TORONTO HYDRO CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE INTERIM PERIOD ENDED MARCH 31, 2009

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, 2009 (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, 2008 (the "Annual Consolidated Financial Statements"); and

- management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2008 (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 the following 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 and develops energy efficiency products and 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 687,000 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)

	2009 $	2008 $	Change $	Change %
Revenues	612,781	592,511	20,270	3.4
Costs				
Purchased power and other	487,636	476,654	10,982	2.3
Operating expenses	59,351	50,746	8,605	17.0
Depreciation and amortization	40,802	39,026	1,776	4.6
	587,789	566,426	21,363	3.8
Income before interest, change in fair value of investments, and provision for (recovery of) Payments In Lieu Of Corporate Taxes ("PILs")	24,992	26,085	(1,093)	(4.2)
Interest income	944	2,966	(2,022)	(68.2)
Interest expense				
Long-term debt	(17,885)	(17,885)	-	-
Other interest	(482)	(1,192)	710	59.6
Change in fair value of investments	2,145	(9,427)	11,572	122.8
Income before provision for (recovery of) PILs	9,714	547	9,167	1,675.9
Provision for (recovery of) PILs	2,728	(20,135)	22,863	113.5
Income from continuing operations	6,986	20,682	(13,696)	(66.2)
Income from discontinued operations – net of tax[(1)]	-	1,810	(1,810)	(100.0)
Net income	6,986	22,492	(15,506)	(68.9)
Basic and fully diluted net income per share from continuing operations	6,986	20,682	(13,696)	(66.2)
Basic and fully diluted net income per share from discontinued operations	-	1,810	(1,810)	(100.0)
Basic and fully diluted net income per share	6,986	22,492	(15,506)	(68.9)

Note:

(1) Consists of discontinued operations of Toronto Hydro Telecom Inc. ("Telecom"). See note 14 to the Interim Consolidated Financial Statements.

Interim Consolidated Balance Sheet Data (in thousands of dollars, unaudited)		
	As at March 31, 2009 $	As at December 31, 2008[1] $
Total assets	3,044,896	2,779,783
Current liabilities	560,094	561,414
Long-term liabilities	1,502,695	1,237,078
Total liabilities	2,062,789	1,798,492
Shareholder's equity	982,107	981,291
Total liabilities and shareholder's equity	3,044,896	2,779,783

Note:

(1) Amounts include current liabilities from discontinued operations regarding Telecom. See note 14 to the Interim Consolidated Financial Statements.

Results of Operations

Net Income

Net income for the three months ended March 31, 2009 was $7.0 million compared to $22.5 million for the comparable period in 2008. The decrease in net income was primarily due to the recovery of PILs recorded in 2008 following the completion of the 2001 and 2002 PILs audits by the Ministry of Finance ($22.9 million), increased operating expenses ($8.6 million), income ($1.8 million) during the comparable period in 2008 from discontinued operations relating to Telecom (see "Discontinued Operations" below), higher depreciation expense ($1.8 million), and higher net interest expense ($1.3 million). These unfavourable variances were partially offset by a variance in the change in fair value of investments ($11.6 million), and higher net revenues ($9.3 million).

Net Revenues

Net revenues (revenues minus the cost of purchased power and other) for the three months ended March 31, 2009 were $125.1 million compared to $115.9 million for the comparable period in 2008. The increase was primarily due to increased net revenues at LDC due to increased distribution revenue ($9.3 million). The increase in distribution revenue was primarily due to the approval by the OEB of higher distribution rates effective May 1, 2008 ($10.2 million). The increase in distribution rates relates to the projected increase in maintenance program expenditures and capital expenditures of LDC for 2008 and 2009. This variance was partially offset by lower consumption in 2009 (6,662 GWh in 2009 compared to 6,847 GWh in 2008) ($1.7 million), primarily due to a general slow down in the economy.

Expenses

Operating expenses for the three months ended March 31, 2009 were $59.3 million compared to $50.7 million for the comparable period in 2008. The increase in operating expenses was primarily due to unexpected emergency operating expenditures incurred by LDC to ensure the safety of its electricity distribution infrastructure. During the month of February 2009, LDC suspended all non-emergency maintenance and capital programs and mobilized its workforce to inspect the connections of its infrastructure to the street lights and other unmetered assets. The overall operating cost related to this initiative was approximately $7.6 million and was comprised primarily of internal labour costs.

Depreciation and amortization expense for the three months ended March 31, 2009 was $40.8 million compared to $39.0 million for the comparable period in 2008. The increase in depreciation and amortization expense was primarily due to increased investments in the electricity distribution assets of LDC. Since 2007, LDC has significantly increased its capital expenditures through its strategy of modernizing the electricity infrastructure. This strategy was presented to the OEB in 2008 and related incremental funding was approved in distribution rates for 2008 and 2009.

Net interest expense for the three months ended March 31, 2009 was $17.4 million compared to $16.1 million for the comparable period in 2008. The increase in net interest expense was primarily due to lower interest income.

Change in Fair Value of Investments

A $2.1 million increase in fair value of investments was recognized for the three months ended March 31, 2009 compared to a decrease in value of $9.4 million for the comparable period in 2008. The increase in value of $2.1 million recorded in 2009 was primarily due to the valuation performed on the Asset Backed Commercial Paper ("ABCP") notes upon implementation of the restructuring plan in January 2009. In this valuation, the Corporation considered the impact of its share of cash in the conduit trusts and the changes in prevailing market conditions impacting the valuation in the first quarter of 2009. The decrease in value of $9.4 million recorded in the first quarter of 2008 reflected the deterioration of market conditions which occurred during that period. (See "Investments" below).

Provision for (recovery of) PILs

The provision for PILs for the three months ended March 31, 2009 was $2.7 million compared to a recovery of PILs of $20.1 million for the comparable period in 2008. The variance was primarily due to the favourable impact of the settlement of the Ministry of Finance income tax audits for 2001 and 2002 that was recorded in 2008.

Discontinued Operations

On July 31, 2008, the Corporation sold all of the shares of Telecom to Cogeco Cable Canada Inc. for cash consideration of $200.0 million. In connection with this transaction, the Corporation recorded a net gain of $118.7 million in the third quarter of 2008. The results of operations and financial position of Telecom have been segregated and presented as discontinued operations in the Consolidated Financial Statements.

See note 14 to the Interim Consolidated Financial Statements.

Quarterly Results of Operations

The table below presents unaudited quarterly consolidated financial information of the Corporation for the eight quarters from June 30, 2007 to March 31, 2009 and include discontinued operations relating to Telecom. See note 14 to the Interim Consolidated Financial Statements.

Quarterly Results
(in thousands of dollars, unaudited)

	Mar. 31, 2009 $	Dec. 31, 2008 $	Sept.30, 2008 $	Jun. 30, 2008 $
Revenues	612,781	587,243	633,820	568,968
Costs	587,636	556,112	589,252	534,325
Income from continuing operations	6,986	4,709	11,125	9,777
Net income	6,986	4,820	126,623	15,077
	Mar. 31, 2008 $	**Dec. 31, 2007 $**	**Sept.30, 2007 $**	**Jun. 30, 2007 $**
Revenues	592,511	582,037	619,131	552,046
Costs	566,426	536,617	567,242	519,271
Income from continuing operations	20,682	19,130	9,311	13,867
Net income	22,492	19,223	11,045	14,909

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)

	2009 $	2008 $
Cash and cash equivalents, beginning of period	340,492	216,002
Net cash provided by operating activities	55,940	26,016
Net cash used in investing activities	(75,519)	(10,248)
Net cash used in financing activities	(15,103)	(28,228)
Net cash provided by (used in) discontinued operations [1]	110	(2,199)
Cash and cash equivalents, end of period	305,920	201,343

Note:

(1) Consists of discontinued operations for Telecom. See note 14 to the Interim Consolidated Financial Statements.

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2009 was $55.9 million compared to $26.0 million for the comparable period in 2008. The increase in net cash provided by operating activities was primarily due to a variance in the aggregate of other assets and liabilities mainly from variance in PILs receivable ($24.0 million), a variance in the aggregate of accounts receivable and unbilled revenue due to the timing of billing and collection activities at LDC and TH Energy ($22.9 million), and a timing variance in electricity payables at LDC ($4.7 million). The increase was partially offset by lower net income from continuing operations ($13.7 million), and a variance in the fair value adjustments of investments ($11.6 million).

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months ended March 31, 2009 was $75.5 million compared to $10.2 million for the comparable period in 2008. The increase in net cash used in investing activities was primarily due to a variance in the smart meter variance account balance ($37.1 million), a variance in retail settlement variance account ($33.0 million) and a variance in purchases of property, plant and equipment and intangibles, primarily at LDC ($5.9 million). These variances were partially offset by the accumulated cash in conduits trusts received by the Corporation ($2.7 million) (See "Investments" below).

The increase in purchases of property, plant and equipment and intangibles at LDC for the three months ended March 31, 2009, was primarily due to an increased investment in electricity distribution infrastructure at LDC including the investment made in the first quarter of 2009 in connection with the work performed on improving the safety of electrical connections related to street lights and other unmetered assets.

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

	2009 $	2008 $
Capital Expenditures from Continuing Operations		
LDC		
Distribution System	38,074	32,737
Technology assets	6,722	5,853
Other (1)	1,514	1,108
	46,310	39,698
Other (2)	1,408	2,149
Total Capital Expenditures	47,718	41,847

Notes:

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

Net Cash Used in Financing Activities

Net cash used in financing activities for the three months ended March 31, 2009 was $15.1 million compared to $28.2 million for the comparable period in 2008. The decrease in net cash used in financing activities was primarily due to decreased dividends paid to the City of Toronto in 2009 compared to 2008 and higher reimbursement of customer deposits in 2009 in compliance with OEB rules and regulations.

Revolving Credit Facility

The Corporation is a party to a revolving credit facility, scheduled to expire on May 3, 2010, pursuant to which the Corporation may borrow up to $500.0 million, of which up to $175.0 million is available in the form of letters of credit. As at March 31, 2009, 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. (See note 6 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

On January 12, 2009, the Ontario Superior Court approved the restructuring plan proposed by the Montreal Committee and supported by the noteholders of the Canadian third-party ABCP market. On January 21, 2009, the amended restructuring plan was completed and the Corporation received its replacement notes. The replacement notes received have an aggregate principal amount of $87.7 million. The distribution by class is listed below:

Master Asset Vehicle II	Amount Received	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 Tracking notes	$7.6 million	8.7%

Of the $87.7 million, $80.1 million includes a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets which is represented by senior Class A-1 and Class A-2 and subordinated Class B and Class C long-term restructured notes, and $7.6 million is represented by assets that have an exposure to U.S. mortgages and sub-prime mortgages, which has been replaced by Ineligible Tracking notes.

DBRS Limited assigned an “A” credit rating to the Class A-1 and A-2 notes; the Class B, C and Ineligible Tracking notes are unrated.

According to the Eighteenth and Nineteenth Reports of the Monitor, the “legal final maturity” of the restructured 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. Based on the information contained in the above-mentioned reports, there is no obligation to pay interest on the notes before 2019 and no legal requirement to pay principal until 2056.

As part of the implementation of the restructuring plan, the Corporation re-measured its investments in ABCP notes prior to the exchange. This valuation considered new information available at that date and reflected current market conditions. As a result of this valuation, the Corporation increased the fair value of its investment in ABCP notes from $52.9 million at December 31, 2008 to $56.5 million at January 20, 2009. The increase in fair value reflected the expected payment to the Corporation of its share of cash accumulated in the conduit trusts from August 2007 to January 2009. The increase in fair value was recorded as income in the first quarter of 2009, under change in fair value of investments.

On January 23, 2009, the Corporation received $2.7 million representing the first installment of its share of the accumulated cash in the conduit trusts up to August 31, 2008. Based on the information included in the twentieth and twenty-third reports from the Monitor, the Corporation expects to receive $0.9 million in the second quarter of 2009, representing the second installment of its share of the accumulated cash in the conduit trusts up to the restructuring date. These balances have been considered in the valuation of the investments as of March 31, 2009.

Following the receipt of the new notes, the Corporation changed the classification of its ABCP holdings from “Investments Held To Maturity” to “Investments Held For Trading”. This change was mainly related to the

underlying nature of the new notes and follows the guidance issued by the Accounting Standards Board of Canada ("AcSB") on February 2, 2009. The new notes are measured at fair value at each period end with changes in fair value included in the income statement in the period in which they arise.

There is currently no active reliable market for the notes received by the Corporation. Accordingly, the Corporation has developed a valuation technique that incorporates 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, 2009, incorporates a discounted cash flow model considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments and a mark-to-model valuation of the notes.

A weighted average interest rate of 2.29% was used to determine the expected interest income on the restructured notes, except for the Ineligible Tracking notes, for which a weighted average interest rate of 2.99% was used. These rates were based on a forecast of 90-day Bankers' Acceptance ("BA") rates less 50 basis points from 2009 through 2017, except for the Ineligible Tracking 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 400 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 6.79% to 18.79%.

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 $51.4 million at March 31, 2009 as compared to $56.5 million at January 20, 2009. The variance was mainly related to the cash received in connection with the Corporation share of cash accumulated in the conduit trusts and changes in market conditions.

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 $4.3 million.

The estimation by the Corporation of the fair value of the restructured notes, as at March 31, 2009, 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 liquidity crisis in the third-party ABCP market has had no significant impact on the Corporation's operations. The Corporation has sufficient cash to fund all of its ongoing liquidity and capital expenditure requirements and is in compliance with the financial covenants under the terms of its outstanding indebtedness.

Dividends

On March 10, 2009, the board of directors of the Corporation declared dividends in the amount of $6.2 million. The dividends are comprised of a $0.2 million payment with respect to net income for the year ended December 31, 2008, which was paid on March 19, 2009, and a $6.0 million payment with respect to the first quarter of 2009, which was paid on March 31, 2009.

On May 19, 2009, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect of the second quarter of 2009. The dividend is payable on June 30, 2009.

Credit Rating

As at March 31, 2009, the Corporation and the Corporation's Debentures were rated "A " by both DBRS and Standard & Poor's.

Corporate Developments

Sale of the Corporation's Interest in SPI

On April 30, 2009, EBT Express, an equal partnership between the Corporation's wholly owned subsidiary 1455948 Ontario Inc. and OPG EBT Holdco Inc., sold its interest in the SPI Group Inc. for cash consideration of approximately $5.2 million subject to post-closing adjustment and transaction costs. The Corporation's share on this transaction as it relates to 1455948 Ontario Inc. is estimated at $2.6 million.

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.

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 provided final approval for 2008 base distribution revenue requirement and rate base of $473.0 million and $1,968.9 million, respectively. It should be noted that 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 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 has filed a motion with the Court of Appeal for leave to appeal that decision of the Divisional Court.

On February 24, 2009, the OEB issued the allowed return on equity for LDC. The 2009 percentage was set at 8.01%. Using approved 2009 distribution expenses and capital expenditures, LDC has estimated the 2009 base distribution revenue requirement and rate base at $483.8 million and $2,035.0 million, respectively.

On April 16, 2009, the OEB authorized LDC to implement revised distribution rates for the rate year commencing May 1, 2009. The approved rates give effect on a combined basis to rate adjustments requested by LDC in three separate applications. These applications relate to the finalization of previously approved 2009 base distribution rates after an update to reflect the current allowed cost of capital; the disposition of amounts arising from the extended effectiveness of certain rate riders into the 2008 rate year; and the disposition of the balance of 2007 Smart Meter Deferral Account.

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 711,000 smart meters and the supporting infrastructure by the end of 2010. LDC had installed approximately 596,300 meters as at March 31, 2009.

The OEB's decision issued on May 15, 2008 regarding the electricity distribution rates application of LDC provided directions regarding the accounting treatment of smart meters expenditures incurred in 2007 and 2008. In its decision, the OEB directed LDC to record to property, plant and equipment all capital expenditures incurred prior to December 31, 2007 and to record to a deferral account all expenditures incurred after January 1, 2008. The recovery of expenditures incurred after January 1, 2008 will be subjected to a prudence review by the OEB in the near future. The decision rendered by the OEB also allowed LDC to keep the net book value of the stranded meters related to the deployment of smart meters in its rate base.

Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM")

On December 15, 2008, LDC applied to the OEB to recover LRAM and SSM amounts related to CDM programs undertaken in 2007. The total of the recovery sought is $3.7 million.

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 $33.5 million on OPA programs ($20.7 million in 2007, $10.0 million in 2008 and $2.8 million in 2009) and recognized $8.5 million in margin related to such programs ($6.2 million in 2007, $1.9 million in 2008 and $0.4 million in 2009).

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 that 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. The representative plaintiff in the class action lawsuit has made a petition to the Lieutenant Governor in Council (Cabinet) under subsection 34(1) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B. for an order that the matter be submitted back to the OEB for reconsideration. The Cabinet dismissed the petition.

LDC is 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 against a predecessor of LDC and other Ontario municipal electric utilities under the *Class Proceedings Act, 1992* seeking $500 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 examinations for discovery have not been conducted and the classes have not been certified. After the release by the Supreme Court of Canada of its 2004 decision in the Enbridge case, the plaintiffs in this proposed class action indicated their intention to proceed with the litigation, but no formal steps have been taken.

The second is an action commenced against a predecessor of LDC under the *Class Proceedings Act, 1992* 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 and examinations for discovery have been conducted but, as in the first action, the classes have not been certified as the parties were awaiting the outcome of the Enbridge class action.

The claims made against LDC and the definitions 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.

It is anticipated that the first action will now proceed for determination in light of the reasons of the Supreme Court in the Enbridge class action.

LDC may have defences available to it in these actions that were not disposed of by the Supreme Court in the Enbridge class action.

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. Also, decisions of the OEB are fact specific in each circumstance and the decision of the OEB in respect of Enbridge's application for recovery of costs related to the settlement is not necessarily determinative of the outcome of any similar application which LDC may make to the OEB in the future. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of the Enbridge decision on these actions or of these actions on the financial performance of the Corporation.

2 Secord Avenue

An action was commenced against LDC in October 2008 under the *Class Proceedings Act, 1992* 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 and a statement of defence has been filed but no examinations for discovery have taken place. Accordingly, given the preliminary status of this action, it is not possible at this time to reasonably quantify the effect, if any, of this class 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 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 and a statement of defence has been filed but no examinations for discovery have taken place. Accordingly, given the preliminary status of this action, it is not possible at this time 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.

3650 Kingston Road

An action was commenced against LDC in March 2009 under the *Class Proceedings Act, 1992* 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. This action is at a preliminary stage. A statement of claim has been served on LDC but a statement of defense has not been filed. Accordingly, given the preliminary status of this action, it is not possible at this time to reasonably quantify the effect, if any, of this class 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.

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 $27.0 million in the first quarter of 2009, compared to $26.3 million in the first quarter of 2008. Included in "Unbilled revenue", as at March 31, 2009, is a balance amounting to $8.9 million receivable from the City related to the provision of electricity for the previous months, compared to $9.1 million as at December 31, 2008.

Included in LDC's "Accounts receivable, net of allowance for doubtful accounts", as at March 31, 2009, is $1.9 million receivable from the City related to these services and other construction activities compared to $4.1 million as at December 31, 2008.

TH Energy provided energy management services, street lighting services and consolidated billing services to the City amounting to $6.0 million in the first quarter of 2009, compared to $5.4 million in the first quarter of 2008. Included in TH Energy's "Accounts receivable, net of allowance for doubtful accounts", as at March 31, 2009, is $4.8 million receivable from the City related to these services compared to $4.9 million as at December 31, 2008.

LDC purchased road cut and other services of $0.8 million from the City in the first quarter of 2009, compared to $1.1 million in the first quarter of 2008. Included in "Accounts payable and Accrued liabilities", as at March 31, 2009, is $3.1 million payable to the City related to services received from the City compared to $4.5 million as at December 31, 2008.

LDC and TH Energy paid property tax expenses to the City of $1.0 million in the first quarter of 2009, compared to $1.1 million in the first quarter of 2008.

As at March 31, 2009, the outstanding principal in respect of the City Promissory Note was $735.2 million compared to $735.2 million as at December 31, 2008. As a result of the next scheduled payment for December 31, 2009, $245.1 million of the principal amount outstanding under the City Promissory Note is classified as a short-term liability, with the remainder being classified as a long-term liability. The Corporation paid interest of $11.2 million on the City Promissory Note in the first quarter of 2009, compared to $11.2 million in the first quarter of 2008.

See notes 7 and 12 to the Interim Consolidated Financial Statements.

Considerations Related to Current Economic Conditions

Electricity Consumption

The current economic downturn 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.

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 return on rate-base. The OEB approved adjustment formula for calculating return on rate-base will increase or decrease by 75% of the change between the current Long Canada Bond Forecast and the risk free rate established at 5.5%. The Corporation estimates that a 1% (100 basis points) decrease in the forecast long-term Government of Canada bond yield used in the current OEB formula to determine LDC's rate of return on rate-base would reduce net income by approximately $4.7 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. Despite the turmoil in the credit markets and onset of current economic conditions, the Corporation has been able to arrange sufficient cost-effective debt financing to fund these requirements. However, there can be no assurance that the Corporation will be able to arrange such financing facilities with similar terms in the future.

Significant Accounting Policies

The Interim Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") 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 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 or the Minister of Finance. 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

Rate-Regulated Operations: Effective January 1, 2009, the Corporation adopted amended Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1100 – "Generally Accepted Accounting Principles", 3465 – "Income Taxes", and Accounting Guideline 19 – "Disclosures by Entities Subject to Rate Regulation" ("AcG-19"). These amended standards remove a temporary exemption in CICA Handbook Section 1100 pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation, require the recognition of future income tax liabilities and assets in accordance with CICA Handbook Section 3465 as well as a separate regulatory asset or liability balance for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers, and retain existing requirements to disclose the effects of rate regulation. The revised standards are effective for interim and annual financial statements for the fiscal years beginning on or after January 1, 2009. See note 3 to the Interim Consolidated Financial Statements.

Following the removal of the temporary exemption for rate regulated operations included in Section 1100, the Corporation developed accounting policies for its assets and liabilities arising from rate regulation using professional judgment and other sources issued by bodies authorized to issue accounting standards in other jurisdictions. Upon final assessment and in accordance with section 1100, the Corporation has determined that its assets and liabilities arising from rate regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Statement of Financial Accounting Standards No. 71 – "Accounting for the Effects of Certain Types of Regulation". Accordingly, the removal of the temporary exemption had no effect on the Corporation's results of operations as of March 31, 2009.

The impact of the amendment to Section 3465, requires the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates, applied on a retroactive basis without prior period restatement. The implementation of these standards did not impact the Corporation's earnings or cash flows. As at March 31, 2009, the Corporation has recorded a future income tax asset of $296.5 million, and a corresponding regulatory liability of $296.5 million. See note 5 to the Interim Consolidated Financial Statements.

Goodwill and Intangibles: Effective January 1, 2009, the Corporation retrospectively adopted CICA Handbook Section 3064 - "Goodwill and Intangible Assets". Handbook Section 3064 replaces Handbook Section 3062 and provides extensive guidance on recognition, measurement and disclosure of intangible assets.

The Corporation evaluated existing intangible assets as at January 1, 2009 to determine whether the intangible assets recognized under previous Handbook Section 3062 met the definition, recognition, and measurement criteria of an intangible asset in accordance with Handbook Section 3064. The assets included land rights or easements, computer software, and capital contributions. As a result, the Corporation identified $2.0 million of expenditures that no longer meet the definition of intangible assets under Handbook Section 3064. As a result, these expenditures were removed from intangible assets and transferred to a regulatory asset account for future recovery. The Corporation's decision to record these expenditures to regulatory assets is based on the fact that the expenditures have already been approved for recovery by the OEB in prior regulatory proceedings. In the absence of rate regulation, these expenditures would have been recorded to opening retained earnings.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities: In January 2009, the CICA issued Emerging Issues Committee Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC-173"), effective for interim and annual financial statements ending on or after January 2009. EIC-173 provides further information on the determination of the fair value of financial assets and financial liabilities under Handbook Section 3855, "Financial Instruments - Recognition and Measurement." It states that an entity's own credit and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this standard 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 AcSB confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP 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 financial statements. At this time, the impact on the Corporation's future financial position and results of operations is not reasonably determinable or estimable.

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 and to the audit committee of the Corporation's board of directors. An external expert advisor has been engaged to assist in the IFRS conversion.

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 current 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*. The Corporation next completed a detailed assessment which involved a detailed systematic gap analyses of accounting and disclosure differences between Canadian GAAP and IFRS, and conducting an analysis of the available accounting choices to be made to address these differences and options available under IFRS 1. In parallel, a detailed assessment of the impact of IFRS conversion of 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 is currently in the design phase, which involves establishing issue-specific working groups to focus on generating options and making recommendations in the identified risk areas. During this phase the Corporation will determine the projected impacts of adopting IFRS on its financial statements after the consideration of the options available under IFRS 1, develop significant accounting policies under IFRS, and finalize the determination of the system, process and internal controls impacts of converting to IFRS. The Corporation continues to roll out its communication initiatives during this phase and in the implementation phase it will execute against the staff-training plan that was established during the awareness and assessment phase. Subsequent to carrying out this work at the consolidated level, the Corporation will also focus on the specific impacts on various subsidiaries and regulated businesses that may affect their unconsolidated financial statements.

The OEB has also begun its own IFRS project to determine the nature of any changes that should be made in regulatory accounting requirements in response to IFRS. On May 8, 2008, the OEB announced the creation of an IFRS Consultation which provides an opportunity to work with industry participants to identify transition issues and suggest how those issues might be addressed. The Corporation has actively participated in each of the consultation meetings.

In September 2008, the IASB issued an Exposure Draft setting out proposed amendments to IFRS 1. One of the proposed amendments allows an entity subject to rate regulation to elect for an item of property, plant and equipment to use the Canadian GAAP carrying amount of the item at the date of transition to IFRS as its deemed cost at that date (subject to an impairment test), if certain conditions are met. The IASB is expected to conclude on this matter in 2009. The Corporation will closely monitor these developments.

In December 2008, the International Accounting Standards Board ("IASB") unanimously voted to add the regulatory assets and regulatory liabilities project to their active agenda. On February 19, 2009 and April 23, 2009, the IASB met to tentatively decide on some of the major issues for the project, to clarify the scope, and to discuss the planned timing. An exposure draft is expected to be issued in July 2009 and the publication of a final standard is planned for June of 2010, with an effective date of January 2011. The Corporation is closely monitoring IASB activities, with the potential to impact rate regulated accounting under IFRS, and will participate in any related processes, as appropriate.

Consolidated Financial Statements and Non-controlling Interests: In January 2009, the CICA issued Handbook Section 1601 – "Consolidated Financial Statements". This section, together with new Handbook Section 1602 – "Non-controlling Interests", replaces Handbook Section 1600 – "Consolidated Financial Statements" and establishes standards for the preparation of consolidated financial statements. This section applies 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 is currently in the process of evaluating the potential impact of these standards on its consolidated financial statements.

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, 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, and the estimated fair value of the Corporation's ABCP notes and the effect of changes in interest rates on future revenue requirements. The forecasts and projections 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 fair market value of the replacement notes that replace the ABCP Notes.

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 replacement notes, 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 19, 2009