TORONTO HYDRO CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 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 and the six-month period ended June 30, 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 688,000 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 June 30
(in thousands of dollars, except for per share amounts, unaudited)

	2009 $	2008 $	Change $	Change %
Revenues	575,771	568,354	7,417	1.3
Costs				
Purchased power and other	451,976	447,545	4,431	1.0
Operating expenses	48,265	47,643	622	1.3
Depreciation and amortization	40,810	38,570	2,240	5.8
	541,051	533,758	7,293	1.4
Income before interest, change in fair value of investments, and provision for Payments In Lieu Of Corporate Taxes ("PILs")	34,720	34,596	124	0.4
Interest income	596	3,549	(2,953)	(83.2)
Interest expense				
Long-term debt	(17,886)	(17,886)	-	-
Other interest	(729)	(725)	(4)	(0.6)
Change in fair value of investments	313	-	313	100.0
Income before provision for PILs	17,014	19,534	(2,520)	(12.9)
Provision for PILs	2,393	9,880	(7,487)	(75.8)
Income from continuing operations	14,621	9,654	4,967	51.5
Income (loss) from discontinued operations – net of tax[1]	(246)	5,423	(5,669)	(104.5)
Net income	14,375	15,077	(702)	(4.7)
Basic and fully diluted net income per share from continuing operations	14,621	9,654	4,967	51.5
Basic and fully diluted net income (loss) per share from discontinued operations	(246)	5,423	(5,669)	(104.5)
Basic and fully diluted net income per share	14,375	15,077	(702)	(4.7)

Note:

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

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

	2009 $	2008 $	Change $	Change %
Revenues	1,187,938	1,160,240	27,698	2.4
Costs				
Purchased power and other	939,612	924,199	15,413	1.7
Operating expenses	107,091	97,869	9,222	9.4
Depreciation and amortization	81,538	77,548	3,990	5.1
	1,128,241	1,099,616	28,625	2.6
Income before interest, change in fair value of investments, and provision for (recovery of) Payments In Lieu Of Corporate Taxes ("PILs")	59,697	60,624	(927)	(1.5)
Interest income	1,538	6,508	(4,970)	(76.4)
Interest expense				
Long-term debt	(35,771)	(35,771)	-	-
Other interest	(1,211)	(1,917)	706	36.8
Change in fair value of investments……..	2,458	(9,427)	11,885	126.1
Income before provision for (recovery of) PILs	26,711	20,017	6,694	33.4
Provision for (recovery of) PILs	5,122	(10,262)	15,384	149.9
Income from continuing operations	21,589	30,279	(8,690)	(28.7)
Income (loss) from discontinued operations – net of tax[1]	(228)	7,290	(7,518)	(103.1)
Net income	21,361	37,569	(16,208)	(43.1)
Basic and fully diluted net income per share from continuing operations	21, 589	30,279	(8,690)	(28.7)
Basic and fully diluted net income (loss) per share from discontinued operations	(228)	7,290	(7,518)	(103.1)
Basic and fully diluted net income per share	21,361	37,569	(16,208)	(43.1)

Note:

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

Interim Consolidated Balance Sheet Data[1] (in thousands of dollars, unaudited)	As at June 30, 2009 $	As at December 31, 2008 $
Total assets	3,031,974	2,779,812
Current liabilities	542,788	561,443
Long-term liabilities	1,498,704	1,237,078
Total liabilities	2,041,492	1,798,521
Shareholder's equity	990,482	981,291
Total liabilities and shareholder's equity	3,031,974	2,779,812

Note:

(1) Amounts include discontinued operations regarding Telecom and SPi. See note 14 to the Interim Consolidated Financial Statements.

Results of Operations

Net Income

Net income for the three months and the six months ended June 30, 2009 was $14.4 million and $21.4 million compared to $15.1 million and $37.6 million for the comparable periods in 2008.

The decrease in net income for the three months ended June 30, 2009, was primarily due to lower income from discontinued operations in 2009 relating to the sale of Telecom in 2008 (see "Discontinued Operations" below) ($5.7 million), higher net interest expense ($3.0 million), higher depreciation expense ($2.2 million), and higher operating expenses ($0.6 million). These unfavourable variances were partially offset by lower PILs in 2009 ($7.5 million), and higher net revenues ($3.0 million).

The decrease in net income for the six months ended June 30, 2009, was primarily due to a variance in PILs ($15.4 million) primarily from the recovery recorded in 2008 following the completion of the 2001 and 2002 PILs audits by the Ministry of Finance, higher operating expenses ($9.2 million), lower income from discontinued operations in 2009 relating to the sale of Telecom in 2008 (see "Discontinued Operations" below) ($7.5 million), higher net interest expense ($4.3 million), and higher depreciation expense ($4.0 million). These unfavourable variances were partially offset by higher net revenues ($12.3 million) and by a variance in the fair value of investments ($11.9 million) related to an impairment charge recorded in 2008 due to unfavourable market conditions and an increase in value recorded in 2009 in connection with the restructuring of the investments.

Net Revenues

Net revenues (revenues minus the cost of purchased power and other) for the three months and the six months ended June 30, 2009 were $123.8 million and $248.3 million compared to $120.8 million and $236.0 million for the comparable periods in 2008.

The increase in net revenues for the three months ended June 30, 2009, was primarily due to increased net revenues at LDC from higher distribution revenue ($2.5 million). The increase in distribution revenue was primarily due to the approval by the OEB of higher distribution rates effective May 1, 2009 ($5.2 million). The increase in distribution rates was approved by the OEB in 2008 and provided for increases in maintenance program expenditures and capital expenditures of LDC for 2009. This variance was partially offset by lower consumption in

2009 (5,920 GWh in 2009 compared to 6,156 GWh in 2008) ($1.7 million), primarily due to a higher impact from the general slow down in the economy for 2009.

The increase in net revenues for the six months ended June 30, 2009, was primarily due to increased distribution revenue at LDC ($11.8 million). The increase in distribution revenue was approved by the OEB in 2008 and is comprised of two successive increases effective May 1, 2008 and May 1, 2009 ($15.5 million). These increases in distribution rates provided for increases in maintenance program expenditures and capital expenditures of LDC for 2008 and 2009. This variance was partially offset by lower consumption in 2009 (12,582 GWh in 2009 compared to 13,003 GWh in 2008) ($3.4 million), primarily due to a higher impact from the general slow down in the economy for 2009.

Expenses

Operating expenses for the three months and the six months ended June 30, 2009 were $48.3 million and $107.1 million compared to $47.6 million and $97.9 million for the comparable periods in 2008.

The increase in operating expenses for the three months ended June 30, 2009, was primarily due to higher operating costs at LDC mainly from higher spending on operations and maintenance programs.

The increase in operating expenses for the six months ended June 30, 2009, 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 costs related to this initiative were approximately $7.6 million and were comprised primarily of internal labour costs. These costs are included in the contact voltage application filed with the OEB on June 30, 2009 (see “Corporate Developments – Contact Voltage” below).

Depreciation and amortization expense for the three months and the six months ended June 30, 2009, was $40.8 million and $81.5 million compared to $38.6 million and $77.5 million for the comparable periods in 2008.

The increases in depreciation and amortization expense for the three months and the six months ended June 30, 2009, were 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 and the six months ended June 30, 2009 was $18.0 million and $35.4 million compared to $15.1 million and $31.2 million for the comparable periods in 2008. The increases in net interest expense for the three months and six months ended June 30, 2009, were primarily due to lower interest income.

Change in Fair Value of Investments

Increase in fair value of investments for the three months and the six months ended June 30, 2009 was $0.3 million and $2.5 million compared to a decrease in fair value of investments of $nil and $9.4 million for the comparable periods in 2008. The increase in value recorded in 2009 was primarily due to the mark-to-model valuation performed on the Asset Backed Commercial Paper (“ABCP”) notes at the end of each reporting period following the 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 value of the investments. 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 and the six months ended June 30, 2009, was $2.4 million and $5.1 million, compared to a provision for PILs of $9.9 million and a recovery of PILs of $10.3 million for the comparable periods in 2008.

The favourable variance in provision for PILs for the three months ended June 30, 2009, was primarily due to a favourable variance in temporary differences in LDC for 2009 and lower earnings before tax in 2009. The unfavourable variance in provision for PILs for the six months ended June 30, 2009, was primarily due to the favourable impact in 2008 of the settlement of the Ministry of Finance income tax audits for 2001 and 2002 and lower temporary differences in LDC, partially offset by higher earnings before tax in 2009.

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, and recorded a post-closing adjustment of $1.4 million in the second quarter of 2009. The results of operations and financial position of Telecom have been segregated and presented as discontinued operations in the Interim Consolidated Financial Statements.

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 SPi to ERTH Corporation for cash consideration of approximately $5.2 million subject to post-closing adjustments and transaction costs. The Corporation's share of the sale proceeds from this transaction as it relates to 1455948 Ontario Inc. was approximately $2.6 million. In connection with this transaction and other activities related to this business, the Corporation recorded a net gain of $1.2 million in the second quarter of 2009. The results of operations and financial position of SPi have been segregated and presented as discontinued operations in the Interim 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 September 30, 2007 to June 30, 2009 and includes discontinued operations. See note 14 to the Interim Consolidated Financial Statements.

Quarterly Results
(in thousands of dollars, unaudited)

	Jun. 30, 2009 $	Mar. 31, 2009 $	Dec.31, 2008 $	Sept. 30, 2008 $
Revenues	575,771	612,167	586,608	633,236
Costs	541,051	587,190	555,502	588,766
Income from continuing operations	14,621	6,968	4,688	11,029
Net income	14,375	6,986	4,820	126,623

	Jun. 30, 2008 $	Mar. 31, 2008 $	Dec.30, 2007 $	Sept. 30, 2007 $
Revenues	568,354	591,886	581,347	618,468
Costs	533,758	565,858	535,921	566,715
Income from continuing operations	9,654	20,625	19,135	9,192
Net income	15,077	22,492	19,223	11,045

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.

Capital Resources and Liquidity
(in thousands of dollars, unaudited)

	Three months Ended June 30		Six months Ended June 30	
	2009 $	2008 $	2009 $	2008 $
Cash and cash equivalents, beginning of period	305,920	201,343	340,492	216,002
Net cash provided by operating activities	31,514	76,453	87,650	102,401
Net cash used in investing activities	(74,254)	(47,964)	(149,687)	(58,116)
Net cash provided by (used in) financing activities	2,180	(3,303)	(12,923)	(31,531)
Net cash used in discontinued operations [1]	(603)	(710)	(775)	(2,937)
Cash and cash equivalents, end of period	264,757	225,819	264,757	225,819
Consist of:				
Cash and cash equivalents from continuing operations	264,757	199,719	264,757	199,719
Cash and cash equivalents from discontinued operations	-	26,100	-	26,100
Cash and cash equivalents, end of period................	264,757	225,819	264,757	225,819

Note:

(1) Consists of discontinued operations for Telecom and SPi. 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 and the six months ended June 30, 2009 was $31.5 million and $87.7 million compared to $76.5 million and $102.4 million for the comparable periods in 2008.

The decrease in net cash provided by operating activities for the three months ended June 30, 2009, was primarily due to 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 ($27.0 million) and timing variances in electricity payables at LDC ($17.2 million). The increase was partially offset by higher net income from continuing operations ($5.0 million).

The decrease in net cash provided by operating activities for the six months ended June 30, 2009, was primarily due to timing variances in electricity payables at LDC ($9.1 million), a decrease in net income from continuing operations ($8.7 million), and 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 ($1.5 million).

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months and the six months ended June 30, 2009 was $74.3 million and $149.7 million compared to $48.0 million and $58.1 million for the comparable periods in 2008.

The increase in net cash used in investing activities for the three months ended June 30, 2009, was due to a reduction of regulatory liabilities ($31.3 million) primarily related to the payment of prior periods retail settlement variance account balances arising from variances in transmission and other market administration charges regulated by the OEB, and an increase in regulatory assets mainly from the deployment of smart meters ($4.9 million). These variances were partially offset by lower capital expenditures at LDC ($4.0 million), and the accumulated cash in conduits trusts received by the Corporation in 2009 ($1.2 million) (See "Investments" below).

The increase in net cash used in investing activities for the six months ended June 30, 2009, was primarily due to a reduction of regulatory liabilities ($69.2 million) primarily related to the payment of prior periods retail settlement variance account balances arising from the variances in transmission and other market administration charges regulated by the OEB, increase in regulatory assets ($27.1 million) mainly from the deployment of smart meters, and an increase in capital expenditures at LDC ($2.6 million). These variances were partially offset by the accumulated cash in conduits trusts received by the Corporation in 2009 ($3.9 million) (see "Investments" below).

The decrease in purchases of property, plant and equipment and intangibles at LDC for the three months ended June 30, 2009 was primarily due to timing differences in the purchase of materials used in planned capital programs.

The increase in purchases of property, plant and equipment and intangibles at LDC for the six months ended June 30, 2009, was primarily due to the 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, and higher general plant expenditures from higher fleet purchases.

Capital Expenditures
(in thousands of dollars, unaudited)

	Three months Ended June 30		Six months Ended June 30	
	2009 $	**2008 $**	**2009 $**	**2008 $**
Capital Expenditures from Continuing Operations				
LDC				
Distribution System	39,712	43,507	78,310	76,244
Technology assets	6,616	8,102	13,338	13,955
Other [1]	3,774	2,531	4,764	3,639
	50,102	54,140	96,412	93,838
Other [2]	1,965	2,451	3,287	4,504
Total Capital Expenditures	52,067	56,591	99,699	98,342

Notes:

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

Net Cash Provided by (Used in) Financing Activities

Net cash related to financing activities for the three months and the six months ended June 30, 2009 was $2.2 million provided by and $12.9 million used in compared to $3.3 million used in and $31.5 million used in financing activities for the comparable periods in 2008.

The increase in net cash provided by financing activities for the three months ended June 30, 2009, was primarily due to higher reimbursement of customer deposits in 2009 in compliance with OEB rules and regulations.

The decrease in net cash used in financing activities for the six months ended June 30, 2009, 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 June 30, 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.

Initially, DBRS assigned an “A” credit rating to the Class A-1 and A-2 notes; the Class B, C and Ineligible Tracking notes are unrated. On August 11, 2009, DBRS downgraded the rating of the Class A-2 notes in the Master Asset Vehicle II Trust (“MAV II”) from A to BBB (low). The Corporation is currently in the process of evaluating the impact of this change in the valuation of the MAV II notes. The Corporation will reflect the impact, if any, of the downgrade in the valuation of the MAV II notes in the third quarter.

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. On May 15, 2009, the Corporation received a further $1.2 million representing the second installment of its share of accumulated cash in the conduit trusts from September 2008 through January 20, 2009. These balances reduced the value of the investments.

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 June 30, 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 2.18% 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 2.88% 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 370 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 6.38% to 18.68%.

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 as at June 30, 2009 as compared to $56.5 million as at January 20, 2009. The variance was mainly related to the cash received in connection with the Corporation's 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 $4.0 million.

The estimation by the Corporation of the fair value of the restructured notes, as at June 30, 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 to the second quarter of 2009, which was paid on June 30, 2009.

On August 17, 2009, the board of directors of the Corporation declared a dividend in the amount of $6.0 million with respect to the third quarter of 2009. The dividend is payable on September 30, 2009.

Credit Rating

As at June 30, 2009, the Corporation and the Corporation's Debentures were rated "A" by both DBRS and Standard & Poor's.

Corporate Developments

Management Change

On August 17, 2009, David O'Brien announced his retirement as President and Chief Executive Officer of the Corporation effective September 30, 2009. The Board appointed Anthony Haines, currently President of LDC, as President and Chief Executive Officer of the Corporation effective October 1, 2009. Anthony Haines will continue as President of LDC.

Resignation

Mike Richmond resigned as a director of the Corporation effective June 22, 2009.

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 for 2009. The percentage was set at 8.01%. Using approved 2009 distribution expenses and capital expenditures, LDC has estimated the 2009 distribution revenue requirement and rate base at $482.5 million and $2,035.0 million, respectively.

Smart Meters

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010, LDC launched its smart meter project in 2006. The project objective is to install smart meters and the supporting infrastructure by the end of 2010 for all residential and commercial customers. LDC had installed approximately 611,000 meters as at June 30, 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 amount of the recovery sought is $3.7 million. On July 9, 2009, LDC filed its reply argument in the proceeding, and is awaiting a final decision from the OEB.

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 $40.0 million on OPA programs ($20.7 million in 2007, $10.0 million in 2008 and $9.3 million in 2009) and recognized $9.0 million in margin related to such programs ($6.2 million in 2007, $1.9 million in 2008 and $0.9 million in 2009).

Street Lighting Activities

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution license for a new wholly owned legal entity in which the Corporation intends to transfer the street lighting activities currently performed by TH Energy. Concurrently, the Corporation filed another application with the OEB seeking approval for the merger of LDC and the new legal entity. The main objective of these applications is to transfer the street lighting activities to the regulated electricity distribution activities of LDC to increase the overall safety of the related infrastructure. The Corporation intends to move forward with the transfer of the street lighting activities from TH Energy to the new legal entity and subsequent merger only if the OEB approves both applications described above.

Contact Voltage

On June 30, 2009, LDC filed an application with the OEB seeking recovery of certain past and future costs incurred for the unexpected impact of the remediation of safety issues on its electricity distribution plan. LDC is seeking recovery of $14.4 million by way of fixed term rate riders of three years for the street lighting and unmetered scattered load rate classes, and one year for all other classes.

OEB PILs Proceeding

In 2009, the OEB commenced its review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for all municipal electricity utilities. The current proceeding is expected to provide guidance for the definition and calculation of such variances. The outcome of this proceeding could have a material impact on the financial position of the Corporation.

Legal Proceedings

Late Payment Charges Class Action

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

On February 4, 2008, the OEB, in response to an application filed by Enbridge, ruled that all of Enbridge's costs related to settlement of the class action lawsuit, including legal costs, settlement costs and interest, are recoverable from ratepayers. 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 was not a party to the Enbridge class action. It is, however, subject to the two class actions described below in which the issues are analogous.

The first is an action commenced 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, a statement of defence has been filed, and a certification order issued, 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 $24.9 million and $52.7 million for the three months and the six months ended June 30, 2009, compared to $24.9 million and $54.1 million for the three months and the six months ended June 30, 2008. Included in “Unbilled revenue”, as at June 30, 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 June 30, 2009, is $2.5 million receivable from the City related to relocation 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 $4.2 million and $10.2 million for the three months and the six months ended June 30, 2009, compared to $4.7 million and $10.1 million for the three months and the six months ended June 30, 2008.

Included in TH Energy's "Accounts receivable, net of allowance for doubtful accounts", as at June 30, 2009, is $2.4 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 $0.5 million and $1.3 million for the three months and the six months ended June 30, 2009, compared to $0.3 million and $1.4 million for the three months and the six months ended June 30, 2008. Included in "Accounts payable and Accrued liabilities", as at June 30, 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 $2.0 million and $3.1 million for the three months and the six months ended June 30, 2009, compared to $2.3 million and $3.3 million for the three months and the six months ended June 30, 2008.

As at June 30, 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 and $22.5 million for the three months and the six months ended June 30, 2009, compared to $11.2 million and $22.5 million for the three months and the six months ended June 30, 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. On an annual basis, a decrease of 1% in electricity consumption would reduce net revenue by approximately $3.4 million.

Interest Rates

Changes in interest rates will impact the calculation of LDC's revenue requirements filed with the OEB. The first component impacted by interest rates is the 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 $6.6 million.

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

Debt Financing

Cash generated from operations, after the payment of expected dividends, will not be sufficient to repay existing indebtedness, fund capital expenditures and meet other obligations. The Corporation relies on debt financing through a Medium-Term Note Program or its revolving credit facility to repay existing indebtedness and fund capital expenditures. However, given the recent and on-going turmoil on financial markets, there can be no assurance that the Corporation will be able to arrange long-term debt financing, nor renew short-term financing facilities with similar terms in the future.

Significant Accounting Policies

The Interim Consolidated Financial Statements 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 June 30, 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 June 30, 2009, LDC has recorded a future income tax asset of $294.4 million, and a corresponding regulatory liability of $294.4 million. See note 3 to the Interim Consolidated Financial Statements.

Goodwill and Intangible Assets: 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 met 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.

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 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 completing the design phase of the project. This involves establishing issue-specific working groups to focus on generating options and making recommendations in the identified risk areas. During this phase, the Corporation is determining the projected impacts of adopting IFRS on its financial statements after the consideration of the options available under IFRS 1, developing significant accounting policies under IFRS, and finalizing the determination of the system, process and internal controls impacts of converting to IFRS. Although the impact of the adoption of IFRS on the Corporation's financial position and results of operations is not yet reasonably determinable or estimable, the Corporation does expect a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS, and is designing the systems and related processes changes which will be required in order to provide the additional information required to make these disclosures. The Corporation continues to roll out its communication initiatives during this phase and will soon begin to execute against the staff-training plan that was established during the awareness and assessment phase, as scheduled in the project plan.

The Corporation will begin the implementation phase of the project in the third quarter of 2009. The implementation stage is about execution. The roll-out of the designed changes takes place during this phase and involves developing new accounting policies and accounting manuals, performing a simulation of the financial reporting process, preparing the IFRS financial statements and related disclosures, developing revised internal control processes, testing the effectiveness of the changes made to systems, and implementing changes to internal performance measures, contracts and processes.

On July 23, 2009, the IASB issued an Exposure Draft ("ED") proposing accounting requirements for rate-regulated activities. The ED proposes under certain conditions to allow entities with rate-regulated activities to recognize regulatory assets and liabilities on their balance sheet. Under current IFRS, some regulatory assets and liabilities cannot be recognized on the balance sheet. This ED includes proposed amendments to IFRS 1 for rate-regulated entities. The ED is open for comment by interested parties until November 20, 2009. It should be noted that the IASB does not intend to provide a final accounting standard for rate-regulated entities until mid 2010. The Corporation is currently evaluating the impact of the proposed changes and will continue to monitor these developments as they arise.

On July 28, 2009, the OEB issued its Report of the Board – *Transition to IFRS* to electricity distributers in regards to the impact of IFRS on regulated activities. The Corporation is currently in the process of evaluating the potential impact of such guidance on the activities of LDC.

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 has determined that this standard will have no impact on the classification or valuation of its Consolidated Financial Statements.

Fair Value Measurement Disclosure: In June 2009, the CICA amended Handbook Section 3862 – "Financial Instruments – Disclosures" to include additional disclosures requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009, and comparative information is not required in the first year of application. The Corporation is currently evaluating the impact of these amendments and will include the additional required disclosures for the year ending December 31, 2009 upon its adoption of the amendments.

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

August 18, 2009