TORONTO HYDRO Corporation

CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012

TORONTO HYDRO Corporation

INTERIM CONSOLIDATED BALANCE SHEETS

[in thousands of Canadian dollars, unaudited]

	As at March 31, 2012 $	As at December 31, 2011 $
		[note 24]
ASSETS		
Current		
Cash and cash equivalents	**133,132**	154,256
Investments	**-**	34,002
Accounts receivable, net of allowance for doubtful accounts *[note 16[b]]*	**210,369**	183,272
Unbilled revenue *[note 16[b]]*	**243,890**	262,058
Income tax receivable	**14,578**	11,312
Inventories *[note 5]*	**6,617**	6,891
Regulatory assets *[note 9]*	**2,668**	-
Other assets *[note 6]*	**6,877**	5,409
Total current assets	**618,131**	657,200
Property, plant and equipment, net *[note 7]*	**2,412,684**	2,399,497
Intangible assets, net *[note 8]*	**129,396**	112,982
Regulatory assets *[note 9]*	**151,137**	143,038
Other assets *[note 10]*	**12,054**	12,423
Deferred income tax assets *[note 9]*	**197,487**	202,367
Total assets	**3,520,889**	3,527,507
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities *[note 16[b]]*	**424,071**	412,412
Restructuring accrual *[note 12]*	**16,640**	-
Customers' advance deposits	**43,318**	40,238
Deferred revenue	**21,831**	13,359
Post-retirement benefits *[note 14]*	**8,226**	7,915
Other liabilities *[note 21]*	**1,937**	2,182
Regulatory liabilities *[note 9]*	**-**	7,293
Total current liabilities	**516,023**	483,399
Restructuring accrual *[note 12]*	**8,022**	-
Customers' advance deposits	**13,366**	15,800
Debentures *[note 13]*	**1,469,542**	1,469,527
Post-retirement benefits *[note 14]*	**238,277**	236,411
Other liabilities *[note 21]*	**11,003**	11,301
Regulatory liabilities *[note 9]*	**199,250**	203,919
Asset retirement obligations *[note 15]*	**4,950**	4,902
Total liabilities	**2,460,433**	2,425,259
Commitments, contingencies and subsequent events *[notes 21, 22 and 26]*		
Shareholder's equity		
Share capital *[note 19]*	**567,817**	567,817
Retained earnings	**492,639**	534,431
Total shareholder's equity	**1,060,456**	1,102,248
Total liabilities and shareholder's equity	**3,520,889**	3,527,507

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

[in thousands of Canadian dollars, except for per share amounts, unaudited]

	Three months ended March 31, 2012 $	2011 $
		[note 24]
Revenues	**699,660**	704,188
Costs		
Purchased power	**562,430**	560,819
Operating expenses	**68,182**	66,175
Depreciation and amortization	**35,428**	33,472
	666,040	660,466
Income before the following:	**33,620**	43,722
Net financing charges	**(18,650)**	(18,896)
Gain on disposals of property, plant and equipment	**-**	2,964
Restructuring costs *[note 12]*	**(27,796)**	-
Income (loss) before income taxes	**(12,826)**	27,790
Income tax expense *[note 18]*	**-**	2,338
Net income (loss) and comprehensive income (loss) for the period	**(12,826)**	25,452
Basic and fully diluted net income (loss) per share *[note 23]*	**(12,826)**	25,452

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

[in thousands of Canadian dollars, unaudited]

	Three months ended March 31, 2012 $	2011 $
Share capital *[note 19]*	**567,817**	567,817
Retained earnings, beginning of period	**534,431**	471,562
Net income (loss) for the period	**(12,826)**	25,452
Dividends *[notes 19 and 20]*	**(28,966)**	(14,063)
Retained earnings, end of period	**492,639**	482,951
Total shareholder's equity	**1,060,456**	1,050,768

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of Canadian dollars, unaudited]

	Three months ended March 31, 2012 $	2011 $
OPERATING ACTIVITIES		
Net income (loss) for the period	**(12,826)**	25,452
Adjustments for non-cash items		
Depreciation and amortization	**35,428**	33,472
Change in other non-current assets	**279**	323
Change in other non-current liabilities	**(1,662)**	(380)
Restructuring accrual	**8,022**	-
Post-retirement benefits	**2,177**	11,043
Deferred income taxes	**12**	(291)
Gain on disposals of property, plant and equipment	**-**	(2,964)
Changes in non-cash working capital balances		
Increase in accounts receivable	**(27,097)**	(56,310)
Decrease in unbilled revenue	**18,168**	3,595
Increase in income tax receivable	**(3,266)**	(2,895)
Decrease in inventories	**274**	66
Increase in other current assets	**(1,468)**	(2,974)
Increase in accounts payable and accrued liabilities	**13,026**	35,137
Increase in restructuring accrual	**16,640**	-
Increase in deferred revenue	**8,472**	2,212
Decrease in other current liabilities	**(245)**	(157)
Net cash provided by operating activities	**55,934**	45,329
INVESTING ACTIVITIES		
Purchase of property, plant and equipment *[note 7]*	**(43,301)**	(82,956)
Purchase of intangible assets *[note 8]*	**(22,077)**	(17,392)
Purchase of investments	**-**	(50,027)
Proceeds from investments	**34,000**	-
Net change in regulatory assets and liabilities	**(17,861)**	(10,295)
Proceeds on disposals of property, plant and equipment	**501**	2,154
Net cash used in investing activities	**(48,738)**	(158,516)
FINANCING ACTIVITIES		
Dividends paid *[notes 19 and 20]*	**(28,966)**	(14,063)
Increase (decrease) in customers' advance deposits	**646**	(6,806)
Net cash used in financing activities	**(28,320)**	(20,869)
Net decrease in cash and cash equivalents during the period	**(21,124)**	(134,056)
Cash and cash equivalents, beginning of period	**154,256**	330,151
Cash and cash equivalents, end of period	**133,132**	196,095
Supplementary cash flow information		
Total interest paid	**263**	32
Total income taxes paid	**3,330**	5,524

The accompanying notes are an integral part of the interim consolidated financial statements.

1. INCORPORATION

On June 23, 1999, Toronto Hydro Corporation [the "Corporation"] was incorporated under the *Business Corporations Act* (Ontario) [the "OBCA"] and is wholly-owned by the City of Toronto [the "City"]. The incorporation was required in accordance with the provincial government's *Electricity Act, 1998* (Ontario) ["Electricity Act"].

The Corporation supervises the operations of, and provides corporate, management services and strategic direction to two subsidiaries incorporated under the OBCA and wholly-owned by the Corporation:

[i] Toronto Hydro-Electric System Limited ["LDC"] (incorporated June 23, 1999) – distributes electricity to customers located in the City and is subjected to rate regulation. LDC is also engaged in the delivery of Conservation and Demand Management ["CDM"] activities; and

[ii] Toronto Hydro Energy Services Inc. (incorporated June 23, 1999) – provides street lighting services.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC.

2. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of the Corporation have been prepared in accordance with United States ["US"] Generally Accepted Accounting Principles ["GAAP"] with respect to the preparation of interim financial information, and are presented in Canadian dollars. The disclosures in these statements do not conform in all respects to the requirements of US GAAP for annual consolidated financial statements. These are the Corporation's first US GAAP interim consolidated financial statements. The Corporation's annual and interim consolidated financial statements were prepared in accordance with Canadian GAAP until December 31, 2011. The comparative consolidated financial statements have been adjusted from statements previously presented to conform to the presentation of the first interim 2012 consolidated financial statements in accordance with US GAAP, retroactively. The Corporation's first US GAAP annual consolidated financial statements will be dated December 31, 2012.

A reconciliation of the consolidated balance sheets between Canadian GAAP and US GAAP as at January 1, 2011 and December 31, 2011 and a reconciliation of net income for the three months ended March 31, 2011 accompanies the interim consolidated financial statements *[note 24]*.

3. REGULATION

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

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

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

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect LDC's electricity distribution rates and other permitted recoveries in the future.

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

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

[ii] *Electricity Price and Regulated Adjustments*. The electricity price and regulated adjustments represent the pass through of the commodity and other costs of electricity.

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

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

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

a) Electricity Distribution Rates

LDC's electricity distribution rates are typically effective from May 1 to April 30 of the following year. Accordingly, for the first three months of 2012, distribution revenue was based on electricity distribution rates approved for the May 1, 2011 to April 30, 2012 rate year [the "2011 Rate Year"].

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

On July 7, 2011, the OEB issued its decision regarding LDC's electricity distribution rates for the 2011 Rate Year. The decision provided for a distribution revenue requirement and rate base of $522,044,000 and $2,298,227,000, respectively. In addition, the decision provided for capital program spending levels and operating, maintenance and administration spending levels of $378,800,000 and $238,000,000, respectively.

On August 26, 2011, LDC filed a rate application, following the COS framework, with the OEB seeking approval of separate and successive revenue requirements and corresponding electricity distribution rates for three rate years commencing on May 1, 2012, May 1, 2013 and May 1, 2014 [the "2012-2014 Rate Application"]. The requested distribution revenue requirements for these rate years were $571,369,000, $639,492,000, and $712,777,000, respectively, and the expected rate bases for these rate years were $2,636,291,000, $3,053,499,000, and $3,503,165,000, respectively.

Pursuant to the Incentive Regulation Mechanism ["IRM"] framework, the OEB established, as a preliminary issue in the 2012-2014 Rate Application, that it would consider the question of whether the application filed by LDC under the COS framework was acceptable or whether it should be dismissed. The IRM framework provides for an adjustment to an electricity distributor's rates based on a formulaic calculation with the possibility to request an Incremental Capital Module ["ICM"] to address specific capital expenditure needs not covered by the formulaic calculation. The review of an ICM application is done by the OEB following defined criteria, such as materiality, causation and prudence.

LDC filed evidence supporting its position for electricity distribution rates to be set under the COS framework as part of its 2012-2014 Rate Application. The OEB established a process by which a portion of LDC's evidence was tested during an oral hearing held in November 2011.

On January 5, 2012, the OEB rendered its decision on the preliminary issue and dismissed LDC's COS framework 2012-2014 Rate Application. In its decision, the OEB found that LDC was not permitted to deviate from the standard IRM framework cycle. Accordingly, LDC was required to file its request for electricity distribution rates commencing on May 1, 2012 pursuant to the IRM framework and to use the ICM to request the capital needed for infrastructure renewal *[note 26[a]]*.

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

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

b) Conservation and Demand Management Activities

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

Effective January 1, 2011, LDC entered into an agreement with the Ontario Power Authority ["OPA"] to deliver CDM programs in the amount of approximately $50,000,000 extending from January 1, 2011 to December 31, 2014. As at March 31, 2012, LDC received approximately $27,620,000 [December 31, 2011 - $19,875,000] from the OPA for the delivery of CDM programs. All programs to be delivered are fully funded and paid in advance by the OPA. These programs are expected to support the achievement of the mandatory CDM targets described above.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of the Corporation have been prepared in accordance with US GAAP, including accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors" [the "AP Handbook"], and reflect the significant accounting policies summarized below:

a) Basis of consolidation

The interim consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

b) Regulation

The following regulatory treatments have resulted in accounting treatments which differ from US GAAP for enterprises operating in an unregulated environment:

Regulatory Assets and Liabilities

The Corporation has determined that its assets and liabilities arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with Financial Accounting Standards Board ["FASB"] Accounting Standards Codification 980 – "Regulated Operations" ["ASC 980"]. Under rate-regulated accounting ["RRA"], the timing and recognition of certain expenses and revenues may differ from those otherwise expected under US GAAP in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These timing differences are recorded as regulatory assets and regulatory liabilities on the Corporation's consolidated balance sheets and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. Regulatory assets and liabilities can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is judged to be probable. In the event that the disposition of these balances was assessed to no longer be probable, the balances would be recorded in the Corporation's consolidated statements of operations and comprehensive income (loss) in the period that the assessment is made. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation and the OEB's decisions.

Contributions in aid of construction

Capital contributions received are used to finance additions to property, plant and equipment of LDC. According to the accounting principles prescribed by the OEB in the AP Handbook, capital contributions received are treated as a "credit" to property, plant and equipment. The amount is subsequently depreciated by a charge to accumulated depreciation and a credit to depreciation expense at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

Allowance for funds used during construction

The AP Handbook provides for the inclusion of an Allowance for Funds Used During Construction ["AFUDC"] when capitalizing construction-in-progress assets, until such time as the asset is substantially complete. A concurrent credit of the same amount is made to net financing charges when the allowance is capitalized. The interest rate for capitalization is prescribed by the OEB and modified on a periodic basis, and is applied to the balance of the construction-in-progress assets on a simple interest basis. The interest rate for capitalization for the period from January 1 to March 31, 2012 was 3.92% [January 1 to March 31, 2011 - 4.29%]. AFUDC is included in property, plant and equipment, intangible assets, and construction-in-progress assets for financial reporting purposes, charged to operations through depreciation and amortization expense over the service life of the related assets and recovered through future revenue.

[all tabular amounts in thousands of Canadian dollars, unaudited]

c) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term investments with terms to maturity of 90 days or less from their date of acquisition.

d) Accounts receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The carrying amount of accounts receivable is reduced through an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the consolidated statements of operations and comprehensive income (loss). Subsequent recoveries of receivables previously provisioned and written off are credited to the consolidated statements of operations and comprehensive income (loss). Management estimates uncollectible accounts receivable after considering historical loss experience and the characteristics of existing accounts.

e) Investments

Investments with terms to maturity of greater than 90 days from their date of acquisition are classified as held to maturity and included in current assets.

f) Inventories

Inventories consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. The Corporation classifies all major construction related components of its electricity distribution system infrastructure to property, plant and equipment. Once capitalized, these items are not depreciated until they are put into service. Inventories are carried at the lower of cost and market, with cost determined on an average cost basis net of a provision for obsolescence.

g) Property, plant and equipment

Property, plant and equipment are stated at cost and are removed from the accounts at the end of their estimated average service lives, except in those instances where specific identification allows their removal at retirement or disposition.

In the event that facts and circumstances indicate that property, plant and equipment may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is determined by the estimated future discounted cash flows.

Depreciation is provided on a straight-line basis over the estimated service lives at the following annual rates:

Distribution lines	1.7% to 5.0%
Transformers	3.3% to 5.0%
Stations	2.5% to 10.0%
Meters	2.5% to 6.7%
Buildings	1.3% to 5.0%
Rolling stock	12.5% to 25.0%

[all tabular amounts in thousands of Canadian dollars, unaudited]

Other capital assets	4.0% to 20.0%
Equipment and tools	10.0% to 16.7%
Assets under capital lease	14.3% to 25.0%
Computer hardware	16.7% to 25.0%
Communications	10.0% to 20.0%

Construction in progress relate to assets not currently in use and therefore are not depreciated.

h) Intangible assets

Effective January 1, 2012, the Corporation revised its estimate of useful life for its Customer Care and Billing Customer Information System from 5 years to 10 years due to additional analysis completed related to the useful life assessment. This change has been accounted for on a prospective basis in the interim consolidated financial statements effective January 1, 2012. It is estimated that this change in estimate will increase intangible assets and decrease amortization expense by approximately $1,000,000 for the quarter ended March 31, 2012 and approximately $4,000,000 for the year ended December 31, 2012, and is expected to impact amortization expense proportionately in future periods.

Intangible assets are stated at cost. Amortization is provided on a straight-line basis over their estimated service lives at the following annual rates:

Computer software	10.0% to 25.0%
Contributions	4.0%

Software in development and contributions for work in progress relate to assets not currently in use and therefore are not amortized.

i) Deferred debt issuance costs

Debt issuance costs arising from the Corporation's debenture offerings are capitalized within Other assets on the consolidated balance sheet. The deferred charge is amortized over the life of the debenture, using the effective interest method of amortization and included in net financing charges.

j) Restructuring

Restructuring charges are recorded based upon planned employee termination dates, site closure and consolidation plans, and contract terminations. Restructuring charges can include severance costs to eliminate a specified number of employee positions, infrastructure charges to vacate facilities and consolidate operations, and contract cancellation costs. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over a multi-year period.

k) Workplace Safety and Insurance Act

The Corporation is a Schedule 1 employer for workers' compensation under the *Workplace Safety and Insurance Act, 1997* (Ontario) [the "WSIA"]. As a Schedule 1 employer under the WSIA, the Corporation is required to pay annual premiums into an insurance fund established under the WSIA and recognizes expenses based on funding requirements.

l) Revenue recognition

Revenues from the sale of electricity are recorded on a basis of cyclical billings and also include unbilled revenues accrued in respect of electricity delivered but not yet billed.

Other revenues, which include revenues from electricity distribution related services, revenues from the delivery of street lighting services and revenues from demand billable activities are recognized as the services are rendered.

m) Financial instruments

At inception, all financial instruments which meet the definition of a financial asset or financial liability are recorded at fair value, unless fair value cannot be reliably determined. Gains and losses related to the measurement of financial instruments are reported in the consolidated statements of operations and comprehensive income (loss). Subsequent measurement of each financial instrument will depend on the consolidated balance sheet classification elected by the Corporation. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

The following summarizes the accounting classification the Corporation has elected to apply to each of its significant categories of financial instruments:

Cash equivalents and short-term investments	Held for Trading
Investments	Held to Maturity
Accounts receivable and unbilled revenue	Loans and Receivables
Accounts payable and accrued liabilities	Other Financial Liabilities
Obligations under capital lease	Other Financial Liabilities
Customers' advance deposits	Other Financial Liabilities
Debentures	Other Financial Liabilities

The Corporation uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which carrying amounts are included in the consolidated balance sheet:

- Cash equivalents, comprising short-term investments, are classified as "Held for Trading" and are measured at fair value. The carrying amounts approximate fair value because of the short maturity of these instruments.

- Investments are classified as "Held to Maturity" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. The carrying amounts approximate fair value because of the short maturity of these instruments.

- Accounts receivable and unbilled revenue are classified as "Loans and Receivables" and are measured at amortized cost, which, upon initial recognition, are considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value because of the short maturity of these instruments.

- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value because of the short maturity of these instruments.

- Obligations under capital lease are classified as “Other Financial Liabilities” and are initially measured at their fair value. Subsequent measurements are based on a discounted cash flow analysis and approximate their carrying value as management believes that the fixed interest rates are representative of current market rates.

- Customers’ advance deposits are classified as “Other Financial Liabilities” and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value because of the short maturity of the current portion, and the discounted long-term portion approximates the carrying value, taking into account interest accrued on the outstanding balance.

- Debentures are classified as “Other Financial Liabilities” and are initially measured at their fair value. The carrying amounts of the debentures are carried at amortized cost, based on an initial fair value as determined at the time using a quoted market price for similar debt instruments. The fair value of the debentures is calculated by discounting the related cash flows at the estimated yield to maturity of similar debt instruments *[note 16[a]]*. While the Corporation has the option to redeem some or all of the debentures at its discretion, this option has no value and has not been recorded in the consolidated financial statements.

n) Fair value measurements

The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation’s assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- *Level 1*: An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

- *Level 2*: Other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

- *Level 3*: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

o) Employee future benefits

Multi-employer pension plan

The Corporation provides a pension plan for its full-time employees through the Ontario Municipal Employees Retirement System [“OMERS”]. OMERS is a multi-employer, contributory, defined benefit pension plan established in 1962 by Ontario for employees of municipalities, local boards and school boards. Both participating employers and employees are required to make plan contributions based on participating employees’ contributory earnings. The OMERS plan is accounted for as a defined contribution plan where the Corporation recognizes the expense related to this plan as contributions are made. The Corporation is not responsible for any other contractual obligations other than the contributions.

As at March 31, 2012, OMERS had approximately 420,000 members, of whom approximately 1,600 are current employees of the Corporation.

Post-retirement benefits other than pension

The Corporation has a number of unfunded benefit plans providing post-retirement benefits (excluding pension) to its employees. The Corporation pays certain medical, dental and life insurance benefits under unfunded defined benefit plans on behalf of its retired employees. The Corporation pays accumulated sick leave credits, up to certain established limits based on service, in the event of retirement, termination or death of certain employees.

The Corporation measures its accumulated benefit obligation for accounting purposes as at December 31 of each year. The latest actuarial valuation was performed as at January 1, 2010.

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method and based on assumptions that reflect management's best estimate. All actuarial gains and losses and prior service costs are recognized immediately in other comprehensive income ["OCI"] (loss) and subsequently reclassified to a regulatory asset on the consolidated balance sheet. This results in the full recognition of the benefit obligation as a liability on the consolidated balance sheet.

Actuarial gains or losses are amortized into net periodic benefit cost for the current period when the net cumulative unrecognized actuarial gains or losses in the regulatory asset at the end of the previous reporting period exceed 10% of the accumulated benefit obligation at that date. These gains or losses are recognized over the expected average remaining service period of active employees participating in the plans.

The prior service costs in the regulatory asset are recognized as an expense on a straight-line basis over the average remaining service period of employees active at the date of amendment.

The effects of a curtailment loss are recognized in the consolidated statements of operations and comprehensive income (loss) when its occurrence is probable and reasonably estimable. The effects of a curtailment gain are recognized in the consolidated statements of operations and comprehensive income (loss) when the related employees terminate or the plan suspension or amendment is adopted. The effects of a settlement gain or loss are recognized in the consolidated statements of operations and comprehensive income (loss) in the period in which a settlement occurs.

p) Asset retirement obligations

The Corporation recognizes a liability for the future environmental remediation of certain properties and for future removal and handling costs for contamination in distribution equipment in service and in storage. Initially, the liability is measured at present value and the amount of the liability is added to the carrying amount of the related asset. In subsequent periods, the asset is depreciated and the liability is adjusted quarterly for the discount applied upon initial recognition of the liability and for changes in the underlying assumptions. The liability is recognized when the asset retirement obligation ["ARO"] is incurred and when the fair value is determined.

q) Customers' advance deposits

Electricity customer security deposits are cash collections from customers to guarantee the payment of energy bills. The electricity customer security deposits liability includes related interest amounts owed to the customers with the debit charged to net financing charges. Deposits that are refundable upon demand are classified as a current liability.

Security deposits on Offers to Connect and Supply Agreement are cash collections from expansion project customers to guarantee the payment of additional costs from these projects. This liability includes related interest amounts owed to the customers with the debit charged to net financing charges. Deposits are classified as a current liability when the Corporation no longer has an unconditional right to defer payment of the liability for at least twelve months after the reporting period.

r) Income Taxes

Under the Electricity Act, the Corporation is required to make payments in lieu of corporate income taxes ["PILs"] to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (for years ending after 2008) or the *Corporations Tax Act* (Ontario) (for years ending prior to 2009) as modified by regulations made under the Electricity Act and related regulations. This effectively results in the Corporation paying taxes similar to what would be imposed under the federal and Ontario tax acts.

The Corporation uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. The Corporation recognizes deferred income tax assets and liabilities for the future tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred income tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the consolidated balance sheet and their respective tax basis using the enacted tax rates by the consolidated balance sheet date in effect for the period in which the differences are expected to reverse. Deferred income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is established.

ASC 980 requires the recognition of deferred income tax assets and liabilities and related regulatory liabilities and assets for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future electricity rates. As at March 31, 2012, LDC recorded a deferred income tax asset of $195,568,000 and a corresponding regulatory liability of $195,568,000 with respect to its rate-regulated activities *[note 9]*.

The benefits of the refundable apprenticeship and co-operative investment tax credits ["ITC"] are credited against the related expense in the consolidated statements of operations and comprehensive income (loss). All other types of ITCs are recorded as a reduction to income tax expense in the current periods to the extent that realization of such benefit is more likely than not.

s) Use of estimates

The preparation of the Corporation's unaudited interim consolidated financial statements in accordance with US GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses for the period. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Significant areas requiring the use of management estimates relate to unbilled revenue, regulatory assets and liabilities, environmental liabilities and AROs, employee future benefits, and revenue recognition. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy, or the Ministry of Finance of Ontario ["Ministry of Finance"].

t) Future Accounting Pronouncements

A number of new standards and interpretations are not yet effective for the period ended March 31, 2012. The Corporation continues to analyze these standards but has initially determined that the following could have a significant effect on the consolidated financial statements.

[all tabular amounts in thousands of Canadian dollars, unaudited]

In September 2011, the FASB issued Accounting Standards Update ["ASU"] No. 2011-09, "Compensation – Retirement Benefits – Multiemployer Plans (Subtopic 715-80): *Disclosures about an Employer's Participation in a Multiemployer Plan*" ["ASU 2011-09"]. The amendments require additional disclosures about employers' participation in these types of plans including information about the plan's funded status if it is readily available. ASU 2011-09 is effective for fiscal years ending after December 15, 2011 and will be applied retrospectively. Early adoption is permitted. The Corporation has elected to include the additional disclosures related to the multi-employer pension plans in the interim consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210): *Disclosures about Offsetting Assets and Liabilities*" ["ASU 2011-11"]. The amendments require an entity to disclose both gross and net information about financial instruments and transactions eligible for offset in the consolidated balance sheet. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Retrospective application is required. The adoption of this amendment is expected to increase disclosures related to offsetting assets and liabilities and is not expected to have an impact to the Corporation's consolidated balance sheets.

5. INVENTORIES

Inventories consist of the following:

	March 31 2012 $	December 31 2011 $
Consumables, tools and other maintenance items	**1,641**	1,745
Fuses	**1,578**	1,625
Drums and reels	**917**	938
Other	**2,481**	2,583
	6,617	6,891

For the three months ended March 31, 2012, the Corporation recognized operating expenses of $2,132,000 related to inventory used to service electrical distribution assets [three months ended March 31, 2011 - $2,197,000].

6. CURRENT PORTION OF OTHER ASSETS

Current portion of other assets consist of the following:

	March 31 2012 $	December 31 2011 $
Prepaid expenses	**5,949**	4,487
Debt issuance costs	**928**	922
	6,877	5,409

[all tabular amounts in thousands of Canadian dollars, unaudited]

7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

	March 31 2012			December 31 2011		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Land	**16,761**	**—**	**16,761**	16,761	—	16,761
Distribution lines	**2,867,476**	**1,444,733**	**1,422,743**	2,850,401	1,441,333	1,409,068
Transformers	**655,347**	**364,690**	**290,657**	652,102	360,398	291,704
Stations	**279,376**	**139,302**	**140,074**	277,905	137,246	140,659
Meters	**240,616**	**126,547**	**114,069**	238,459	124,117	114,342
Buildings	**156,048**	**64,154**	**91,894**	154,932	62,403	92,529
Rolling stock	**77,486**	**43,322**	**34,164**	78,016	43,154	34,862
Other capital assets	**69,587**	**45,145**	**24,442**	68,802	44,108	24,694
Equipment and tools	**44,485**	**32,311**	**12,174**	44,208	31,785	12,423
Assets under capital lease	**13,730**	**1,597**	**12,133**	14,269	1,251	13,018
Computer hardware	**47,026**	**36,643**	**10,383**	44,625	35,602	9,023
Communications	**31,825**	**24,641**	**7,184**	31,537	23,912	7,625
Construction in progress	**236,006**	**—**	**236,006**	232,789	—	232,789
	4,735,769	**2,323,085**	**2,412,684**	4,704,806	2,305,309	2,399,497

For the three months ended March 31, 2012, AFUDC in the amount of $284,000 [three months ended March 31, 2011 - $526,000] was capitalized to property, plant and equipment and credited to net financing charges.

As at March 31, 2012, the net book value of stranded meters related to the deployment of smart meters amounting to $19,661,000 [December 31, 2011 - $20,366,000] was included in property, plant and equipment. In the absence of rate regulation, property, plant and equipment would have been $19,661,000 lower as at March 31, 2012 [December 31, 2011 - $20,366,000 lower].

For the three months ended March 31, 2012, the Corporation recorded depreciation expense of $29,765,000 [three months ended March 31, 2011 - $28,964,000] of which $519,000 [three months ended March 31, 2011 - $45,000] related to assets under capital lease.

[all tabular amounts in thousands of Canadian dollars, unaudited]

8. INTANGIBLE ASSETS, NET

Intangible assets consist of the following:

	March 31 2012			December 31 2011		
	Cost $	**Accumulated amortization $**	**Net book value $**	**Cost $**	**Accumulated amortization $**	**Net book value $**
Computer software	**224,059**	**159,704**	**64,355**	222,598	154,186	68,412
Contributions	**14,059**	**1,585**	**12,474**	14,059	1,440	12,619
Software in development	**18,442**	**—**	**18,442**	15,598	—	15,598
Contributions for work in progress	**34,125**	**—**	**34,125**	16,353	—	16,353
	290,685	**161,289**	**129,396**	268,608	155,626	112,982

For the three months ended March 31, 2012, the Corporation acquired $22,077,000 of intangible assets [three months ended March 31, 2011 - $17,392,000]. All intangible assets are subject to amortization when they become available for use. Software in development and contributions for work in progress relate to assets not currently available for use and therefore are not amortized.

For the three months ended March 31, 2012, $1,460,000 of software in development was transferred to computer software [three months ended March 31, 2011 - $4,553,000].

For the three months ended March 31, 2012, AFUDC in the amount of $269,000 [three months ended March 31, 2011 - $440,000] was capitalized to intangible assets and credited to net financing charges.

For the three months ended March 31, 2012, the Corporation recorded amortization expense on intangible assets of $5,663,000 [three months ended March 31, 2011 - $4,508,000].

As at March 31, 2012, estimated future amortization expense related to intangible assets is as follows:

	$
2012 (1)	15,204
2013	15,692
2014	14,778
2015	13,825
2016	10,874

(1) The amount disclosed represents the period April 1, 2012 to December 31, 2012.

[all tabular amounts in thousands of Canadian dollars, unaudited]

9. REGULATORY ASSETS AND LIABILITIES

Regulatory assets consist of the following:

	March 31 2012 $	December 31 2011 $
Smart meters	**59,999**	61,422
Accounting policy changes	**63,757**	64,785
Settlement variances	**26,807**	14,119
Regulatory assets recovery account	**2,668**	931
Other	**574**	1,781
	153,805	143,038
Less: Current portion of regulatory assets	**2,668**	—
Long-term portion of regulatory assets	**151,137**	143,038

Regulatory liabilities consist of the following:

	March 31 2012 $	December 31 2011 $
Deferred income taxes	**195,568**	200,436
Regulatory assets recovery account	**187**	7,293
Income and other taxes variance account	**2,373**	2,365
Other	**1,122**	1,118
	199,250	211,212
Less: Current portion of regulatory liabilities	**—**	7,293
Long-term portion of regulatory liabilities	**199,250**	203,919

For the three months ended March 31, 2012, LDC disposed of approved net regulatory liabilities amounting to $8,848,000 through permitted distribution rate adjustments [three months ended March 31, 2011 - $7,125,000].

The regulatory assets and liabilities of the Corporation are as follows:

a) Smart Meters

The smart meters regulatory asset account relates to Ontario's decision to install smart meters throughout Ontario. LDC substantially completed its smart meter project as at December 31, 2010. In connection with this initiative, the OEB ordered LDC to record all expenditures and related revenues from 2008 to 2010 to a regulatory asset account and allowed LDC to keep the net book value of the stranded meters in property, plant and equipment. Effective January 1, 2011, LDC has recorded smart meter costs in property, plant and equipment and intangible assets as a regular distribution activity as directed by the OEB. LDC expects to apply to the OEB to transfer the 2008 to 2010 smart meter costs from regulatory assets to property, plant and equipment and intangible assets in 2012, as well as to apply to transfer the net book value of the stranded meters from property, plant and equipment to regulatory assets in the next COS application.

As at March 31, 2012, smart meter capital expenditures, net of accumulated depreciation, totalling $57,636,000 were recorded to regulatory assets [December 31, 2011 - $59,227,000]. These expenditures would otherwise have been recorded as property, plant and equipment and intangible assets under US GAAP for unregulated businesses. In the absence of rate regulation, property, plant and equipment and intangible assets would have been $53,677,000 and $3,959,000 higher, respectively, as at March 31, 2012 [December 31, 2011 - $54,825,000 and $4,402,000 higher, respectively].

For the three months ended March 31, 2012, smart meter depreciation expense of $1,590,000 [three months ended March 31, 2011 - $1,590,000] were deferred which would have been expensed under US GAAP for unregulated businesses. In the absence of rate regulation, for the three months ended March 31, 2012, depreciation expense would have been $1,590,000 higher [three months ended March 31, 2011 - $1,590,000 higher].

For the three months ended March 31, 2012, smart meter customer revenues of $1,432,000 were deferred [three months ended March 31, 2011 - $1,481,000]. In the absence of rate regulation, for the three months ended March 31, 2012, revenue would have been $1,432,000 higher [three months ended March 31, 2011 - $1,481,000 higher].

b) Accounting Policy Changes

This regulatory asset account relates to the accounting policy changes upon adoption of US GAAP, primarily related to the expected future electricity distribution charges to customers arising from timing differences in the recognition of actuarial losses and prior service costs of other post-retirement benefits *[note 24]*. The period in which recovery is expected cannot be determined at this time.

c) Settlement Variances

This account is comprised of the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by LDC. The settlement variances relate primarily to service charges, non-competitive electricity charges, imported power charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB in the AP Handbook.

The balance for settlement variances continues to be calculated and attracts carrying charges in accordance with the OEB's direction. For the three months ended March 31, 2012, settlement variances of $9,229,000 were disposed through rate adjustments [three months ended March 31, 2011 - $7,644,000].

d) Deferred Income Taxes

This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets *[note 4[r]]*.

As at March 31, 2012, LDC recorded a deferred income tax asset and a corresponding regulatory liability of $195,568,000 [December 31, 2011 - $200,436,000] with respect to its rate-regulated activities.

e) Regulatory Assets Recovery Account

The Regulatory Assets Recovery Account ["RARA"] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and related rates.

[all tabular amounts in thousands of Canadian dollars, unaudited]

On April 9, 2010, the OEB approved the disposition of net regulatory liabilities of $68,140,000, consisting of credit balances for settlement variances and income and other taxes variances of $58,225,000 and $11,900,000, respectively, and intangible assets debit balance of $1,985,000, over a two-year period commencing on May 1, 2010 and ending on April 30, 2012.

On October 29, 2010, the OEB approved the disposition of regulatory assets of $5,296,000, for amounts in connection with the contact voltage remediation activities, for the period commencing on November 1, 2010 and ending on April 30, 2012.

On February 22, 2011, the OEB approved the disposition of the Late Payment Penalties Settlement regulatory asset of $7,526,000, over a 21-month period commencing on August 1, 2011 and ending on April 30, 2013.

On July 7, 2011, the OEB approved the disposition of net regulatory liabilities of $8,572,000, consisting of credit balances for settlement variances, income and other taxes variances and 2008 RARA residual of $7,460,000, $3,373,000, and $789,000, respectively, and an International Financial Reporting Standards ["IFRS"] cost debit balance of $3,050,000, over a nine-month period commencing on August 1, 2011 and ending on April 30, 2012.

f) Income and Other Taxes Variance Account

The income and other taxes variance regulatory liability account relates to the differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in the rate adjustment model. As at March 31, 2012, the balance in this account consisted of an over-recovery from customers of $2,373,000 [December 31, 2011 - $2,365,000].

10. OTHER ASSETS

Other long-term assets consist of the following:

	March 31 2012 $	December 31 2011 $
Prepaid expenses	**7,270**	7,331
Debt issuance costs	**4,784**	5,092
	12,054	12,423

11. CREDIT FACILITIES

The Corporation is a party to a revolving credit facility expiring on May 3, 2013 ["Revolving Credit Facility"], pursuant to which the Corporation may borrow up to $400,000,000, of which up to $140,000,000 is available in the form of letters of credit. Additionally, the Corporation is a party to a bilateral facility for $50,000,000 for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO.

As at March 31, 2012, no amounts had been drawn under the Corporation's Revolving Credit Facility [December 31, 2011 - $nil]. As at March 31, 2012, no amounts had been drawn for working capital purposes [December 31, 2011 - $nil].

As at March 31, 2012, $45,587,000 had been drawn on the bilateral facility [December 31, 2011 - $45,077,000].

[all tabular amounts in thousands of Canadian dollars, unaudited]

12. RESTRUCTURING

In the first quarter of 2012, the Corporation's Board of Directors approved a workforce restructuring program aimed at reducing its operating expenditures. The program was approved following the decision by the OEB to deny the request of LDC to set its electricity distribution rates for 2012, 2013 and 2014 under the COS framework. In preparing its application for electricity distribution rates for the 2012, 2013, and 2014 rate years using the IRM framework, including the filing of an ICM ["2012-2014 IRM/ICM Rate Application"], LDC concluded that significant cost reductions were necessary to manage its business within the confines of the expected allowed electricity distribution rates provided by the IRM framework *[note 3[a]]*. The main component of these operating cost reduction initiatives was a workforce restructuring program, which included the severance of management employees and a voluntary exit incentive program for targeted unionized positions.

For the three months ended March 31, 2012, the costs incurred as a result of these operating cost reduction initiatives amounted to approximately $27,796,000 and were comprised of ongoing termination payments to employees for $23,668,000 and one-time termination incentive payments to employees for $4,128,000, of which $24,662,000 remains unpaid as at March 31, 2012.

13. DEBENTURES

Debentures consist of the following:

	March 31 2012 $	December 31 2011 $
Senior unsecured debentures		
Series 1 – 6.11% due May 7, 2013	**224,980**	224,976
Series 2 – 5.15% due November 14, 2017	**249,841**	249,835
Series 3 – 4.49% due November 12, 2019	**249,952**	249,951
Series 5 – 6.11% due May 6, 2013	**245,057**	245,057
Series 6 – 5.54% due May 21, 2040	**199,858**	199,857
Series 7 – 3.54% due November 18, 2021	**299,854**	299,851
Total long-term portion of debentures	**1,469,542**	1,469,527

All debentures of the Corporation rank equally.

The Corporation may redeem some or all of the debentures at any time prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest up to but excluding the date fixed for redemption. Also, the Corporation may, at any time and from time to time, purchase debentures for cancellation, in the open market, by tender or by private contract, at any price. The debentures contain certain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets.

[all tabular amounts in thousands of Canadian dollars, unaudited]

14. EMPLOYEE FUTURE BENEFITS

a) Pension

The Corporation provides a pension plan for its full time employees through OMERS. Details of the plan are as follows:

Pension Plan, Employer Identification Number / Pension Number	Funded Status as at December 31, 2011	Contributions Three months ended March 31	
		2012 $	2011 $
OMERS, 564191	89%	**5,185**	4,204

The Corporation's contributions do not represent more than five percent of total contributions to the plan as indicated in OMERS's most recently available annual report for the year ended December 31, 2011. As of the end of the year, no funding improvement plan or rehabilitation plan had been implemented or was pending.

For 2012, OMERS contribution rates are 8.3% up to the year's maximum pensionable earnings ["YMPE"] and 12.8% over YMPE for normal retirement age ["NRA"] of 65 [2011 - 7.4% up to YMPE and 10.7% over YMPE for NRA of 65].

b) Post-retirement benefits other than pension

The components of net periodic benefit cost are:

	Three months ended March 31	
	2012 $	2011 $
Service cost	**1,288**	977
Interest cost	**2,914**	2,877
Amortization of net actuarial loss	**762**	158
Amortization of prior service cost	**266**	273
Net periodic benefit cost	**5,230**	4,285
Capitalized as part of property, plant and equipment	**1,534**	1,544
Charged to operations	**3,696**	2,741

[all tabular amounts in thousands of Canadian dollars, unaudited]

15. ASSET RETIREMENT OBLIGATIONS

Reconciliation between the opening and closing ARO liability balances is as follows:

	March 31 2012 $	December 31 2011 $
Balance, beginning of period	**4,902**	5,005
ARO liabilities settled in the period	**(55)**	(688)
Accretion expense	**44**	173
Revision in estimated cash flows	**59**	412
Balance, end of period	**4,950**	4,902

16. FINANCIAL INSTRUMENTS

a) Recognition and measurement

The carrying value and fair value of the Corporation’s financial instruments consist of the following:

	March 31 2012 $		December 31 2011 $	
	Carrying value	**Fair value [(1)]**	**Carrying value**	**Fair value [(1)]**
Cash and cash equivalents	**133,132**	**133,132**	154,256	154,256
Investments	**—**	**—**	34,002	34,002
Accounts receivable, net of allowance for doubtful accounts	**210,369**	**210,369**	183,272	183,272
Unbilled revenue	**243,890**	**243,890**	262,058	262,058
Accounts payable and accrued liabilities	**424,071**	**424,071**	412,412	412,412
Obligations under capital lease	**12,734**	**12,734**	13,172	13,172
Customers’ advance deposits	**56,684**	**56,684**	56,038	56,038
Senior unsecured debentures				
Series 1 – 6.11% due May 7, 2013	**224,980**	**236,450**	224,976	238,359
Series 2 – 5.15% due November 14, 2017	**249,841**	**283,592**	249,835	284,126
Series 3 – 4.49% due November 12, 2019	**249,952**	**277,572**	249,951	275,575
Series 5 – 6.11% due May 6, 2013	**245,057**	**257,531**	245,057	259,578
Series 6 – 5.54% due May 21, 2040	**199,858**	**246,723**	199,857	245,096
Series 7 – 3.54% due November 18, 2021	**299,854**	**308,028**	299,851	306,696

[(1)] The fair value measurement of financial instruments recorded at amortized cost for which the fair value has been disclosed, including obligations under capital lease, are included in Level 2 of the fair value hierarchy.

[all tabular amounts in thousands of Canadian dollars, unaudited]

b) Risk Factors

The following is a discussion of risks and related mitigation strategies that have been identified by the Corporation for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

The Corporation's activities provide for a variety of financial risks, particularly credit risk, interest rate risk and liquidity risk.

Credit risk

The Corporation is exposed to credit risk from financial instruments as a result of the risk of counterparties defaulting on their obligations. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The Corporation's credit risk associated with accounts receivable is primarily related to electricity bill payments from LDC customers. LDC has approximately 711,000 customers, the majority of which are residential. LDC collects security deposits from customers in accordance with direction provided by the OEB. As at March 31, 2012, LDC held security deposits in the amount of $56,684,000 [December 31, 2011 - $56,038,000].

Credit risk associated with accounts receivable is as follows:

	March 31 2012 $	December 31 2011 $
Total accounts receivable	**221,967**	196,259
Less: Allowance for doubtful accounts	**(11,598)**	(12,987)
Total accounts receivable, net	**210,369**	183,272
Of which:		
Outstanding for not more than 30 days	**179,322**	155,274
Outstanding for more than 30 days but not more than 120 days	**28,334**	24,777
Outstanding for more than 120 days	**14,311**	16,208
Less: Allowance for doubtful accounts	**(11,598)**	(12,987)
Total accounts receivable, net	**210,369**	183,272

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings but are unbilled at period-end. As at March 31, 2012, total unbilled revenue was $243,890,000 [December 31, 2011 - $262,058,000]. Unbilled revenue is considered current.

As at March 31, 2012, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties. The Corporation's maximum exposure to credit risk is equal to the carrying value of its financial assets.

[all tabular amounts in thousands of Canadian dollars, unaudited]

Interest rate risk

The Corporation is exposed to interest rate risk through holding certain financial instruments, and short-term borrowings under the Corporation's Revolving Credit Facility *[note 11]* may expose the Corporation to fluctuations in short-term interest rates. The Corporation attempts to minimize interest rate risk by issuing long-term fixed rate debt, and by extending or shortening the term of its short-term money market investments by assessing the monetary policy stance of the Bank of Canada, while ensuring that all payment obligations are met on an ongoing basis.

Under an IRM framework, the Corporation's allowed return on equity will be fixed for all years that fall under the IRM period. Since the return on equity is fixed, a fluctuation of interest rates will not affect the return on equity and therefore will not require a hypothetical sensitivity analysis.

Liquidity risk

The Corporation is exposed to liquidity risk related to commitments associated with financial instruments. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing net financing charges. The Corporation has access to credit facilities and monitors cash balances daily to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due. Liquidity risks associated with financial commitments are as follows:

March 31, 2012			
	Due within 1 year $	**Due between 1 year and 5 years $**	**Due after 5 years $**
Financial liabilities			
Accounts payable and accrued liabilities	**424,071**	**—**	**—**
Obligations under capital lease	**2,396**	**9,405**	**2,906**
Senior unsecured debentures			
Series 1 – 6.11% due May 7, 2013	**—**	**225,000**	**—**
Series 2 – 5.15% due November 14, 2017	**—**	**—**	**250,000**
Series 3 – 4.49% due November 12, 2019	**—**	**—**	**250,000**
Series 5 – 6.11% due May 6, 2013	**—**	**245,057**	**—**
Series 6 – 5.54% due May 21, 2040	**—**	**—**	**200,000**
Series 7 – 3.54% due November 18, 2021	**—**	**—**	**300,000**
Interest payments on debentures	**74,905**	**197,560**	**359,293**
	501,372	**677,022**	**1,362,199**

Hedging and Derivative risk

As at March 31, 2012 and December 31, 2011, the Corporation had not entered into hedging and derivative financial instruments.

Foreign exchange risk

As at March 31, 2012, the Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related payables commitments when required, the impact of these transactions is not material to the interim consolidated financial statements.

[all tabular amounts in thousands of Canadian dollars, unaudited]

17. FINANCIAL GUARANTEES

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 $500,000,000.

18. INCOME TAXES

The Corporation's effective tax rate for the three months ended March 31, 2012 and March 31, 2011 was nil% and 8.41%, respectively. The effective tax rate for the three months ended March 31, 2012 and March 31, 2011 was lower than the 2012 and 2011 statutory income tax rates of 26.25% and 28.25% respectively, primarily due to recording deferred income taxes against regulatory assets and liabilities.

Income tax expense for the three months ended March 31, 2012 was $nil [three months ended March 31, 2011 - $2,338,000]. Income tax expense was lower for the three months ended March 31, 2012 compared to the three months ended March 31, 2011 primarily due to recording deferred income taxes against regulatory assets and liabilities.

19. SHARE CAPITAL

Share capital consists of the following:

	March 31 2012 $	**December 31 2011 $**
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares		
Issued and outstanding		
1,000 common shares	**567,817**	567,817

Dividends

The shareholder direction adopted by the City with respect to the Corporation provides that the Board of Directors of the Corporation will use its best efforts to ensure that the Corporation meets certain financial performance standards, including those relating to the credit rating and dividends.

Subject to applicable law, the shareholder direction provides that the Corporation will pay dividends to the City each year amounting to the greater of $25,000,000 or 50% of the Corporation's consolidated net income for the year. The dividends are not cumulative and are payable as follows:

[i] $6,000,000 on the last day of each of the first three fiscal quarters during the year;

[ii] $7,000,000 on the last day of the fiscal year; and

[all tabular amounts in thousands of Canadian dollars, unaudited]

[iii] the amount, if any, by which 50% of the Corporation's annual consolidated net income for the year exceeds $25,000,000, within ten days after the Board of Directors of the Corporation approved the Corporation's audited consolidated financial statements for the year.

On March 2, 2012, the Board of Directors of the Corporation declared dividends in the amount of $28,966,000. The dividends were comprised of $22,966,000 with respect to net income for the year ended December 31, 2011, which was paid to the City on March 12, 2012, and $6,000,000 with respect to the first quarter of 2012, was paid to the City on March 30, 2012 *[note 26[c]]*.

20. RELATED PARTIES

For the Corporation, transactions with related parties include transactions with the City. All transactions with the City are conducted at prevailing market prices and normal trade terms.

Transactions with Related Parties Summary	**Three months ended March 31 2012 $**	**2011 $**
Revenues	**40,415**	42,016
Operating expenses and capital expenditures	**5,049**	4,949
Dividends	**28,966**	14,063

Transactions with Related Parties Summary	**March 31 2012 $**	**December 31 2011 $**
Accounts receivable, net of allowance for doubtful accounts	**6,829**	8,412
Unbilled revenue	**10,628**	9,363
Other assets	**7,257**	7,279
Accounts payable and accrued liabilities	**27,036**	25,085
Customers' advance deposits	**8,734**	8,714

Revenues represent amounts charged to the City primarily for electricity and street lighting services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends represent dividends paid to the City.

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

[all tabular amounts in thousands of Canadian dollars, unaudited]

21. COMMITMENTS

Operating lease obligations and future commitments

As at March 31, 2012, the future minimum annual lease payments under property and equipment operating leases and future commitments with remaining terms from one to five years and thereafter were as follows:

	$
2012 [(1)]	**7,729**
2013	**23,614**
2014	**7,667**
2015	**6,656**
2016	**6,465**
Thereafter	**3,394**
Total amount of future minimum payments	**55,525**

(1) The amount disclosed represents the balance due over the period April 1, 2012 to December 31, 2012.

Capital lease obligations

As at March 31, 2012, the future minimum annual lease payments under capital leases with remaining lease terms from one to five years and thereafter were as follows:

	$
2012 [(1)]	**1,797**
2013	**2,394**
2014	**2,366**
2015	**2,337**
2016	**2,325**
Thereafter	**3,488**
Total amount of future minimum lease payments	**14,707**
Less: interest and executory costs	**1,973**
	12,734
Current portion included in Other liabilities	**1,781**
Long-term portion included in Other liabilities	**10,953**

(1) The amount disclosed represents the balance due over the period April 1, 2012 to December 31, 2012.

22. CONTINGENCIES

a) Legal Proceedings

In the ordinary course of business, the Corporation is subject to various litigation and claims with customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. The Corporation and its subsidiaries are subject to various legal actions that arise in the normal course of business and if damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under their liability insurance which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions.

Christian Helm Class Action

On December 6, 2010, a statement of claim in a proposed class action was issued against LDC. The claim sought general and special damages in the amount of $100,000,000 for disgorgement of unjust gains allegedly resulting from the receipt of interest on overdue accounts in contravention of the *Interest Act* (Canada) *[note 26[b]]*.

2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) ["Class Proceedings Act"] seeking damages in the amount of $30,000,000 as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, a statement of defence and third party claim have been served by LDC and a third party defence and counterclaim against LDC seeking damages in the amount of $51,000,000 have been filed. A certification order has been issued. Affidavits of documents have been produced by LDC to the other parties and examinations for discovery have commenced and are continuing. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

On December 20, 2010, LDC was served with a statement of claim by the City seeking damages in the amount of $2,000,000 as a result of the fire at 2 Secord Avenue. A statement of defence and a third party claim have been served. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

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

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice under the Class Proceedings Act seeking damages in the amount of $30,000,000 as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks damages in the amount of $10,000,000 from LDC. Both actions are at a preliminary stage and the certification hearing is scheduled for September 2012. Statements of defence to the main action and to the third party claim have not been filed. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with these actions.

Another third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice seeking damages in the amount of $30,000,000 as compensation for damages allegedly suffered as a result of the fire at 2369 Lakeshore Boulevard West. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks damages in the amount of $400,000 from LDC. LDC has filed a statement of defence, crossclaim and counterclaim. Examinations for discovery have not taken place, notwithstanding a court ordered timetable to have them completed by February 29, 2012. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with these actions.

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of $2,000,000 as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

b) OEB PILs Proceeding

The OEB conducted a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for certain Municipal Electricity Utilities [“MEUs”]. On June 24, 2011, the OEB issued its decision for these MEUs and provided guidelines for the calculation and further disposition of the balances accumulated in the PILs regulatory variance accounts. The OEB has issued interrogatories and decisions for other MEUs subsequent to its previous decision.

LDC has reviewed the balances of its PILs regulatory variance accounts and applied the guidelines provided by the OEB. As at March 31, 2012, LDC estimated its liability at approximately $6,615,000. This balance has been recorded in the Corporation’s interim consolidated financial statements. LDC intends to apply for disposition of this balance in 2012 as part of its 2012-2014 IRM/ICM Rate Application. The amount to be approved by the OEB will be based on the OEB’s interpretation and application of its guidelines and the final balance which is yet to be approved by the OEB could differ materially from LDC’s estimation of its liability.

c) Payments in Lieu of Additional Municipal and School Taxes

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

The balance assessed by the Ministry of Finance on its most recent statement of account amounts to approximately $10,043,000 above the balance accrued by the Corporation [December 31, 2011 - $10,043,000]. While the Corporation expects that reassessments will be issued as a consequence of the change in regulation, there can be no assurance that the Corporation will not have to pay the full assessed balance in the future.

23. NET INCOME (LOSS) PER SHARE

The weighted daily average number of shares outstanding for the three months ended March 31, 2012 was 1,000 [three months ended March 31, 2011 - 1,000]. Basic and fully diluted net income (loss) per share was determined by dividing the net income (loss) for the period by the weighted daily average number of shares outstanding.

24. US GAAP TRANSITION

Publicly accountable enterprises in Canada were required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. In the absence of a definitive plan to consider the issuance of a RRA standard by the International Accounting Standards Board, the Corporation decided to evaluate the option of adopting US GAAP effective January 1, 2012 as an alternative to IFRS. On August 26, 2011, the Board of Directors of the Corporation approved the adoption of US GAAP for financial reporting purposes for the year beginning on January 1, 2012.

These are the Corporation's first interim consolidated financial statements prepared in accordance with US GAAP. The accounting policies set out in note 4 have been applied consistently in preparing the interim consolidated financial statements for the three months ended March 31, 2012 and the comparative periods.

The Corporation has adjusted amounts reported previously in its interim and annual consolidated financial statements prepared in accordance with Canadian GAAP. For reporting purposes, the transition date to US GAAP is January 1, 2011, which is the commencement of the 2011 interim comparative period to the Corporation's 2012 interim consolidated financial statements. An explanation of how the transition from Canadian GAAP to US GAAP has affected the Corporation's interim consolidated financial statements is set out in the following tables and accompanying notes.

The reconciliation of the January 1, 2011 consolidated balance sheet from Canadian GAAP to US GAAP is as follows:

CONSOLIDATED BALANCE SHEET

[in thousands of Canadian dollars]

As at January 1, 2011	**Notes**	**Canadian GAAP $**	**Transitional Adjustments $**	**US GAAP $**
ASSETS				
Current				
Regulatory assets	A	—	3,555	**3,555**
Other	B	805,310	718	**806,028**
Total current assets		805,310	4,273	**809,583**
Regulatory assets	A	85,113	29,224	**114,337**
Other	B	2,448,191	4,132	**2,452,323**
Total assets		3,338,614	37,629	**3,376,243**
LIABILITIES AND SHAREHOLDER'S EQUITY				
Current				
Customers' advance deposits	C	—	50,630	**50,630**
Post-retirement benefits	A	—	7,415	**7,415**
Regulatory liabilities	A	—	36,654	**36,654**
Other	C	639,751	(18,790)	**620,961**
Total current liabilities		639,751	75,909	**715,660**
Customers' advance deposits	C	45,462	(31,840)	**13,622**
Debentures	B	1,164,780	4,850	**1,169,630**
Post-retirement benefits	A	169,897	22,715	**192,612**
Regulatory liabilities	A	273,706	(34,005)	**239,701**
Other		5,639	—	**5,639**
Total liabilities		2,299,235	37,629	**2,336,864**
Total shareholder's equity		1,039,379	—	**1,039,379**
Total liabilities and shareholder's equity		3,338,614	37,629	**3,376,243**

The reconciliation of the December 31, 2011 consolidated balance sheet from Canadian GAAP to US GAAP is as follows:

CONSOLIDATED BALANCE SHEET

[in thousands of Canadian dollars]

As at December 31, 2011	Notes	Canadian GAAP $	Transitional Adjustments $	US GAAP $
ASSETS				
Current				
Other	B	656,278	922	**657,200**
Total current assets		656,278	922	**657,200**
Regulatory assets	A	77,322	65,716	**143,038**
Other	B	2,722,177	5,092	**2,727,269**
Total assets		3,455,777	71,730	**3,527,507**
LIABILITIES AND SHAREHOLDER'S EQUITY				
Current				
Customers' advance deposits	C	—	40,238	**40,238**
Post-retirement benefits	A	—	7,915	**7,915**
Regulatory liabilities	A	—	7,293	**7,293**
Other	C	448,061	(20,108)	**427,953**
Total current liabilities		448,061	35,338	**483,399**
Customers' advance deposits	C	35,930	(20,130)	**15,800**
Debentures	B	1,463,514	6,013	**1,469,527**
Post-retirement benefits	A	179,541	56,870	**236,411**
Regulatory liabilities	A	210,280	(6,361)	**203,919**
Other		16,203	—	**16,203**
Total liabilities		2,353,529	71,730	**2,425,259**
Total shareholder's equity		1,102,248	—	**1,102,248**
Total liabilities and shareholder's equity		3,455,777	71,730	**3,527,507**

The reconciliation of net income from Canadian GAAP to US GAAP for the three months ended March 31, 2011 is as follows:

RECONCILIATION OF NET INCOME FROM CANADIAN GAAP TO US GAAP

[in thousands of Canadian dollars]

Three months ended March 31, 2011	**Notes**	**$**
Net income, Canadian GAAP		25,452
Revenues	D	2,846
Purchased power and other	D	446
Operating expenses	D	(3,292)
Net income, US GAAP		**25,452**

Notes to the transitional adjustments

A. Post-retirement benefits

Under Canadian GAAP, unamortized actuarial gains and losses and unamortized prior service costs are not recorded on the consolidated balance sheet. Under US GAAP, all actuarial gains and losses and prior service costs are fully recognized in OCI in the period in which they arise and are presented within equity as Accumulated Other Comprehensive Income ["AOCI"]. Due to the rate-regulated nature of the Corporation's business, the impact to AOCI on transition and the impact to OCI on a go-forward basis will be reclassified to a regulatory asset account *[note 9[b]]*. This reclassification results in the full recognition of the benefit obligation as a liability on the Corporation's consolidated balance sheets and no balance reported in OCI and AOCI. A portion of the benefit obligation will also be presented as a current liability on the consolidated balance sheets. The current portion is the amount by which the actuarial present value of benefits included in the benefit obligation is payable in the next 12 months.

B. Debt issuance costs

Under Canadian GAAP, debt issuance costs are netted against the principal balance of the related debenture. Under US GAAP, debt issuance costs are recognized as deferred charges. This presentation difference results in an increase in other current assets and other assets and an offsetting increase to debentures.

C. Customers' advance deposits

Under US GAAP, deposits that are due on demand or will be due on demand within one year from the end of the reporting period have been reclassified as current liabilities.

D. Demand billable income and expenses

Under US GAAP, demand billable income and the associated costs have been reclassified on the consolidated statements of operations and comprehensive income (loss). There is no impact to the overall net income.

25. SEASONAL OPERATIONS

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

26. SUBSEQUENT EVENTS

The Corporation has evaluated the events and transactions occurring after the consolidated balance sheet date through May 17, 2012 when the Corporation's interim consolidated financial statements were available to be issued after the approval by the Corporation's Board of Directors, and identified the following events and transactions which required recognition in the interim consolidated financial statements and/or disclosure in the notes to the interim consolidated financial statements:

a) Electricity Distribution Rates

On May 10, 2012, LDC filed the 2012-2014 IRM/ICM Rate Application *[note 3[a]]*. The formulaic adjustment, requested by LDC, follows the guidelines provided by the OEB and seeks to increase the current revenue requirement by 0.68% to $525,500,000 for 2012, $529,100,000 for 2013 and $532,700,000 for 2014. The 2013 and 2014 formulaic adjustment may be subject to change depending on future inflation and market data.

The ICM proposed by LDC establishes rate riders allowing for the recovery of capital spending of $275,700,000 in 2012, $361,500,000 in 2013 and $266,500,000 in 2014 in excess of the OEB's threshold amounts. The calculation of the related requested rate riders was derived using guidelines provided by the OEB. Accordingly, when factoring the amount of capital currently included in LDC's electricity distribution rates, the total amount of capital requested amounts to $448,700,000 in 2012, $534,500,000 in 2013 and $439,500,000 in 2014.

The 2012-2014 IRM/ICM Rate Application is expected to be subject to an in-depth review by the OEB over the next few months. There can be no assurance that the OEB will allow for the total or partial recovery of the capital expenditure balances requested in the 2012-2014 IRM/ICM Rate Application. The outcome of the 2012-2014 IRM/ICM Rate Application could have a material impact on the Corporation's consolidated financial statements in the future.

b) Christian Helm Class Action

On April 30, 2012, a settlement reached by the parties was approved by Order of the Ontario Superior Court of Justice. Pursuant to the terms of the Order, LDC will pay the amount of $5,836,000 plus costs in settlement of all claims, the action has been dismissed, and the claims by all class members have been released. The Corporation accrued a liability to cover the expected settlement in 2010 *[note 22[a]]*.

c) Dividends

On May 17, 2012, the Board of Directors of the Corporation declared a dividend in the amount of $6,000,000 with respect to the second quarter of 2012. The dividend is payable on June 29, 2012 *[note 19]*.