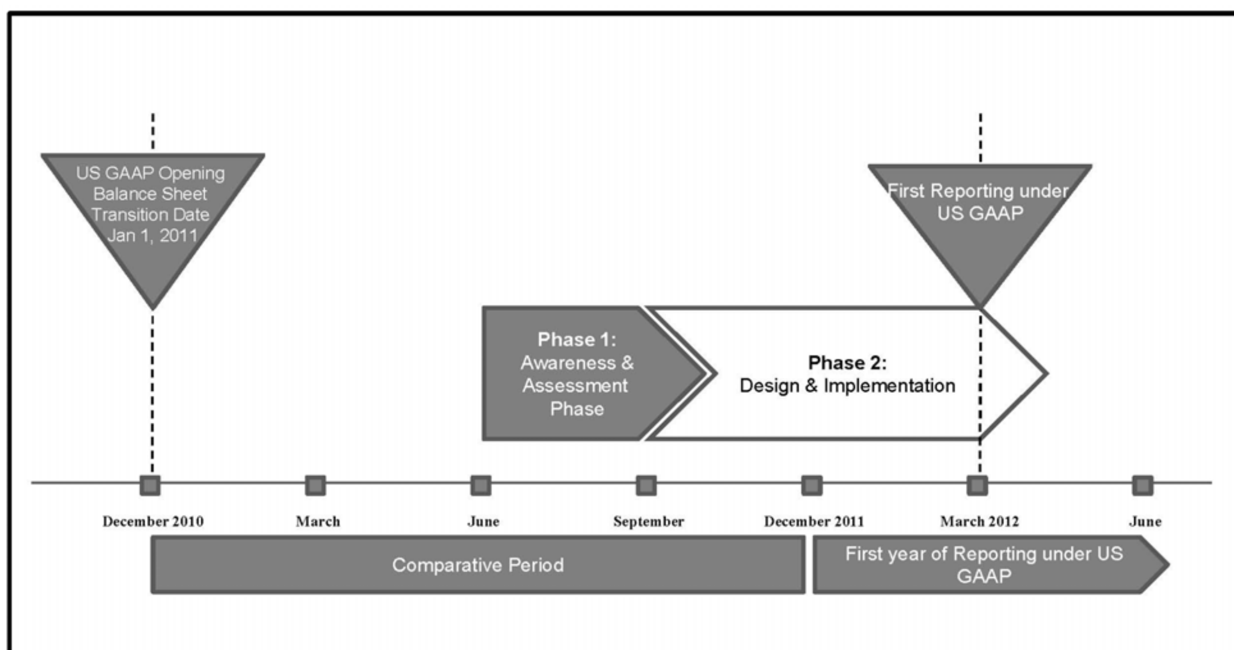
On August 26, 2011, the board of directors of the Corporation allowed the adoption of US GAAP for financial reporting purposes for the year beginning on January 1, 2012. Therefore, the Corporation expects to commence reporting under US GAAP in its first quarter consolidated financial statements in 2012. As a result of this decision, the Corporation's IFRS conversion project efforts have been reduced. However, the work will be managed in such a way that it can effectively be restarted if 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. 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 customer advance deposits. The Corporation substantially completed its detailed assessment of accounting and disclosure differences during the quarter. 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 underway. 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 expects to determine the final impacts of adopting US GAAP on its consolidated financial statements.

The roll-out of the required changes will take place during the design and implementation phase and will involve the development of new accounting policies and accounting manuals and the associated training for the finance and operational teams, testing the effectiveness of the changes made to systems, a simulation of the financial reporting process, preparation of opening balance sheet on transition date and related reconciliations and related disclosures. Based on these changes, the Corporation will be 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 US GAAP reporting requirements. The Corporation plans to develop and implement 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 implementation 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.

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 FASB projects and assess potential impacts.	• Completed the detailed assessment of accounting and disclosure differences. • All draft accounting policies have been developed. • The majority of the accounting policies have been approved by senior management and the audit committee. • Final approval of the remaining policies will be finalized by the end of 2011. • 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 draft financial statement formats. • Testing of systems related modifications are in progress.

Key Activities	Current Status
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 on a quarterly basis for key developments in US GAAP and the potential impacts to the Corporation's financial statements.	• Completed detailed training for resources directly engaged in the changeover and general awareness training to broader group of finance 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 customer 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.
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. • Begin to implement and test 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 obligation payable in the next 12 months exceeds the fair value of plan assets.	Based on preliminary assessments, all unamortized actuarial gains and unamortized prior service costs will be recognized on the consolidated balance sheet resulting in an increase to post-employment benefits, 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. 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 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.

Risk Areas	Key Differences Canadian GAAP vs. US GAAP	Potential Key Impacts
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.	Based on preliminary assessments, the calculation of PILs is not expected to be impacted. Certain types of ITCs which are government grants in nature will continue to be applied as a reduction against the related expense in the profit or loss.
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.	Based on preliminary assessments, 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 to deferred charges with a corresponding increase to long-term debt.
Customer Advance Deposits	Under US GAAP, customer 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.	Based on preliminary assessments, it is expected that there will be a reclassification for customer advance deposits from non-current to current liability under US GAAP. The impact of this change is an increase 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.

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 could have a material impact on LDC's electricity distribution rates.

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. This letter was filed in accordance with the guidelines provided by the OEB. In its 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 the customers. A final decision from the OEB in this regard is expected as part of LDC's 2012 electricity distribution rates application.

On August 26, 2011, the Corporation filed with the OEB its three-year cost of service application under US GAAP for the period beginning May 1, 2012 to April 30, 2015.

Additional Information

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

Toronto, Canada

November 23, 2011