MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2012

TORONTO HYDRO CORPORATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE INTERIM PERIOD ENDED
MARCH 31, 2012**

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Forward-Looking Information

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

The forward-looking information in the MD&A includes, but is not limited to, statements regarding Toronto Hydro-Electric System Limited's ("LDC") distribution revenue, the outcome of outstanding rate applications and other proceedings before the Ontario Energy Board ("OEB"), the Corporation's plans to borrow funds to repay maturing debentures and to finance the investment in LDC's infrastructure, LDC's Conservation and Demand Management ("CDM") programs, the outcome of outstanding proceedings before the Ministry of Finance of Ontario ("Ministry of Finance"), the expected results of legal proceedings, market volatility on the Corporation's consolidated results of operations, performance, business prospects and opportunities, the effect of changes in interest rates on future revenue requirements and the changes in accounting estimates. The statements that make up the forward-looking information are based on assumptions that include, but are not limited to, the future course of the economy and financial markets, the receipt of applicable regulatory approvals and requested rate orders, the receipt of favourable judgments, the level of interest rates and the Corporation's ability to borrow.

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

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

Introduction

The following MD&A should be read in conjunction with:

- the unaudited interim consolidated financial statements and accompanying notes of the Corporation as at and for the three-month period ended March 31, 2012 (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, 2011 (the "Annual Consolidated Financial Statements"); and

- the Corporation's MD&A for the year ended December 31, 2011 (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", "Changes in Accounting Estimates", and "Future Accounting Pronouncements" which remain substantially unchanged as at the date hereof except as noted below or as updated by the Interim Consolidated Financial Statements).

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

Effective January 1, 2012, the Corporation's Interim Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP"), including the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors" (the "AP Handbook") and are presented in Canadian dollars (see "Significant Accounting Policies" below). The Corporation's Annual and Interim Consolidated Financial Statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") until December 31, 2011. All comparative consolidated financial statements have been adjusted from the consolidated financial statements previously presented to conform to the presentation of the Corporation's first interim 2012 consolidated financial statements prepared in accordance with US GAAP, retroactively.

Business of Toronto Hydro Corporation

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

- *LDC* - which distributes electricity and engages in CDM activities; and

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, which delivers electricity to approximately 711,000 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 the Province of Ontario ("Ontario"). The business of LDC is regulated by the OEB which has broad powers relating to licensing, standards of conduct and service and the regulation of electricity distribution rates charged by LDC and other electricity distributors in Ontario. See note 2 to the Annual Consolidated Financial Statements.

The sole shareholder of the Corporation is the City.

Executive Summary

- Net loss for the three months ended March 31, 2012 was $12.8 million compared to a net income of $25.5 million for the comparable period in 2011;
- capital expenditures were $65.4 million for the three months ended March 31, 2012 compared to $100.3 million for the comparable period in 2011, with the decrease primarily related to lower capital expenditures currently included in the electricity distribution rates of LDC for 2012;
- on May 10, 2012, LDC filed its application to set electricity distribution rates for the 2012, 2013 and 2014 rate years under the Incentive Regulation Mechanism ("IRM") framework; and
- effective January 1, 2012, the Corporation's Interim Consolidated Financial Statements have been prepared in accordance with US GAAP.

Selected Interim Consolidated Financial Data

Interim Consolidated Statements of Operations and Comprehensive Income (Loss)
Three months ended March 31
(in thousands of Canadian dollars, except for per share amounts, unaudited)

	2012 $	2011 $	Change $	Change %
Revenues	699,660	704,188	(4,528)	(0.6)
Costs				
Purchased power	562,430	560,819	1,611	0.3
Operating expenses	68,182	66,175	2,007	3.0
Depreciation and amortization	35,428	33,472	1,956	5.8
	666,040	660,466	5,574	0.8
Income before the following:	33,620	43,722	(10,102)	(23.1)
Net financing charges	(18,650)	(18,896)	246	1.3
Gain on disposals of property, plant and equipment ("PP&E")	-	2,964	(2,964)	(100.0)
Restructuring costs	(27,796)	-	(27,796)	(100.0)
Income (loss) before income taxes	(12,826)	27,790	(40,616)	(146.2)
Income tax expense	-	2,338	(2,338)	(100.0)
Net income (loss) and comprehensive income (loss)	(12,826)	25,452	(38,278)	(150.4)
Basic and fully diluted net income (loss) per share	(12,826)	25,452	(38,278)	(150.4)

Interim Consolidated Balance Sheets Data (in thousands of Canadian dollars, unaudited)		
	As at March 31 2012 $	As at December 31 2011 $
Total assets	3,520,889	3,527,507
Current liabilities	516,023	483,399
Long-term liabilities	1,944,410	1,941,860
Total liabilities	2,460,433	2,425,259
Shareholder’s equity	1,060,456	1,102,248
Total liabilities and shareholder’s equity	3,520,889	3,527,507

Results of Operations

Net Income (Loss)

Net loss for the three months ended March 31, 2012 was $12.8 million compared to net income of $25.5 million for the comparable period in 2011. The decrease in net income for the three months ended March 31, 2012 was primarily due to restructuring costs incurred in conjunction with cost reduction initiatives at LDC in the first quarter of 2012 (see “Results of Operations – Restructuring Costs” below) ($27.8 million), lower net revenues ($6.1 million), lower gain on disposals of PP&E ($3.0 million), higher operating expenses ($2.0 million) and higher depreciation expense ($2.0 million). These unfavourable variances were partially offset by lower income tax expense ($2.3 million).

Net Revenues

Net revenues for the three months ended March 31, 2012 were $137.2 million compared to $143.4 million for the comparable period in 2011 (see “Non-GAAP Financial Measures” below). The decrease in net revenues for the three months ended March 31, 2012 was primarily due to lower regulated distribution revenue at LDC ($6.1 million). The decrease in distribution revenue was primarily due to an adjustment recorded in 2012 for future taxes payable to customers ($4.6 million) and lower consumption in 2012 (6,358 Gigawatt-Hours (“GWh”) in 2012 compared to 6,642 GWh in 2011) ($3.6 million), partially offset by the approval by the OEB of higher revenue requirement balance for the first three months of 2012 compared to the first three months of 2011 ($1.8 million) (see “Corporate Developments – Distribution Rates for LDC” below).

Expenses

Operating expenses for the three months ended March 31, 2012 were $68.2 million compared to $66.2 million for the comparable period in 2011. The increase in operating expenses for the three months ended March 31, 2012 was primarily due to higher overall compensation costs due to annual general increase in wages and related benefits ($3.5 million), partially offset by a decrease in the provision relating to legal proceedings ($1.4 million).

Depreciation and amortization expense for the three months ended March 31, 2012 was $35.4 million compared to $33.5 million for the comparable period in 2011. The increase in depreciation and amortization expense for the three months ended March 31, 2012 was primarily due to the depreciation of assets capitalized during the last three quarters of 2011 in relation to the renewal of the regulated electricity distribution infrastructure of LDC.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months ended March 31, 2012 was $nil compared to $3.0 million for the comparable period in 2011. The decrease in gain on disposals of PP&E was primarily due to the recognition of gains realized in connection with the disposals of surplus properties at LDC in 2011.

Restructuring Costs

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 Cost of Service ("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 Incremental Capital Module ("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. 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. See "Corporate Developments – Distribution Rates for LDC" below.

Restructuring costs for the three months ended March 31, 2012 were $27.8 million compared to $nil for the comparable period in 2011. This balance is comprised of ongoing termination payments to employees for $23.7 million and one-time termination incentive payments to employees for $4.1 million, of which $24.7 million remains unpaid as at March 31, 2012.

Income Tax Expense

Income tax expense for the three months ended March 31, 2012 was $nil compared to $2.3 million for the comparable period in 2011. The decrease in the income tax expense for the three months ended March 31, 2012 was primarily due to lower earnings before taxes ($10.7 million) offset by lower deductions for permanent and temporary differences between accounting and tax treatments ($8.4 million).

Quarterly Results of Operations

The table below presents unaudited quarterly consolidated financial information of the Corporation for the eight quarters including and immediately preceding March 31, 2012.

Quarterly Results of Operations
(in thousands of Canadian dollars, unaudited)

	March 31 2012 $	December 31 2011 $	September 30 2011 $	June 30 2011 $
Revenues	699,660	694,284	738,352	686,646
Costs	666,040	653,374	687,280	648,684
Net income (loss)........................	(12,826)	17,228	28,982	24,270
	March 31 2011 $	**December 31 2010 $**	**September 30 2010 $**	**June 30 2010 $**
Revenues	704,188	659,043	683,376	630,283
Costs	660,466	623,573	634,679	593,087
Net income	25,452	10,048	27,687	15,839

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 and cooling in the third quarter.

Financial Position

The following table outlines the significant changes in the consolidated balance sheets between March 31, 2012 and December 31, 2011.

Interim Consolidated Balance Sheets Data
As at March 31, 2012 compared to December 31, 2011
(in thousands of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Cash and cash equivalents	(21,124)	See "Liquidity and Capital Resources" below.
Investments	(34,002)	The decrease in investments is due to the sale and maturity of two floating rate notes in the amounts of $25.0 million and $9.0 million, the first was sold on February 15, 2012 and the second matured on February 17, 2012.
Accounts receivable, net of allowance for doubtful accounts	27,097	The increase in accounts receivable is primarily due to the timing of billing and collection activities from large customers.
Unbilled revenue	(18,168)	The decrease in unbilled revenue is primarily due to lower consumption in March 2012 compared to December 2011, which is partially offset by higher energy prices compared to the previous period.
PP&E and intangible assets, net	29,601	The increase in PP&E and intangible assets is primarily due to capital expenditures ($65.4 million) offset by depreciation during the year ($35.4 million).
Regulatory assets	10,767	The increase in regulatory assets is primarily due to increases in the retail settlement balances regulated by the OEB partially offset by the on-going recoveries of charges from customers.
Deferred income tax assets	(4,880)	The decrease in deferred income tax assets is primarily due to a decrease in the deductible temporary differences between tax and accounting values of PP&E.
Accounts payable and accrued liabilities	11,659	The increase in accounts payable and accrued liabilities is mainly due to timing differences in the settlement of interest on the debentures.
Restructuring accrual	24,662	The restructuring accrual is primarily due to the workforce restructuring program initiated by the Corporation in the first quarter of 2012 (see "Results of Operations – Restructuring Costs" above).

Interim Consolidated Balance Sheets Data As at March 31, 2012 compared to December 31, 2011 (in thousands of Canadian dollars, unaudited)		
Balance Sheet Account	**Increase (Decrease) $**	**Explanation of Significant Change**
Deferred revenue	8,472	The increase in deferred revenue is primarily due to a balance received in advance from the OPA relating to CDM programs and the receipt of annual pole and duct rental fees for 2012.
Regulatory liabilities	(11,962)	The decrease in regulatory liabilities is primarily due to the net disposition of retail settlement balances to customers approved by the OEB and a reduction of deferred income tax assets payable to customers.
Retained earnings	(41,792)	The decrease in retained earnings is due to dividends paid ($29.0 million) and the net loss during the period ($12.8 million).

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

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

The Corporation does not believe that equity contributions from the City, its sole shareholder, will constitute a source of capital.

Liquidity and Capital Resources Three months ended March 31 (in thousands of Canadian dollars, unaudited)		
	2012 $	**2011 $**
Cash and cash equivalents, beginning of period	154,256	330,151
Net cash provided by operating activities	55,934	45,329
Net cash used in investing activities	(48,738)	(158,516)
Net cash used in financing activities	(28,320)	(20,869)
Cash and cash equivalents, end of period	133,132	196,095

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2012 was $55.9 million compared to $45.3 million for the comparable period in 2011. The increase in net cash provided by operating activities for the three months ended March 31, 2012 was primarily due to a variance in the aggregate amount of accounts receivable and unbilled revenue due to the timing of billing and collection activities ($43.8 million), the recognition of a restructuring accrual (see "Results of Operations – Restructuring Costs" above) ($24.7 million) and an increase in deferred revenue relating to cash received in advance from the OPA for CDM programs in 2012 ($6.3 million). These variances were partially offset by a decrease in net income ($38.3 million) and a decrease in accounts payable and accrued liabilities primarily due to timing of payments to suppliers ($22.1 million).

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months ended March 31, 2012 was $48.7 million compared to $158.5 million for the comparable period in 2011. The decrease in net cash used in investing activities for the three months ended March 31, 2012 was primarily due to the purchase of investments in 2011 ($50.0 million), lower capital expenditures in 2012 ($35.0 million), and the net proceeds received from the sale of investments in 2012 ($34.0 million). These variances were partially offset by a higher change in net regulatory assets and liabilities ($7.6 million) primarily related to a higher variance in 2012 of retail settlement balances regulated by the OEB and the impact of the net proceeds received in 2011 on the disposition of surplus properties ($1.7 million).

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

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

	2012 $	2011 $
LDC		
Distribution system	59,591	86,879
Technology assets	4,142	5,871
Other [(1)]	1,327	5,782
	65,060	98,532
Other [(2)]	318	1,816
Total Capital Expenditures	65,378	100,348

Notes:

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

Under the current electricity distribution rates, the OEB-approved regulated capital expenditures amounted to approximately $140.0 million. For 2011, the OEB approved $378.8 million in regulated capital expenditures for LDC. On May 10, 2012, LDC filed its 2012-2014 IRM/ICM Rate Application with the OEB seeking funding for total regulated capital expenditures of $448.7 million in 2012, $534.5 million in 2013 and $439.5 million in 2014 (see "Corporate Developments – Distribution Rates for LDC" below).

The decrease in regulated capital expenditures at LDC for the three months ended March 31, 2012 amounted to $33.5 million and was primarily due to the uncertainty surrounding LDC's capital work program as a result of the OEB's decision to disallow LDC's COS application for the 2012, 2013 and 2014 rate years. This decrease was mainly within distribution lines ($22.8 million), other fleet and equipment ($3.8 million), metering ($3.7 million), switchgears ($3.3 million), customer connections ($2.0 million), and feeders ($1.8 million). These decreases were partially offset by an increase of capital expenditures in stations ($5.9 million).

The three most significant areas for regulated capital expenditures incurred by LDC in the current period were related to maintaining the reliability of the electricity distribution system, primarily by replacing aging assets ($24.5 million), upgrading and investing in stations ($18.5 million), and net expenditures related to customer connections primarily due to the growth in the condominium market ($5.3 million).

Net Cash Used in Financing Activities

Net cash used in financing activities for the three months ended March 31, 2012 was $28.3 million compared to $20.9 million for the comparable period in 2011. The increase in net cash used in financing activities was primarily due to a higher dividend paid with respect to net income for the year ended December 31, 2011, which was paid to the City on March 12, 2012 ($14.9 million), partially offset by an increase in customer deposits in 2012 in compliance with OEB rules and regulations ($7.5 million).

Summary of Contractual Obligations and Other Commitments

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

Summary of Contractual Obligations and Other Commitments
As at March 31, 2012
(in thousands of Canadian dollars, unaudited)

	Total $	2012[1] $	2013/2014 $	2015/2016 $	After 2016 $
Debentures – principal repayment...	1,470,057	–	470,057	–	1,000,000
Debentures – interest payments.......	631,758	74,905	105,960	91,600	359,293
Operating lease obligations and future commitments........................	55,525	7,729	31,281	13,121	3,394
Capital lease obligations …..............	14,707	1,797	4,760	4,662	3,488
Asset retirement obligations...........	5,839	1,371	458	241	3,769
Total contractual obligations and other commitments…......................	2,177,886	85,802	612,516	109,624	1,369,944

Notes:

(1) The amounts disclosed represent the balances due over the period April 1, 2012 to December 31, 2012.

Revolving Credit Facility

The Corporation is a party to a revolving credit facility expiring on May 3, 2013, pursuant to which the Corporation may borrow up to $400.0 million, of which up to $140.0 million is available in the form of letters of credit. Additionally, the Corporation is a party to a bilateral facility for $50.0 million for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO.

As at March 31, 2012, no amounts had been drawn under the Corporation's revolving credit facility and $45.6 million had been drawn on the bilateral facility.

Prudential Requirements and Third Party Credit Support

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

Dividends

On March 2, 2012, the Board of Directors of the Corporation declared dividends in the amount of $29.0 million. The dividends were comprised of $23.0 million with respect to net income for the year ended December 31, 2011, which was paid to the City on March 12, 2012, and $6.0 million with respect to the first quarter of 2012, which was paid to the City on March 30, 2012.

On May 17, 2012, the Board of Directors of the Corporation declared a dividend in the amount of $6.0 million with respect to the second quarter of 2012. The dividend is payable on June 29, 2012.

Credit Ratings

The Corporation and the debentures issued under its medium-term note program were rated as follows:

Credit Ratings As at March 31, 2012	
DBRS Limited	A (high)
Standard & Poor's	A

Corporate Developments

Distribution Rates for LDC

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect LDC's electricity distribution rates and other permitted recoveries in the future. 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 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 $522.0 million and $2,298.2 million, respectively. In addition, the decision provided for capital program spending levels and operating, maintenance and administration spending levels of $378.8 million and $238.0 million, 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 $571.4 million, $639.5 million, and $712.8 million, respectively, and the expected rate bases for these rate years were $2,636.3 million, $3,053.5 million, and $3,503.2 million, respectively.

Pursuant to the 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 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.

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.

On May 10, 2012, LDC filed the 2012-2014 IRM/ICM Rate Application. 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 $525.5 million for 2012, $529.1 million for 2013 and $532.7 million 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 $275.7 million in 2012, $361.5 million in 2013 and $266.5 million 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 $448.7 million in 2012, $534.5 million in 2013 and $439.5 million 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.

CDM Activities

On March 31, 2010, the Minister of Energy and Infrastructure of Ontario, under the guidance of sections 27.1 and 27.2 of the *Ontario Energy Board Act, 1998* (Ontario), directed the OEB to establish CDM targets to be met by electricity distributors. Accordingly, on November 12, 2010, the OEB amended LDC's distribution licence to require LDC, as a condition of its licence, to achieve 1,304 GWh of energy savings and 286 Megawatts of summer peak demand savings, over the period beginning January 1, 2011 through December 31, 2014.

Effective January 1, 2011, LDC entered into an agreement with the OPA to deliver CDM programs in the amount of approximately $50.0 million extending from January 1, 2011 to December 31, 2014 (the "Master CDM Program Agreement"). As at March 31, 2012, LDC received approximately $27.6 million from the OPA for the delivery of CDM programs under the Master CDM Program Agreement. All programs to be delivered under the Master CDM Program Agreement are fully funded and paid in advance by the OPA. These programs are expected to support the achievement of the mandatory CDM targets described above.

OEB PILs Proceeding

The OEB conducted a review of the Payments In Lieu of Corporate Taxes ("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 $6.6 million. 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.

Payments in Lieu of Additional Municipal and School Taxes

The Ministry of Finance has issued assessments in respect of payments in lieu of additional municipal and school taxes under section 92 of the *Electricity Act, 1998* (Ontario) 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 $10.0 million above the balance accrued by the Corporation. 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.

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.

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 $100.0 million for disgorgement of unjust gains allegedly resulting from the receipt of interest on overdue accounts in contravention of the *Interest Act* (Canada). 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 $5.8 million 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.

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 $30.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, a statement of defence and third party claim have been served by LDC and a third party defence and counterclaim against LDC seeking damages in the amount of $51.0 million have been filed. A certification order has been issued. Affidavits of documents have been produced by LDC to the other parties and examinations for discovery have commenced and are continuing. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

On December 20, 2010, LDC was served with a statement of claim by the City seeking damages in the amount of $2.0 million as a result of the fire at 2 Secord Avenue. A statement of defence and 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 $30.0 million as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks damages in the amount of $10.0 million 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 $30.0 million 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 $0.4 million 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 $2.0 million 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.

Share Capital

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

Transactions with Related Parties

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

Transactions with Related Parties Summary
Three months ended March 31
(in thousands of Canadian dollars)

	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 (in thousands of Canadian dollars)		
	As at March 31 2012 $	As at 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.

See note 20 to the Interim Consolidated Financial Statements.

Non-GAAP Financial Measures

The Corporation's MD&A includes "net revenue" which is a non-GAAP financial measure. The definition of net revenues is revenue minus the cost of purchased power. This measure does not have any standard meaning prescribed by US GAAP and is not necessarily comparable to similarly titled measures of other companies. The Corporation uses this measure to assess its performance and to further make operating decisions.

Significant Accounting Policies

The Interim Consolidated Financial Statements of the Corporation have been prepared in accordance with US GAAP, including accounting principles prescribed by the OEB in the AP Handbook, and are presented in Canadian dollars. In preparing the Interim Consolidated Financial Statements, management makes estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Interim Consolidated Financial Statements and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy, or the Ministry of Finance. The significant accounting policies of the Corporation are summarized in note 4 to the Interim Consolidated Financial Statements.

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.

In September 2011, the Financial Accounting Standards Board ("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.

US GAAP Transition

Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ("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 rate-regulated accounting 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.

The accompanying Interim Consolidated Financial Statements are the Corporation's first interim consolidated financial statements prepared in accordance with US GAAP. The accounting policies set out in note 4 to the Interim Consolidated Financial Statements have been applied consistently in preparing the Interim Consolidated Financial Statements and the comparative periods. The Corporation's first US GAAP annual consolidated financial statements will be dated December 31, 2012.

The quantification and reconciliation of the Corporation's consolidated balance sheet as at December 31, 2011, prepared in accordance with US GAAP as compared to Canadian GAAP is an increase to both total assets and total liabilities of approximately $71.7 million. The increase is primarily due to the recognition of unamortized actuarial losses and prior service costs and the reclassification of debt issuance costs in accordance with US GAAP. With respect to the consolidated statement of income and comprehensive income for the period ended December 31, 2011, net income was not impacted due to the Corporation's continued ability to apply rate-regulated accounting policies.

Based on the detailed assessment of the key accounting areas for which significant Canadian GAAP and US GAAP differences were identified, there is no impact to equity and net earnings from that previously reported in the Interim and Annual Consolidated Financial Statements. 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. A reconciliation of the transition from Canadian GAAP to US GAAP from January 1, 2011 and December 31, 2011 is provided in note 24 to the Interim Consolidated Financial Statements.

During the transition to US GAAP, there was no significant impact on the Corporation's internal controls, information technology systems and financial reporting expertise requirements. The Corporation has completed topic-specific and relevant training to affected finance and operational teams on all key differences between Canadian GAAP and US GAAP, including management, the Board of Directors, and relevant committees thereof, including the audit committee. During the remainder of 2012, the Corporation will continue to focus on training for any key developments in US GAAP and the potential impacts to the Corporation's consolidated financial statements. Due to the limited differences between Canadian GAAP and US GAAP, the Corporation's debt covenants were not impacted by the conversion to US GAAP.

On February 28, 2012, LDC submitted a letter to the OEB requesting an accounting order establishing a deferral account to record the accounting differences between Canadian GAAP and US GAAP. The OEB's approval to establish this deferral account would allow the Corporation to record the financial impacts associated with the accounting framework transition for regulatory reporting purposes. The OEB's decision on this accounting order application will not constitute a decision with respect to the Corporation's use of US GAAP for regulatory reporting purposes. LDC will seek the OEB's approval to use US GAAP for regulatory reporting purposes in its next COS application. On May 1, 2012, the OEB Board Staff submitted its recommendation to the OEB in support of approving the deferral account. A final decision is still pending.

Selected Financial Highlights

The following table sets forth selected financial information of the Corporation for the three months ended March 31, 2012 and for the comparable period in 2011. This information has been derived from the Interim Consolidated Financial Statements.

Selected Financial Highlights
Three months ended March 31
(in thousands of Canadian dollars, unaudited)

	2012 $	2011 $
Net revenues [1]	137,230	143,369
Operating expenses [1]	68,182	66,175
Net income (loss) [1]	(12,826)	25,452
Capital expenditures [2]	65,378	100,348

Notes:

(1) See "Results of Operations" for further details on net revenues, operating expenses and net income (loss).
(2) See "Liquidity and Capital Resources" for further details on capital expenditures.

Additional Information

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

Toronto, Canada

May 17, 2012