



FIRST QUARTER REPORT
MARCH 31, 2015

TORONTO HYDRO CORPORATION

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GLOSSARY

CDM – Conservation and demand management

CGU – Cash generating unit

City – City of Toronto

Copeland Station – The Clare R. Copeland transformer station, formerly called “Bremner Station”.

Corporation – Toronto Hydro Corporation

Electricity Act – *Electricity Act, 1998* (Ontario)

ERM – Enterprise risk management

GAAP – Generally Accepted Accounting Principles

GWh – Gigawatt hour

Green Energy Act – *Green Energy Act, 2009* (Ontario)

IAS – International Accounting Standard

IASB – International Accounting Standards Board

ICM – Incremental Capital Module

Ice Storm – Refers to an extreme winter storm involving freezing rain, ice pellets and snow that impacted Toronto in December 2013.

IESO – Independent Electricity System Operator. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015.

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

ITA – *Income Tax Act* (Canada)

ITC – Investment tax credit

KPIs – Key performance indicators

kW – Kilowatt

kWh – Kilowatt hour

LDC – Toronto Hydro-Electric System Limited

MD&A – Management's Discussion and Analysis

MED – Major event days as defined by the Institute of Electrical & Electronic Engineers Inc. specification 1366.

MW – Megawatt

OCI – Other comprehensive income

OEB – Ontario Energy Board

OEB Act – *Ontario Energy Board Act, 1998* (Ontario)

OMERS – Ontario Municipal Employees Retirement System

OPA – Ontario Power Authority. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015.

OSC – Ontario Securities Commission

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

TA – *Taxation Act, 2007* (Ontario)

TH Energy – Toronto Hydro Energy Services Inc.

US GAAP – United States Generally Accepted Accounting Principles

WMS – Wholesale Market Service



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED
MARCH 31, 2015 AND 2014

Executive Summary

- Effective January 1, 2015, the Corporation adopted IFRS, including early adoption of IFRS 14, and the accompanying Interim Financial Statements are the Corporation's first consolidated financial statements prepared in accordance with IFRS;
- net income after net movements in regulatory balances for the three months ended March 31, 2015 was \$16.5 million compared to \$21.6 million for the comparable period in 2014;
- capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were \$109.0 million for the three months ended March 31, 2015 compared to \$94.7 million for the comparable period in 2014;
- on January 9, 2015, the Corporation filed a base shelf prospectus with the securities commissions or similar regulatory authorities in each of the provinces of Canada providing for the issuance of up to \$1.0 billion of unsecured debentures;
- on March 16, 2015, the Corporation issued \$200.0 million of 3.55% senior unsecured debentures due July 28, 2045; and
- on April 28, 2015, the OEB declared LDC's existing distribution rates interim as of May 1, 2015, pending the OEB's final decision on LDC's rate application filed on July 31, 2014.

Introduction

This MD&A should be read in conjunction with:

- the Corporation's unaudited condensed interim consolidated financial statements and accompanying notes as at and for the three months ended March 31, 2015 and 2014, which were prepared in accordance with IFRS (the "Interim Financial Statements");
- the Corporation's audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2014 and 2013, which were prepared in accordance with US GAAP; and
- the Corporation's MD&A for the year ended December 31, 2014 (including the sections entitled "Electricity Distribution – Industry Overview", "Transactions with Related Parties", and "Risk Management and Risk Factors", which remain substantially unchanged as at the date hereof, except as noted below or as updated by the Interim Financial Statements).

Copies of these documents are available on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

The Interim Financial Statements are presented in Canadian dollars, which are the Corporation's functional currency. Effective January 1, 2015, the Corporation adopted IFRS and its Interim Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* (see "Transition to IFRS" below). The Corporation has elected to early adopt IFRS 14 *Regulatory Deferral Accounts* ("IFRS 14") in its Interim Financial Statements under IFRS. The Corporation's first IFRS annual consolidated financial statements will be for the year ended December 31, 2015. The Corporation's annual and interim consolidated financial statements were prepared in accordance with US GAAP until December 31, 2014. All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS.

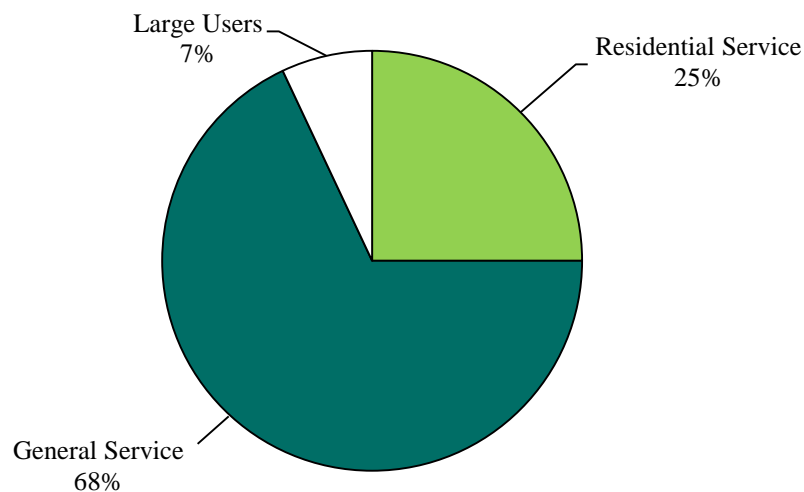
Business of Toronto Hydro Corporation

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

- LDC - distributes electricity and engages in CDM activities; and
- TH Energy - 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, delivering electricity to approximately 744,000 customers located in the City. The City is the sole shareholder of the Corporation. LDC is the largest municipal electricity distribution company in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the 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. For the three months ended March 31, 2015, LDC earned energy sales and distribution revenues of \$850.6 million. As illustrated in the accompanying chart, 68% of the energy sales and distribution revenues were earned from general service users¹, 25% from residential service users², and 7% from large users³.

LDC Energy Sales and Distribution Revenues by Class
Three months ended March 31, 2015



¹ "General Service" means a service supplied to premises other than those receiving "Residential Service" and "Large Users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of 5,000 kW or less averaged over a twelve-month period.

² "Residential Service" means a service that is for domestic or household purposes, including single family or individually metered multi-family units and seasonal occupancy.

³ "Large Users" means a service provided to a customer with a monthly peak demand of 5,000 kW or more averaged over a twelve-month period.

Corporate Strategy

The Corporation's vision is to "continuously maximize customer and stakeholders' satisfaction by being safe, reliable and environmentally responsible at optimal costs". The Corporation has an ERM framework that helps determine whether the Corporation is well positioned to achieve its strategic objectives. The ERM framework provides a consistent, disciplined methodology for controlling risk by identifying, assessing, managing, monitoring and reporting risks for the Corporation.

The Corporation is focused on the following four strategic pillars:

People – the Corporation aims to maintain an engaged, healthy, productive and safe workforce to meet changing business requirements, as it strives to:

- Provide a healthy and safe workplace
- Develop a skilled and knowledgeable workforce
- Keep its workforce engaged

The Corporation will continue to strengthen its already strong safety culture through various internal initiatives in order to achieve world-class results. The Corporation is committed to employee safety and will remain persistent in its efforts to mitigate the risk of injury to its workforce. This will be accomplished through ongoing safety inspections, audits, annual policy reviews and the continuation of safety programs and standards. The Corporation will continue to use the internal responsibility system to reinforce the importance of safety in the workplace.

Financial – the Corporation aims to meet the financial objectives of its shareholder, as it strives to:

- Provide a fair return to the shareholder
- Continue to increase shareholder value

The Corporation has provided its shareholder with an annual increase in economic value over the last decade. To meet the financial objectives of the shareholder, the Corporation seeks to increase shareholder value and is committed to provide a fair return to its shareholder in the future. Along with excellence in corporate financing and financial management, the Corporation will strive to maintain a strong credit rating.

Operations – the Corporation aims to improve reliability through sustainable system management, as it strives to:

- Keep the lights on
- Keep the system safe
- Build a grid that supports a modern Toronto

The Corporation is engaging in resource and capital-intensive programs to improve capacity, reliability and quality. The capital program will replace aging assets and accommodate next generation technology to suit the regulatory trends that incent the increased use of distributed generation.

Customer – the Corporation aims to provide value to customers, as it strives to:

- Make it easy to work with
- Help conserve energy
- Provide innovative tools and technology

The Corporation is looking at ways to improve the level of satisfaction that customers experience, whether it is through education and awareness programs, or interaction with call centre representatives, their account managers or over the internet. The Corporation continues to undertake initiatives and invest in technology and processes to improve the customer experience. In turn, this focus on customer service will provide long-term value for money.

Performance Measurement

The Corporation measures its performance in relation to the achievement of its strategic objectives by using a balanced scorecard approach. KPIs are monitored throughout the year and appropriate actions are taken as required. The definitions of the 2015 KPIs associated with the previously mentioned four strategic pillars are as follows:

Strategic Pillars	Performance Measure	Definition
People	Safety	<ul style="list-style-type: none"> Number of recordable injuries x 200,000 / exposure hours.
	Attendance	<ul style="list-style-type: none"> Average days absent per employee.
Financial	Net income after net movements in regulatory balances	<ul style="list-style-type: none"> Net income after net movements in regulatory balances per the Corporation's consolidated financial statements.
	Operating expenses	<ul style="list-style-type: none"> Consolidated operating expenses (excluding some defined costs).
Operations	System average interruption duration index	<ul style="list-style-type: none"> Measure of the annual system average interruption duration per customers served, not including MED.
	System average interruption frequency index	<ul style="list-style-type: none"> Measure of the frequency of service interruptions per customers served, not including MED.
	Key account worst performing feeders	<ul style="list-style-type: none"> Total number of feeders experiencing seven or more sustained outages affecting key account customers in a 12-month rolling time period.
	LDC regulated capital	<ul style="list-style-type: none"> Achievement of LDC's capital work program.
Customer	First call resolution	<ul style="list-style-type: none"> Percentage of telephone enquiries resolved within one call, within a 21-day time period.
	Enhanced online customer engagement	<ul style="list-style-type: none"> Increase in customer self-serve transactions / engagements using various self-serve options and media channels.

Capability to Deliver Results

The Corporation strives to manage its performance and deliver results. Each of the corporate targets are reasonably difficult to attain and serve to encourage success in the Corporation's financial and operational results. The Corporation's ability to deliver results in each of its strategic pillars in 2015 is managed through good governance around the balanced scorecard, short interval control and enterprise risk management. However it is also limited by inherent risks as discussed under the section "Risk Management and Risk Factors" in the Corporation's MD&A for the year ended December 31, 2014.

Selected Consolidated Financial Data
Interim Consolidated Statements of Income
Three months ended March 31
(in millions of Canadian dollars, unaudited)

	2015	2014	Change
	\$	\$	\$
Revenues			
Energy sales	703.6	742.1	(38.5)
Distribution revenue	147.0	141.1	5.9
Other	13.5	13.9	(0.4)
	864.1	897.1	(33.0)
Expenses			
Energy purchases	687.2	708.6	21.4
Operating expenses	70.3	74.3	4.0
Depreciation and amortization	42.7	39.1	(3.6)
	800.2	822.0	21.8
Finance costs	17.0	15.0	(2.0)
Gain on disposals of PP&E	6.4	-	6.4
Income before income taxes	53.3	60.1	(6.8)
Income tax expense	5.3	5.5	0.2
Net income for the period	48.0	54.6	(6.6)
Net movements in regulatory balances, net of tax	(31.5)	(33.0)	1.5
Net income after net movements in regulatory balances	16.5	21.6	(5.1)

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

	As at March 31 2015 \$	As at December 31 2014 \$
Current assets	530.9	537.7
Non-current assets	3,655.5	3,593.5
Total assets	4,186.4	4,131.2
Regulatory balances	177.3	197.1
Total assets and regulatory balances	4,363.7	4,328.3
Current liabilities	709.5	870.8
Non-current liabilities	2,220.0	2,014.0
Total liabilities	2,929.5	2,884.8
Equity	1,249.5	1,270.5
Total liabilities and equity	4,179.0	4,155.3
Regulatory balances	184.7	173.0
Total liabilities, equity and regulatory balances	4,363.7	4,328.3

Results of Operations

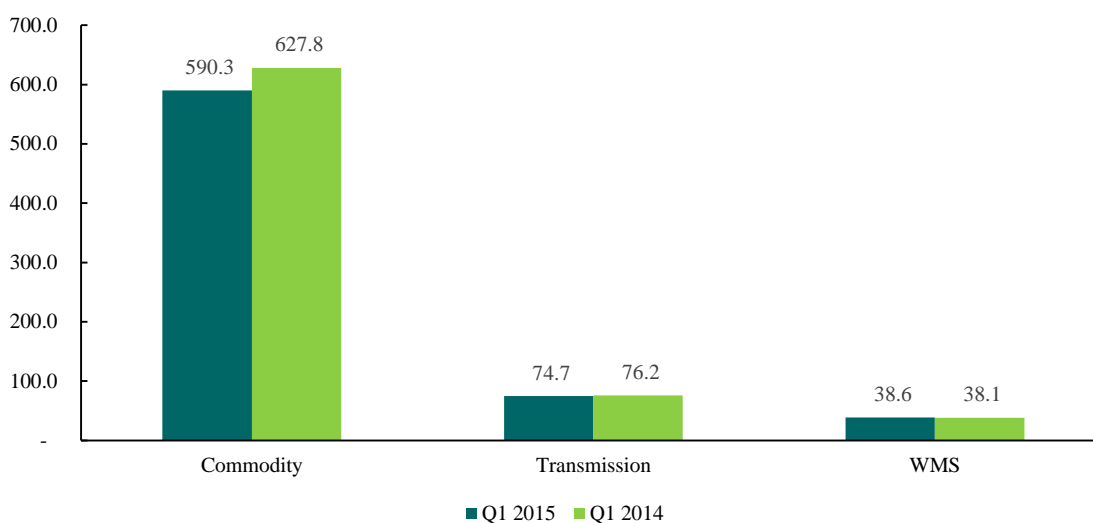
Net Income after Net Movements in Regulatory Balances

Net income after net movements in regulatory balances for the three months ended March 31, 2015 was \$16.5 million compared to \$21.6 million for the comparable period in 2014.

The decrease in net income after net movements in regulatory balances for the three months ended March 31, 2015 was primarily due to lower energy sales (\$38.5 million), higher depreciation and amortization expense (\$3.6 million), higher finance costs (\$2.0 million), and lower other revenue (\$0.4 million). These variances were partially offset by lower energy purchases (\$21.4 million), gain on disposal of PP&E (\$6.4 million), higher distribution revenue (\$5.9 million), lower operating expenses (\$4.0 million), and lower net movements in regulatory balances, net of tax (\$1.5 million).

Energy Sales

LDC Energy Sales
(\$ Millions)



LDC's energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include commodity charges (which represent the market price of electricity consumed by customers and include a global adjustment), retail transmission charges (which represent costs incurred in respect of the transmission of electricity from generating stations to local distribution networks), and WMS charges (which represent various wholesale market support costs). These charges are passed through to customers over time and are considered revenue by LDC due to the collection risk of the related balances. As such, energy sales are equal to the cost of energy purchased during the same period. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the consolidated balance sheet and within net movements in regulatory balances, net of tax on the consolidated statement of income.

Energy Sales Including Settlement Variances
Three months ended March 31, 2015
(in millions of Canadian dollars, unaudited)

	Energy Purchases \$	Settlement Variances \$	Energy Sales \$
Commodity Charges	576.4	13.9	590.3
Retail Transmission Charges	76.7	(2.0)	74.7
WMS Charges	34.1	4.5	38.6
Total	687.2	16.4	703.6

For the three months ended March 31, 2015, LDC recognized \$703.6 million in energy sales to customers and was billed \$687.2 million for energy purchases from the IESO. The difference between energy sales (\$703.6 million) and energy purchases (\$687.2 million) was \$16.4 million. This \$16.4 million difference is called the settlement variance and is payable to customers as a decrease in future charges. As such, the settlement variance was recorded as a decrease to the regulatory debit balance (\$16.2 million including carrying charges) on the consolidated balance sheet, and presented within net movements in regulatory balances, net of tax on the consolidated statement of income.

Energy sales for the three months ended March 31, 2015 were \$703.6 million compared to \$742.1 million for the comparable period in 2014. The decrease in energy sales for the three months ended March 31, 2015 was primarily a result of the settlement variance driven by lower commodity charges (\$37.5 million).

Distribution Revenue

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers, which includes revenue related to the collection of OEB-approved rate riders. Distribution revenue for the three months ended March 31, 2015 was \$147.0 million compared to \$141.1 million for the comparable period in 2014.

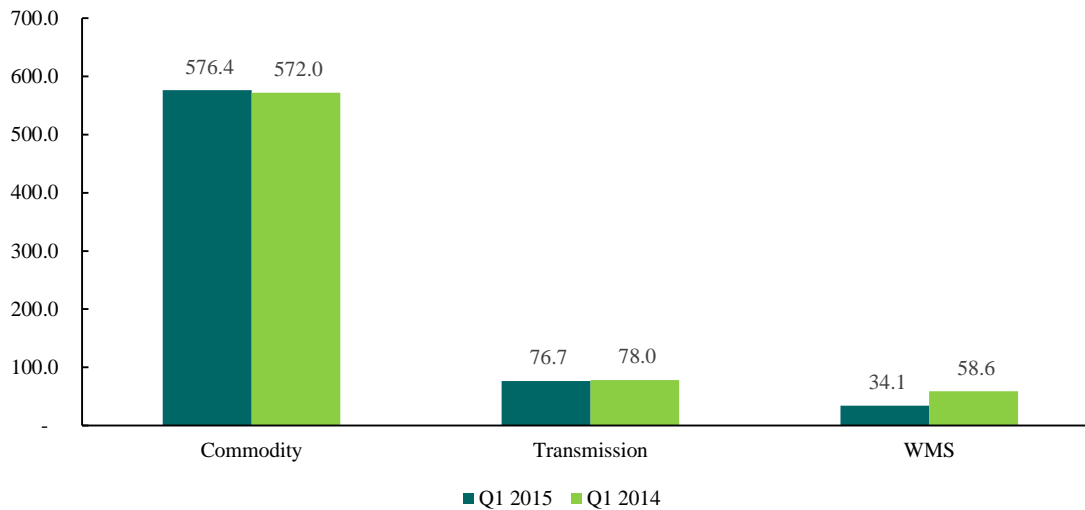
The increase in distribution revenue for the three months ended March 31, 2015 was primarily due to additional revenue recognition in connection with the smart meter cost recovery (\$2.8 million), revenue recognition related to the IRM adjustment effective May 1, 2014 (\$1.5 million), and a reduction to distribution revenue recorded in the first quarter of 2014 for the disposition of regulatory liabilities approved by the OEB (\$1.8 million) mainly related to PILs variances. These variances were partially offset by lower electricity consumption in the first quarter of 2015 (\$1.3 million).

Other Revenue

Other revenue includes revenue from services ancillary to the distribution of electricity, revenue from the delivery of street lighting services, revenue from demand billable activities, amortized capital contributions from customers on capital projects, and CDM cost efficiency incentives. Other revenue for the three months ended March 31, 2015 was \$13.5 million compared to \$13.9 million for the comparable period in 2014.

Energy purchases

**LDC Energy Purchases
(\$ Millions)**



LDC’s energy purchases consist of charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges, consistent with energy sales.

Energy purchases for the three months ended March 31, 2015 were \$687.2 million compared to \$708.6 million for the comparable period in 2014. The decrease in energy purchases for the three months ended March 31, 2015 was primarily due to lower WMS charges related to a reduced price of various wholesale market support costs.

Operating expenses

Operating expenses for the three months ended March 31, 2015 were \$70.3 million compared to \$74.3 million for the comparable period in 2014.

The decrease in operating expenses for the three months ended March 31, 2015 was primarily due to the repair costs for the electricity distribution infrastructure incurred in the first quarter of 2014 related to the Ice Storm that adversely affected the City at the end of December 2013.

Depreciation and amortization

Depreciation and amortization expense for the three months ended March 31, 2015 was \$42.7 million compared to \$39.1 million for the comparable period in 2014.

The increase in depreciation and amortization expense for the three months ended March 31, 2015 was primarily due to new in-service asset additions stemming from the increase in capital expenditures, partially offset by certain assets being fully depreciated.

Finance Costs

Finance costs for the three months ended March 31, 2015 were \$17.0 million compared to \$15.0 million for the comparable period in 2014.

The increase in finance costs for the three months ended March 31, 2015 was primarily due to the interest expense related to two separate \$200.0 million senior unsecured debentures issued in the third quarter of 2014 and the first quarter of 2015 (see “Liquidity and Capital Resources” below).

Gain on Disposals of PP&E

Gain on disposals of PP&E for three months ended March 31, 2015 was \$6.4 million compared to \$nil for the comparable period in 2014.

The gain on disposals of PP&E for the three months ended March 31, 2015 was primarily due to a gain realized on disposal of a surplus property at LDC related to the facilities consolidation program in the first quarter of 2015 (see “Liquidity and Capital Resources” below). The pre-tax gain recorded on the surplus property (\$6.0 million) was offset in net movements in regulatory balances, net of tax and subsequently recorded as a regulatory credit balance on the consolidated balance sheet, as it is payable to customers.

Net Movements in Regulatory Balances, Net of Tax

In accordance with IFRS 14, the Corporation is required to separately present regulatory balances and related movements on the consolidated balance sheets and consolidated statements of income. The changes in the regulatory debit (\$19.8 million) and credit balances (\$11.7 million) for the period are equal to the net movements in regulatory balances, net of tax (\$31.5 million) (see “Financial Position” below). Under IFRS 14, all regulatory related transactions impacting the consolidated statement of income are first recorded in accordance with other IFRS standards and then presented in the net movements in regulatory balances, net of tax caption. The table below provides a breakdown of the net movements in regulatory balances, net of tax and the consolidated statement of income captions impacted.

Net Movements in Regulatory Balances, Net of Tax
Three months ended March 31
(in millions of Canadian dollars, unaudited)

	2015 \$	2014 \$	Increase (Decrease) \$	Statement of Income Captions Impacted
Movements related to regulatory debit balances				
Settlement variances ¹	(16.2)	(5.8)	(10.4)	Energy sales
Smart meters	(4.3)	0.7	(5.0)	Distribution revenue
Post-employment benefits	-	(1.0)	1.0	Operating expenses
Other	0.7	(0.1)	0.8	Operating expenses
Stranded meters	-	(0.6)	0.6	Depreciation and amortization
IFRS transitional adjustments	-	0.2	(0.2)	Depreciation and amortization
Movements related to regulatory credit balances				
Settlement variances ¹	-	(27.8)	27.8	Energy sales
Gain on disposal	(8.1)	-	(8.1)	Gain on disposals of PP&E
ICM	(5.5)	(1.8)	(3.7)	Distribution revenue
Tax-related variances	(0.8)	1.2	(2.0)	Distribution revenue
Deferred taxes	2.7	1.9	0.8	Income tax expense
Other	-	0.1	(0.1)	
Net movements in regulatory balances, net of tax	(31.5)	(33.0)	1.5	

¹ Settlement variances are recorded as a debit or credit balance depending on the net balance as at the balance sheet date, but can change from period to period.

Net movements in regulatory balances, net of tax for the three months ended March 31, 2015 were \$31.5 million compared to \$33.0 million for the comparable period in 2014.

The variance in net movements in regulatory balances, net of tax for the three months ended March 31, 2015 was primarily due to net changes in the movements of the settlement variance balances (\$17.4 million), partially offset by

a gain on disposal (\$8.1 million), and changes in the movements of the smart meters balance (\$5.0 million) and ICM balance (\$3.7 million).

The net change in the movements of settlement variance balances (\$17.4 million) primarily related to a lower variance between energy sales and energy purchases during the first quarter of 2015. The decrease in the smart meter balance (\$4.3 million) related to smart meter revenue recognized during the first quarter of 2015. The increase in the gain on disposal balance (\$8.1 million) is a result of the gain and related future tax savings on the disposal of a surplus property by LDC. The ICM balance increased (\$5.5 million) due to the revenues collected through the ICM revenue rate rider during the first quarter of 2015.

Quarterly Results of Operations

The table below presents the Corporation's unaudited results of operations for eight quarters including and immediately preceding March 31, 2015, which have been prepared in accordance with IFRS except for the 2013 financial information which was prepared in accordance with US GAAP. The number of issued and outstanding shares of the Corporation during the eight quarters noted below was 1,000.

Quarterly Results of Operations (in millions of Canadian dollars, unaudited)				
	March 31 2015	December 31 2014	September 30 2014	June 30 2014
	\$	\$	\$	\$
Revenues ¹	864.1	864.8	808.4	702.5
Net income after net movements in regulatory balances ¹	16.5	23.8	35.1	31.2
	March 31 2014	December 31 2013	September 30 2013	June 30 2013
	\$	\$	\$	\$
Revenues ^{1,2}	897.1	819.6	833.3	792.9
Net income after net movements in regulatory balances ¹	21.6	NA	NA	NA
Net income ²	NA	29.3	35.8	37.6

¹ Quarterly financial information for 2015 has been extracted from the Interim Financial Statements, which have been prepared in accordance with IFRS. Quarterly financial information for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS.

² Quarterly financial information for 2013 were prepared in accordance with US GAAP.

The Corporation's revenues, all other things being equal, are impacted by changes in temperature. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling.

The Corporation's quarterly results are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions. This resulted in a variation from the trend noted above for Q4 2014 due to higher commodity costs as a result of global adjustments.

Financial Position

The following table outlines the significant changes in the unaudited interim consolidated balance sheet as at March 31, 2015 as compared to the consolidated balance sheet as at December 31, 2014.

Interim Consolidated Balance Sheet Data
As at March 31, 2015 compared to December 31, 2014
(in millions of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Assets		
Cash and cash equivalents	6.6	See "Liquidity and Capital Resources" below.
Accounts receivable and unbilled revenue	(12.9)	The decrease was primarily due to lower pass-through electricity costs, partially offset by timing variances of billing and collection activities from electricity customers.
PP&E and intangible assets	65.8	The increase was primarily due to capital expenditures, partially offset by depreciation during the period.
Liabilities and Equity		
Working capital facility	(6.1)	The decrease was due to repayment of drawings under the Corporation's working capital facility (see "Liquidity and Capital Resources" below).
Commercial paper	(144.0)	The decrease was primarily due to repayment using proceeds from the issuance of the \$200.0 million senior unsecured debenture in the first quarter of 2015 (see "Liquidity and Capital Resources" below).
Accounts payable and accrued liabilities	(16.4)	The decrease was primarily due to higher capital activity during the fourth quarter of 2014.
Deferred revenue	8.7	The increase was primarily due to capital contributions received during the first quarter of 2015 and timing differences in recognizing other revenue related to pole and duct rentals.
Debentures	198.5	The increase was primarily due to the issuance of the \$200.0 million senior unsecured debentures in the first quarter of 2015, partially offset by debt issuance costs (see "Liquidity and Capital Resources" below).
Retained earnings	(21.0)	The decrease was due to dividends paid (\$37.5 million), offset by net income after net movements in regulatory balances for the quarter (\$16.5 million).

Interim Consolidated Balance Sheet Data
As at March 31, 2015 compared to December 31, 2014
(in millions of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Regulatory Balances		
Regulatory debit balances ¹	(19.8)	The decrease was primarily due to the settlement variance between energy sales and energy purchases and additional smart meter revenue recognized during the first quarter of 2015 (see “Results of Operations” above).
Regulatory credit balances ¹	11.7	The increase was primarily due to the gain and related future tax savings on disposal of a surplus property which will be paid to customers (see “Liquidity and Capital Resources” below) and amounts collected through the ICM rate rider, partially offset by the tax impact of movements in regulatory balances.

¹ The total of changes in the regulatory debit and credit balances reflects net movements in regulatory balances, net of tax (see “Results of Operations” above).

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to \$530.9 million and \$709.5 million, respectively, as at March 31, 2015, resulting in a working capital deficit of \$178.6 million. The deficit is attributable to the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility (both defined below) before issuing additional debentures to fulfill the Corporation's liquidity requirements, including significant capital spending in the current year. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower financing costs and enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuances of commercial paper, amounts available to be drawn against its credit facilities, 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, and to meet financing obligations. See “Liquidity Risk” under note 13 (b) to the Interim Financial Statements.

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

Interim Consolidated Statements of Cash Flow Data
(in millions of Canadian dollars, unaudited)

	Three months Ended March 31	
	2015 \$	2014 \$
Cash and cash equivalents (working capital facility), beginning of period	(6.1)	(19.1)
Net cash provided by operating activities	134.1	112.7
Net cash used in investing activities	(132.2)	(106.9)
Net cash provided by financing activities	10.8	3.7
Cash and cash equivalents (working capital facility), end of period	6.6	(9.6)

Cash and cash equivalents as at March 31, 2015 were \$6.6 million compared to \$9.6 million drawn on the Working Capital Facility (as defined below) as at March 31, 2014.

The Corporation is a party to a demand facility with a Canadian chartered bank for \$20.0 million for the purpose of working capital management (“Working Capital Facility”). As at March 31, 2015, no amount had been drawn under the Working Capital Facility compared to \$6.1 million as at December 31, 2014.

Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2015 was \$134.1 million compared to \$112.7 million for the comparable period in 2014.

The increase in net cash provided by operating activities for the three months ended March 31, 2015 was primarily due to the movements in non-cash working capital balances (see note 19 to the Interim Financial Statements) and other non-current assets and liabilities, and an increase in customer deposits.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2015 was \$132.2 million compared to \$106.9 million for the comparable period in 2014.

The increase in net cash used in investing activities for the three months ended March 31, 2015 was due to higher capital expenditures, offset by proceeds on disposals of surplus properties in 2015.

Electricity distribution is a capital-intensive business. As the largest municipal electricity distribution company in Canada, LDC continues to invest in the renewal of existing aging infrastructure to address safety, reliability and customer service requirements. As well, Toronto continues to have one of the highest number of high-rise buildings under construction in North America, resulting in increased capital programs by LDC.

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

Capital Expenditures
(in millions of Canadian dollars, unaudited)

	Three months Ended March 31	
	2015 \$	2014 ¹ \$
Regulated LDC		
Distribution system		
Planned	81.8	62.2
Reactive	6.6	9.4
Copeland Station	6.6	7.4
Facilities consolidation	7.6	12.3
Technology assets	3.8	2.1
Other ²	0.7	0.9
Regulated capital expenditures	107.1	94.3
Unregulated capital expenditures ³	1.9	0.4
Total capital expenditures	109.0	94.7

¹ Capital expenditures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS.

² Includes fleet capital and buildings.

³ Primarily related to TH Energy equipment.

The total regulated capital expenditures for the three months ended March 31, 2015 were \$107.1 million compared to \$94.3 million for the comparable period in 2014. For the three months ended March 31, 2015, the increase in regulated capital expenditures was primarily related to spending on overhead infrastructure (\$5.3 million), underground infrastructure (\$3.6 million), equipment for increased load demand related to the growing population in the City (\$2.6 million), network infrastructure and equipment spending (\$1.8 million), and externally-initiated plant relocations and expansions (\$0.8 million).

The largest capital initiatives in 2015 include the replacement of overhead infrastructure, the replacement of underground infrastructure, the delivery of customer connections, the facilities consolidation program, and the construction of Copeland Station in response to the growing need for distribution options in the downtown core of the City.

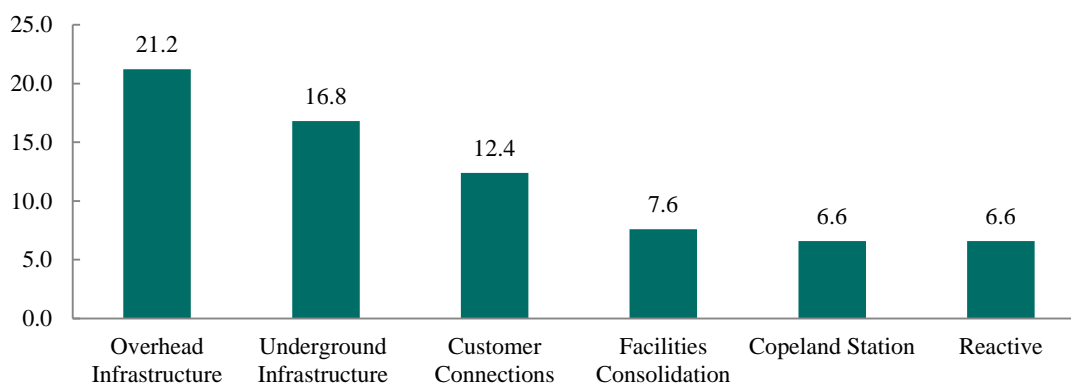
The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells, and other aging underground infrastructure. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the three months ended March 31, 2015, capital expenditures for the overhead and underground infrastructures were \$21.2 million and \$16.8 million, respectively.

The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. For the three months ended March 31, 2015, capital expenditures for the delivery of customer connections were \$12.4 million.

The facilities consolidation program relates to the consolidation of operating centres to lower operating centre costs and simplify long-term planning. In 2014, the Corporation began relocating staff, equipment and operations as well as performing the required capital investment on specific properties as part of this program and incurred costs of \$57.0 million in 2014 and \$7.6 million for the three months ended March 31, 2015. The facilities consolidation program will reduce the total number of operating centres by two upon completion. Expected net proceeds on the sale of two surplus properties have been included in the rate application to mitigate electricity distribution rate increases. On March 3, 2015, the Corporation sold one of the surplus properties owned by LDC for \$10.5 million. The pre-tax gain of \$6.0 million and related future tax savings of \$2.1 million will be paid to customers in the future and as such, was recorded as a regulatory credit balance on the consolidated balance sheet.

Copeland Station is one of the most complex projects ever undertaken by the Corporation. It will be the first transformer station built in downtown Toronto since the 1960's and will be the second underground transformer station in Canada. When in service, it will provide electricity to buildings and neighbourhoods in the central-southwest region of Toronto. During the first quarter of 2015, the main tunnel concrete liner was completed. As at March 31, 2015, the cumulative capital expenditures on the Copeland Station project amounted to \$149.6 million, of which \$6.6 million was recorded in 2015. The \$149.6 million in costs incurred to date relates to land and building (\$51.2 million), capital contributions to Hydro One (\$41.7 million), tunnel and other (\$29.3 million), and equipment (\$27.4 million). All capital expenditures related to Copeland Station are recorded to PP&E. As construction continues, Copeland Station is expected to be completed during 2016 and the total capital expenditures required to complete the project is approximately \$195.0 million, plus capitalized borrowing costs as applicable.

Most Significant Regulated Capital Initiatives
(\$ Millions)
Three months ended March 31, 2015



Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2015 was \$10.8 million compared to \$3.7 million for the comparable period in 2014.

The Corporation is a party to a revolving credit facility expiring on October 10, 2019 (“Revolving Credit Facility”), pursuant to which it may borrow up to \$700.0 million, of which up to \$210.0 million is available in the form of letters of credit. As at March 31, 2015, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

The Corporation has a commercial paper program allowing up to \$500.0 million of unsecured short-term promissory notes (“Commercial Paper Program”) to be issued in various maturities of no more than one year. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are being used for general corporate purposes.

The available amount under the Revolving Credit Facility as well as outstanding borrowings under the Revolving Credit Facility and Commercial Paper Program are as follows:

	Facility Limit	Revolving Credit Facility Borrowings	Commercial Paper Outstanding	Facility Availability
(in millions of Canadian dollars, unaudited)	\$	\$	\$	\$
March 31, 2015	700.0	—	164.0	536.0
December 31, 2014	700.0	—	308.0	392.0

For the three months ended March 31, 2015, the average outstanding borrowings under the Corporation’s Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$322.3 million with a weighted average interest rate of 1.07%.

Additionally, the Corporation is a party to a demand facility with a Canadian chartered bank for \$75.0 million for the purpose of issuing letters of credit mainly to support LDC’s prudential requirements with the IESO (“Prudential Facility”). As at March 31, 2015, \$29.7 million of letters of credit had been issued against the Prudential Facility.

The Corporation filed a base shelf prospectus dated January 9, 2015 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to \$1.0 billion during the 25-month period following the date of the prospectus.

On March 16, 2015, the Corporation issued \$200.0 million of 3.55% senior unsecured debentures at a price of \$998.37 per \$1,000 principal amount due July 28, 2045 (“Series 11”). The Series 11 debentures bear interest payable semi-annually in arrears and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The Corporation may redeem all or part of the Series 11 debentures 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 to the date fixed for redemption. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$1.4 million relating to the Series 11 debentures were recorded against the principal amount of the debentures in the first quarter of 2015 and are amortized to finance costs using the effective interest method. As at March 31, 2015, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

As at March 31, 2015, the Corporation had long-term debentures outstanding in the principal amount of \$1.85 billion. These debentures will mature between 2017 and 2063. The Corporation may issue up to \$800.0 million of additional debentures under the existing base shelf prospectus.

The Corporation’s debentures and commercial paper were rated as follows:

**Credit Ratings
As at March 31, 2015**

	Debentures	Commercial Paper
DBRS	A (high) ¹	R-1 (low)
Standard & Poor’s	A	-

¹ On May 6, 2015, DBRS announced its decision to downgrade the credit rating on the Corporation’s debentures by one level, from “A (high)” to “A”, with a stable trend.

The Corporation believes that it has sufficient available sources of liquidity and capital to satisfy working capital requirements for the next twelve months.

On March 5, 2015, the Board of Directors of the Corporation declared dividends in the amount of \$37.5 million. The dividends consisted of \$31.2 million with respect to net income under US GAAP for the year ended December 31,

2014, paid to the City on March 13, 2015, and \$6.3 million with respect to the first quarter of 2015, paid to the City on March 31, 2015.

On May 14, 2015, the Board of Directors of the Corporation declared a dividend in the amount of \$6.3 million with respect to the second quarter of 2015. The dividend is payable on June 30, 2015.

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, 2015
(in millions of Canadian dollars, unaudited)

	Total \$	2015 ¹ \$	2016/2017 \$	2018/2019 \$	After 2019 \$
Commercial paper ²	164.0	164.0	-	-	-
Debentures – principal repayment	1,850.0	-	250.0	250.0	1,350.0
Debentures – interest payments	1,353.9	67.7	152.4	126.8	1,007.0
Operating leases	12.1	4.5	7.6	-	-
Capital projects ³ and other	48.9	36.5	12.4	-	-
Capital leases	10.1	2.3	6.3	1.5	-
Total contractual obligations and other commitments	3,439.0	275.0	428.7	378.3	2,357.0

¹ The amounts disclosed represent the balances due over the period from April 1, 2015 to December 31, 2015.

² The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.

³ Reflects capital project commitments for construction services and estimated capital contributions, with the majority related to Copeland Station.

Corporate Developments

Changes to the Corporation's Board of Directors

Effective February 10, 2015, the City, as the sole shareholder of the Corporation, appointed councillor Paul Ainslie to the Board of Directors. The appointment is effective for a term ending December 31, 2016, or until his successor is appointed.

Electricity Distribution Rates

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.

On May 10, 2012, LDC filed an application for electricity distribution rates for 2012, 2013 and 2014 using the IRM framework, including the filing of an ICM application. On April 2, 2013, the OEB approved new rates for LDC effective June 1, 2013, which reflected approved capital expenditures amounting to \$203.3 million for 2012 and \$484.2 million for 2013. In a separate decision rendered on December 19, 2013, the OEB approved capital expenditures amounting to \$398.8 million for 2014.

On January 16, 2014, the OEB approved LDC's request for disposition of the smart meter regulatory balances related to smart meter installations in 2008, 2009 and 2010 through two separate rate riders effective May 1, 2014. The first rate rider related to the recovery of \$23.9 million, representing the cumulative revenue requirement net of recoveries from an existing smart meter rate rider. This existing smart meter rate rider was discontinued when the new rate riders became effective. The second rate rider related to the recovery of \$9.6 million, representing the forecasted 2014 incremental revenue requirement.

On July 31, 2014, LDC filed a rate application with the OEB under the Custom Incentive Rate-setting mechanism, seeking approval of LDC's 2015 test year revenue requirement and corresponding electricity distribution rates effective May 1, 2015, and subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rate application included requests for approval of capital expenditures of approximately \$2.5 billion over the 2015-2019 period. The rate application also sought approval to include in LDC's rate base capital amounts that were prudently incurred prior to 2015, subject to review by the OEB. In addition, LDC sought approval to recover the net book value of stranded meters. LDC's revenue over the period will be based on the existing rate base, capital expenditures and operating expenses ultimately approved by the OEB in the rate application plus cost of capital allowed by the OEB.

On April 28, 2015, the OEB declared LDC's existing rates interim, effective May 1, 2015. As the decision will be issued sometime after LDC's proposed rate implementation date, this will allow LDC to reconcile, at a later date, any variance between its existing and approved rates over the interim period between May 1, 2015 and the effective date of the OEB decision. The current application is subject to an in-depth review by the OEB, and there can be no assurance that the OEB will allow for the amount of electricity distribution rates requested by LDC. The financial effect of the OEB decision will be reflected in the period it becomes known and could be material to the Corporation's financial performance.

On August 3, 2011, the OEB issued its final decision allowing the transfer of a portion of the street lighting assets from TH Energy to the new wholly-owned legal entity (1798594 Ontario Inc.), and for LDC to amalgamate with the new legal entity. The OEB decided that the rate base, revenue requirement and rate consequences of the transfer would be decided at LDC's next cost of service or rebasing rate application. On January 1, 2012, the Corporation completed the asset transfer and amalgamation. The purchase price for such assets, including a post-closing adjustment, was \$42.5 million, subject to transaction costs. On July 31, 2014, LDC filed the above noted rate application with the OEB seeking a final determination of the rate base, revenue requirement and rate consequences of the street lighting transfer.

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 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 GWh of energy savings and 286 MW 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 in the amount of approximately \$50.0 million to deliver CDM programs extending from January 1, 2011 to December 31, 2014 to support achievement of the mandatory CDM targets described above. LDC applied to the OPA in March 2014 to revise the program administration budget to \$45.8 million for the delivery of CDM programs from 2011 to 2014. All programs to be delivered are fully funded and paid in advance by the OPA. Amounts received but not yet spent are presented under current liabilities as deferred conservation credit. Upon the expiration of the agreement, LDC is required to repay to the OPA any excess funding received for program administration less any cost efficiency incentives. As at December 31, 2014, LDC estimated that approximately \$5.7 million qualified as cost efficiency incentives, and approximately \$4.9 million was repayable to the OPA for the remaining program administration budget, included within accounts payable and accrued liabilities.

On December 21, 2012, the Minister of Energy of Ontario issued a direction to the OPA under subsection 25.32(4.1) of the Electricity Act to extend the funding time period for OPA-contracted province-wide CDM initiatives under the Green Energy Act framework to December 31, 2015. Funding and respective targets for CDM programs approved pursuant to the 2011-2014 OPA agreement that have in-service dates in 2015 will be allocated toward the 2011-2014 program. LDC has received approval from the IESO for separate funding of \$11.2 million relating to these transitional CDM programs for 2015.

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to customers in its licensed service area and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate,

support and fund the delivery of CDM programs through electricity distributors. The objective of the new CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of these CDM programs over the 2015-2020 period with funding of approximately \$400.0 million, which includes participant incentives and LDC program administration costs. LDC provided to the IESO, which was merged with the OPA under the name IESO on January 1, 2015, its plan for achieving its CDM target and received conditional approval as of March 26, 2015. LDC also has the option to submit a joint CDM plan with one or more distribution companies. LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, on a CDM program by program basis. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented costs incurred with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 period. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment. The majority of LDC's CDM programs are under the full cost recovery funding method. On April 30, 2015, LDC submitted a joint CDM plan with Oakville Hydro Electricity Distribution Inc. to replace LDC's previous CDM plan for the delivery of CDM programs over the 2015-2020 period, pending approval from the IESO, with combined funding of approximately \$425.0 million and energy savings target of approximately 1,668 GWh.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from 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. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurer. There have been no material changes in legal proceedings as disclosed in note 22 to the Interim Financial Statements.

Share Capital

The authorized share capital of the Corporation consists of an unlimited number of common shares without par value, of which 1,000 common shares are issued and outstanding as at the date hereof. All issued shares were fully paid.

Transactions with Related Parties

Since the Corporation is a wholly-owned subsidiary of the City, the Corporation and the City are considered related parties. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

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

Accounts receivable includes receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue includes receivables from the City related mainly to electricity provided and not yet billed. Accounts payable and accrued liabilities include amounts payable to the City related to road cut repairs and other services. Deferred revenue includes amounts received from the City for the construction of electricity distribution assets. Customer deposits include amounts received from the City for future expansion projects.

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain of the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Interim

Financial Statements and the MD&A for the three months ended March 31, 2015 and 2014. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Critical Accounting Estimates

The preparation of the Corporation's Interim Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Interim 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 for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance. A detailed discussion of significant accounting estimates is outlined in note 4 (p) to the Interim Financial Statements.

Transition to IFRS

On July 21, 2011, the OSC granted an exemption to allow the Corporation to prepare its consolidated financial statements in accordance with US GAAP for fiscal years beginning on or after January 1, 2012 but before January 1, 2015. In the absence of the exemption, the Corporation would have been required to adopt IFRS on January 1, 2012. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption.

The accompanying Interim Financial Statements are the Corporation's first consolidated financial statements prepared in accordance with IFRS, and IFRS 1 *First-time Adoption of IFRS* ("IFRS 1") has been applied. The Corporation's IFRS accounting policies are consistent with those disclosed in the Corporation's MD&A for the year ended December 31, 2014 and are set out in note 4 to the Interim Financial Statements. All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS. The retrospective adjustment to the January 1, 2014 equity balance is \$0.9 million. An explanation of the significant adjustments made by the Corporation and how the transition from US GAAP to IFRS, including IFRS 1 elections, has affected the Corporation's consolidated financial statements is provided in note 23 to the Interim Financial Statements.

The Corporation has completed the design and implementation phase of its IFRS conversion project. This included updating accounting policies and procedure manuals, preparing opening balance sheet, quarterly comparatives and disclosures in accordance with IFRS, and completing relevant training with affected finance and operational teams, management, and the Audit Committee of the Board of Directors. In addition, financial systems have been modified and controls have been implemented to address first-time IFRS adoption and ongoing accumulation of information in accordance with IFRS. The Corporation has determined that the transition to IFRS will have no significant impact to its debt covenants and the Corporation remains in compliance with its financial covenants using IFRS financial information.

Significant impacts of transition to IFRS

Regulatory Balances

The Corporation has elected to early adopt IFRS 14. IFRS 14 introduces new presentation requirements for rate regulated companies that isolates the impact of recognizing regulatory balances from the financial reporting requirements of other IFRS standards. The deferred tax asset or deferred tax liability and movement arising as a result of recognizing regulatory balances are presented with the related regulatory balance. This increases the transparency and enhances the comparability of IFRS 14 compliant financial statements with those of entities not applying IFRS 14.

For the Corporation, the impact of IFRS 14 was to reclassify regulatory balances and related deferred tax amounts recorded as assets and liabilities under US GAAP to a new and separate section of the consolidated balance sheet. As at December 31, 2014, the impact was to reclassify current regulatory assets of \$11.8 million, non-current regulatory assets of \$564.4 million, current regulatory liabilities of \$1.6 million, non-current regulatory liabilities of \$156.2

million, and the related deferred tax amounts to the respective regulatory debit and credit balances. IFRS 14 does not allow a current and non-current distinction for the regulatory balances and offsetting of regulatory balances is not permitted. In addition, ICM eligible in-service capital expenditures that are permitted to be recognized as PP&E under IAS 16 *Property, Plant and Equipment* were reclassified from regulatory assets to PP&E.

Similarly, the net income effect of all changes in regulatory balances are segregated in a new and separate section of the consolidated statement of income called net movements in regulatory balances, net of tax. The income and expenses recorded before net movements in regulatory balances, net of tax are recorded in accordance with other IFRS standards. For the year ended December 31, 2014, the most significant impact was that energy sales no longer equal energy purchases as it did under US GAAP. Under IFRS, energy sales reflect the amounts charged by LDC to customers, based on regulated rates, and energy purchases record the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC and charged by the IESO in accordance with other IFRS standards. This resulted in a \$45.4 million decrease to 2014 energy sales reported under IFRS compared to US GAAP with the corresponding offsetting adjustment to net movement in regulatory balances, net of tax.

The table below provides a breakdown of the adjustments to energy sales for settlement variances as a result of IFRS 14 for each quarter of 2014.

IFRS Adjustments to Energy Sales in 2014
Three months ended
(in millions of Canadian dollars, unaudited)

	March 31	June 30	September 31	December 31	Total
	\$	\$	\$	\$	
Commodity Charges	55.8	(68.5)	(16.6)	0.1	(29.2)
Retail Transmission Charges	(1.8)	(4.0)	(7.8)	(8.2)	(21.8)
WMS Charges	(20.5)	4.2	5.2	16.7	5.6
Total	33.5	(68.3)	(19.2)	8.6	(45.4)

Rate-regulated Deemed Cost

The Corporation elected to use the IFRS 1 deemed cost exemption allowing entities subject to rate regulation to use the previous GAAP carrying amount, net of accumulated depreciation, of PP&E and intangible assets at the transition date to IFRS as the deemed cost, except for construction in progress items for which capital contributions have been received. As at January 1, 2014, the impact of this change was to reduce both the cost and accumulated depreciation of PP&E by \$2,424.0 million and intangible assets by \$201.9 million. There is no net impact to the consolidated balance sheet as at January 1, 2014 or consolidated statement of income for the year ended December 31, 2014.

The accumulated depreciation for PP&E and intangible assets under IFRS no longer provides an indication of the aging of PP&E and intangible assets due to the deemed cost election. LDC estimates that approximately 26% of its electricity distribution assets have already exceeded or will reach their expected useful lives by the end of 2015.

Capital Contributions

Under US GAAP, capital contributions received and used to finance additions to PP&E were offset against the cost of the constructed asset and depreciated at the same rate as the related PP&E, as a reduction in depreciation expense. Under IFRIC 18 *Transfer from Customers* (“IFRIC 18”), capital contributions are treated as deferred revenue, resulting in a reclassification of \$50.5 million from PP&E and \$22.1 million from accounts payable and accrued liabilities to deferred revenue (\$1.2 million current and \$71.4 million non-current) as at December 31, 2014. Deferred revenue is recognized as revenue over the useful life of the related PP&E, resulting in a \$0.7 million reclassification from depreciation and amortization expense to other revenue for the year ended December 31, 2014.

Going forward, deferred revenue balances will continue to increase as contributions are received, offset by amortization of the deferred revenue. There will be no net impact to the consolidated statement of income for capital contributions.

PP&E Derecognition

Under the group depreciation policy adopted under US GAAP, assets in a group were not removed from the accounts on disposition and depreciation continued to be recorded until the asset group was fully depreciated. Under IFRS, the carrying amount of a replaced item of PP&E is derecognized and the related loss is recorded within depreciation and amortization expense. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition are recorded within IFRS transitional adjustments in regulatory debit balance and net movements in regulatory balances, net of tax. For the three months ended March 31, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances, and net movements in regulatory balances, net of tax by \$0.9 million. For the year ended December 31, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances and net movements in regulatory balances, net of tax by \$26.5 million.

Future Accounting Pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these Interim Financial Statements. The Corporation continues to analyze these standards and has initially determined that the following could have an impact on its consolidated financial statements.

Rate-Regulated Accounting

On September 17, 2014, the IASB issued a Discussion Paper – Reporting the Financial Effects of Rate Regulation (“DP”) as part of its active research programme to assess whether to develop proposals for a permanent standard for reporting specified financial effects of rate-regulation. This project is separate from the issuance of IFRS 14 which allowed first-time adopters to continue to apply their previous GAAP recognition and measurement policies for regulatory balances until the IASB concludes on the outcome of the DP. The comment period on the DP ended on January 15, 2015. The Corporation issued a separate and a joint letter with the Canadian Electricity Association in support of the DP.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”), which replaces existing revenue recognition guidance including IAS 18 *Revenue* and IFRIC 18. IFRS 15 contains a single model that applies to contracts with customers with two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether revenue should be recognized and the respective timing and amount. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. The new standard is effective for annual periods beginning on or after January 1, 2017. The Corporation is currently evaluating the impact of the new standard.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* (“IFRS 9”), which replaces IAS 39 *Financial Instruments: recognition and measurement* (“IAS 39”). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. The Corporation is currently evaluating the impact of the new standard.

Disclosure Initiative

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments

are effective for annual periods beginning on or after January 1, 2016. The Corporation is currently evaluating the impact of these amendments.

Forward-Looking Information

The Corporation includes forward-looking information in its MD&A within the meaning of applicable securities laws in Canada. 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 "aims", "believes", "can", "committed", "could", "estimates", "expected", "focus", "forecast", "may", "plans", "seek", "should", "strives", "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 the Corporation's conversion to IFRS as described in the section entitled "Introduction", the Corporation's achievement of its strategic pillars as described in the section entitled "Corporate Strategy", the effect of changes in energy consumption on future revenue as described in the sections entitled "Quarterly Results of Operations", the Corporation's plans to finance the investment in LDC's infrastructure and the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next twelve months as described in the section entitled "Liquidity and Capital Resources", the planned and proposed capital initiatives and the expected results of such initiatives as described in the section entitled "Liquidity and Capital Resources", the anticipated capacity to be provided by Copeland Station, the expected capital expenditures required to complete Copeland Station, and the anticipated completion date for Copeland Station as described in the section entitled "Liquidity and Capital Resources", the anticipated contractual obligations and other commitments of the Corporation over the next five years as set out in the section entitled "Liquidity and Capital Resources", the outcomes regarding the current rate application under the Custom Incentive Rate-setting mechanism, and plans to meet CDM targets as described in the section entitled "Corporate Developments", the ability to pay any damages in connection with legal actions and claims as described in the section entitled "Legal Proceedings", and the Corporation's conversion to IFRS, trending of balances as well as the expected useful life of the Corporation's electricity distribution assets as described in the section entitled "Transition to IFRS". 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, and 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, and legislative, judicial and regulatory developments that could affect revenues and the results of borrowing efforts.

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

Additional Information

Additional information with respect to the Corporation (including its annual information form) is available on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

Toronto, Canada

May 14, 2015



UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

See First Quarter Report for abbreviations and defined terms
used in the unaudited condensed interim consolidated financial statements.

INTERIM CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars, unaudited]

	As at March 31, 2015 \$	As at December 31, 2014 \$	As at January 1, 2014 \$
		<i>[note 23]</i>	<i>[note 23]</i>
ASSETS			
Current			
Cash and cash equivalents	6.6	-	-
Accounts receivable <i>[note 13[b]]</i>	237.6	206.9	202.6
Unbilled revenue <i>[note 13[b]]</i>	263.9	307.5	326.9
Income tax receivable	1.7	0.8	0.5
Materials and supplies	9.1	8.6	8.6
Other assets	12.0	9.9	8.9
Assets held for sale	-	4.0	-
Total current assets	530.9	537.7	547.5
Property, plant and equipment <i>[note 5]</i>	3,317.5	3,249.9	2,845.1
Intangible assets <i>[note 6]</i>	196.9	198.7	171.5
Deferred tax assets <i>[note 24]</i>	140.1	143.7	133.8
Other assets	1.0	1.2	0.9
Total assets	4,186.4	4,131.2	3,698.8
Regulatory balances <i>[note 7]</i>	177.3	197.1	88.3
Total assets and regulatory balances	4,363.7	4,328.3	3,787.1
LIABILITIES AND EQUITY			
Current			
Working capital facility <i>[note 8]</i>	-	6.1	19.1
Commercial paper <i>[note 8]</i>	164.0	308.0	150.0
Accounts payable and accrued liabilities <i>[note 13[b]]</i>	496.3	512.7	427.5
Customer deposits	39.4	38.5	37.3
Deferred revenue <i>[note 9]</i>	6.6	2.9	-
Deferred conservation credit <i>[note 3[b]]</i>	0.3	-	20.7
Other liabilities <i>[note 21]</i>	2.9	2.6	2.1
Total current liabilities	709.5	870.8	656.7
Debentures <i>[note 10]</i>	1,839.8	1,641.3	1,442.4
Customer deposits	6.9	4.7	7.4
Deferred revenue <i>[note 9]</i>	76.4	71.4	45.7
Post-employment benefits <i>[notes 11 and 24]</i>	289.6	287.4	236.0
Other liabilities <i>[note 21]</i>	7.3	9.2	14.5
Total liabilities	2,929.5	2,884.8	2,402.7
Commitments, contingencies and subsequent events <i>[notes 2, 21 and 22]</i>			
Equity			
Share capital <i>[note 14]</i>	567.8	567.8	567.8
Retained earnings	681.7	702.7	651.6
Total equity	1,249.5	1,270.5	1,219.4
Total liabilities and equity	4,179.0	4,155.3	3,622.1
Regulatory balances <i>[note 7]</i>	184.7	173.0	165.0
Total liabilities, equity and regulatory balances	4,363.7	4,328.3	3,787.1

See accompanying notes to the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars, unaudited]

	Three months ended March 31,	
	2015 \$	2014 \$
Revenues		[note 23]
Energy sales	703.6	742.1
Distribution revenue	147.0	141.1
Other [note 15]	13.5	13.9
	864.1	897.1
Expenses		
Energy purchases	687.2	708.6
Operating expenses [note 16]	70.3	74.3
Depreciation and amortization [notes 5 and 6]	42.7	39.1
	800.2	822.0
Finance costs [note 17]	17.0	15.0
Gain on disposals of property, plant and equipment	6.4	-
Income before income taxes	53.3	60.1
Income tax expense [note 18]	5.3	5.5
Net income for the period	48.0	54.6
Net movements in regulatory balances, net of tax [note 7]	(31.5)	(33.0)
Net income after net movements in regulatory balances	16.5	21.6

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars, unaudited]

	Three months ended March 31,	
	2015 \$	2014 \$
Net income after net movements in regulatory balances	16.5	[note 23] 21.6
Other comprehensive income		
Items that will not be reclassified to income or loss		
Remeasurements of post-employment benefits, net of tax	-	-
Net movements in regulatory balances related to OCI, net of tax	-	-
Other comprehensive income, net of tax	-	-
Total comprehensive income	16.5	21.6

See accompanying notes to the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars, unaudited]

	Three months ended March 31,	
	2015 \$	2014 \$
Share capital <i>[note 14]</i>	567.8	567.8 <i>[note 23]</i>
Retained earnings, beginning of period	702.7	651.6
Net income after net movements in regulatory balances	16.5	21.6
Dividends <i>[notes 14 and 20]</i>	(37.5)	(41.9)
Retained earnings, end of period	681.7	631.3
Total equity	1,249.5	1,199.1

See accompanying notes to the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars, unaudited]

	Three months ended March 31,	
	2015 \$	2014 \$
		[note 23]
OPERATING ACTIVITIES		
Net income after net movements in regulatory balances	16.5	21.6
Adjustments		
Depreciation and amortization [notes 5 and 6]	42.7	39.1
Amortization of deferred revenue [note 9]	(0.4)	-
Finance costs	17.0	15.0
Income tax expense	5.3	5.5
Post-employment benefits	2.2	(0.3)
Deferred taxes	3.6	2.3
Gain on disposals of property, plant and equipment	(6.4)	-
Other	0.4	(0.7)
Capital contributions received [note 9]	6.0	5.6
Net change in other non-current assets and liabilities	(1.7)	(7.2)
Increase (decrease) in customer deposits	3.1	(1.0)
Changes in non-cash working capital balances [note 19]	17.0	4.3
Income taxes paid	(2.7)	(4.5)
Net movements in regulatory balances [note 7]	31.5	33.0
Net cash provided by operating activities	134.1	112.7
INVESTING ACTIVITIES		
Purchase of property, plant and equipment [note 19]	(139.0)	(100.1)
Purchase of intangible assets [note 19]	(3.5)	(7.3)
Proceeds on disposals of property, plant and equipment	10.3	0.5
Net cash used in investing activities	(132.2)	(106.9)
FINANCING ACTIVITIES		
Increase (decrease) in commercial paper [note 8]	(144.0)	47.0
Dividends paid [notes 14 and 20]	(37.5)	(41.9)
Proceeds from debentures [note 10]	199.7	-
Debt issuance costs paid [note 10]	(1.4)	-
Repayment of finance lease liability	(0.6)	(0.5)
Interest paid	(5.4)	(0.9)
Net cash provided by financing activities	10.8	3.7
Net increase in cash and cash equivalents (working capital facility) during the period	12.7	9.5
Cash and cash equivalents (working capital facility), beginning of period	(6.1)	(19.1)
Cash and cash equivalents (working capital facility), end of period	6.6	(9.6)

See accompanying notes to the interim consolidated financial statements.



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

1. NATURE OF BUSINESS

The Corporation was incorporated on June 23, 1999 under the *Business Corporations Act* (Ontario), in accordance with the Electricity Act. The Corporation is wholly owned by the City and is domiciled in Canada, with its registered office located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

The Corporation is a holding company which wholly owns two subsidiaries also incorporated under the *Business Corporations Act* (Ontario):

- [i] LDC (incorporated June 23, 1999) – distributes electricity to customers located in the City. Electricity distribution is the principal business of the Corporation, and is subject to rate regulation. LDC is also engaged in the delivery of CDM activities; and
- [ii] TH Energy (incorporated June 23, 1999) – provides street lighting services.

The Corporation supervises the operations of, and provides corporate and management services and strategic direction to, its subsidiaries.

2. BASIS OF PRESENTATION

The Corporation's unaudited condensed interim consolidated financial statements ["Interim Financial Statements"] have been prepared in accordance with IAS 34 *Interim Financial Reporting*, applying the accounting policies that the Corporation expects to adopt in its first annual consolidated financial statements under IFRS as at and for the year ended December 31, 2015. These are the Corporation's first Interim Financial Statements prepared in accordance with IFRS, including IFRS 1 *First-time Adoption of IFRS* ["IFRS 1"]. These Interim Financial Statements should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2014 prepared in accordance with US GAAP and in consideration of the IFRS transition disclosures included in note 23 to these Interim Financial Statements and the additional annual disclosures included in note 24.

The Corporation's date of transition to IFRS and its opening IFRS balance sheet is as at January 1, 2014 [the "transition date"].

The accounting policies applied in these Interim Financial Statements are based on IFRS issued and outstanding as of May 14, 2015, the date the Corporation's Board of Directors authorized the Interim Financial Statements for issue. Any subsequent changes to IFRS that are given effect in the Corporation's annual consolidated financial statements for the year ended December 31, 2015 could result in restatement of these Interim Financial Statements, including the transition adjustments recognized on changeover to IFRS.

These Interim Financial Statements are presented in Canadian dollars, which are the Corporation's functional currency. The Corporation's Interim Financial Statements have been prepared on the historical cost basis, except for post-employment benefits.

The Corporation's revenues, all other things being equal, are impacted by changes in temperature. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. The Corporation's quarterly results are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions.

The Corporation has evaluated the events and transactions occurring after the interim consolidated balance sheet date through May 14, 2015, when the Corporation's Interim Financial Statements were authorized for issue by the

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

Corporation's Board of Directors, and identified the events and transactions which required recognition in the Interim Financial Statements and/or disclosure in the notes to the Interim Financial Statements [notes 3 and 14].

3. REGULATION

In April 1999, the Government of Ontario began restructuring the province's electricity industry. Under regulations passed pursuant to the restructuring, LDC and other electricity distributors purchase electricity from the wholesale market administered by the IESO and recover the costs of electricity and certain other costs in accordance with procedures mandated by the OEB.

The OEB has regulatory oversight of electricity matters in Ontario. The OEB Act sets out the OEB's authority to issue a distribution licence that 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 distribution and other activities, and requirements for rate-setting and other legal filings.

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

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

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.
- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through to operators of transmission facilities.
- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through to the IESO.
- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC's customers and load.

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.

The IESO and the OPA were merged under the name IESO starting on January 1, 2015. The IESO also supports CDM plans during their design and throughout their entire lifespan, including the sharing of best practices, offering of program delivery services, and the building of awareness in the marketplace through marketing and communication. The IESO provides centralized customer service and technical support, market research, program evaluation and measurement, and training.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

a) Electricity Distribution Rates

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.

The OEB's regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and formulaic adjustments. A cost of service review uses a future test year to establish rates, and provides for revenues required to recover the forecasted costs of providing the regulated service, and a fair and reasonable return on rate base (i.e. the aggregate of approved investment in PP&E and intangible assets excluding work in progress, less accumulated depreciation and amortization and unamortized capital contributions from customers, plus an allowance for working capital). IRM adjustments are typically used for one or more years following a cost of service review and provide for formulaic adjustments to rates based on an inflationary factor net of a productivity factor and an efficiency factor as determined relative to other electricity distributors.

Administratively, the OEB currently regulates the electricity rates for distributors through one of three specific rate-setting methods: Price Cap Incentive Rate-setting (which is suitable for most distributors), Custom Incentive Rate-setting (which is suitable for distributors with large or highly variable capital requirements), and the Annual Incentive Rate-setting Index (which is suitable for distributors requiring limited rate adjustments). Under each of these methods, the OEB also allows recovery for costs arising from significant events satisfying certain criteria which are considered external to the regulatory regime and beyond the control of management.

Under the Price Cap Incentive Rate-setting method, rates are set on a single forward test-year cost of service basis and indexed for four subsequent years through a formulaic IRM adjustment (using the 4th generation price cap index formula). Under this method, the ICM is available to address any incremental capital investment needs that may arise during the term. In order to determine whether a distributor is eligible for the ICM, the OEB conducts a review of the ICM application by way of a detailed examination of a distributor's evidence and consideration of a number of criteria, such as materiality, need and prudence.

Under the Custom Incentive Rate-setting method, rates are set for a minimum period of five years, typically on a forward test-year cost of service basis with subsequent annual adjustments based on a custom index. The particular mechanics through which rates are set and adjusted are determined by the OEB on a case-by-case basis.

The Annual Incentive Rate-setting Index method sets a distributor's rates through a formulaic IRM adjustment (using a limited form of the 4th generation price cap index formula) for one or more years.

Under each method, actual operating conditions may vary from forecasts such that actual returns achieved can differ from approved returns. Approved electricity rates are generally not adjusted as a result of actual costs or revenues being different from forecasted amounts, other than for certain prescribed costs that are eligible for deferral for future collection from, or refund to, customers.

On May 10, 2012, LDC filed an application for electricity distribution rates for 2012, 2013 and 2014 using the IRM framework, including the filing of an ICM application. On April 2, 2013, the OEB approved new rates for LDC effective June 1, 2013, which reflected approved capital expenditures amounting to \$203.3 million for 2012 and \$484.2 million for 2013. In a separate decision rendered on December 19, 2013, the OEB approved capital expenditures amounting to \$398.8 million for 2014.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

On January 16, 2014, the OEB approved LDC's request for disposition of the smart meter regulatory balances related to smart meter installations in 2008, 2009 and 2010 through two separate rate riders effective May 1, 2014 [note 7[d]]. The first rate rider related to the recovery of \$23.9 million, representing the cumulative revenue requirement net of recoveries from an existing smart meter rate rider. This existing smart meter rate rider was discontinued when the new rate riders became effective. The second rate rider related to the recovery of \$9.6 million, representing the forecasted 2014 incremental revenue requirement.

On July 31, 2014, LDC filed a rate application with the OEB under the Custom Incentive Rate-setting mechanism, seeking approval of LDC's 2015 test year revenue requirement and corresponding electricity distribution rates effective May 1, 2015, and subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rate application included requests for approval of capital expenditures of approximately \$2.5 billion over the 2015-2019 period. The rate application also sought approval to include in LDC's rate base capital amounts that were prudently incurred prior to 2015, subject to review by the OEB. In addition, LDC sought approval to recover the net book value of stranded meters [note 7[d]]. LDC's revenue over the period will be based on the existing rate base, capital expenditures and operating expenses ultimately approved by the OEB in the rate application plus cost of capital allowed by the OEB.

On April 28, 2015, the OEB declared LDC's existing rates interim, effective May 1, 2015. As the decision will be issued sometime after LDC's proposed rate implementation date, this will allow LDC to reconcile, at a later date, any variance between its existing and approved rates over the interim period between May 1, 2015 and the effective date of the OEB decision. The current application is subject to an in-depth review by the OEB, and there can be no assurance that the OEB will allow for the amount of electricity distribution rates requested by LDC. The financial effect of the OEB decision will be reflected in the period it becomes known and could be material to the Corporation's financial performance.

On August 3, 2011, the OEB issued its final decision allowing the transfer of a portion of the street lighting assets from TH Energy to the new wholly-owned legal entity (1798594 Ontario Inc.), and for LDC to amalgamate with the new legal entity. The OEB decided that the rate base, revenue requirement and rate consequences of the transfer would be decided at LDC's next cost of service or rebasing rate application. On January 1, 2012, the Corporation completed the asset transfer and amalgamation. The purchase price for such assets, including a post-closing adjustment, was \$42.5 million, subject to transaction costs. On July 31, 2014, LDC filed the above noted rate application with the OEB seeking a final determination of the rate base, revenue requirement and rate consequences of the street lighting transfer.

b) 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 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 GWh of energy savings and 286 MW 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 in the amount of approximately \$50.0 million to deliver CDM programs extending from January 1, 2011 to December 31, 2014 to support achievement of the mandatory CDM targets described above. LDC applied to the OPA in March 2014 to revise the program administration budget to \$45.8 million for the delivery of CDM programs from 2011 to 2014. All programs to be delivered are fully funded and paid in advance by the OPA. Amounts received but not yet spent are presented under current liabilities as deferred conservation credit. Upon the expiration of the agreement, LDC is required to repay to the OPA any excess funding received for program administration less any cost efficiency incentives. As at December 31, 2014, LDC estimated that approximately \$5.7 million qualified as cost efficiency incentives, and



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

approximately \$4.9 million was repayable to the OPA for the remaining program administration budget, included within accounts payable and accrued liabilities [note 4[j]].

On December 21, 2012, the Minister of Energy of Ontario issued a direction to the OPA under subsection 25.32(4.1) of the Electricity Act to extend the funding time period for OPA-contracted province-wide CDM initiatives under the Green Energy Act framework to December 31, 2015. Funding and respective targets for CDM programs approved pursuant to the 2011-2014 OPA agreement that have in-service dates in 2015 will be allocated toward the 2011-2014 program. LDC has received approval from the IESO for separate funding of \$11.2 million relating to these transitional CDM programs for 2015.

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to customers in its licensed service area and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The objective of the new CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of these CDM programs over the 2015-2020 period with funding of approximately \$400.0 million, which includes participant incentives and LDC program administration costs. LDC provided to the IESO its plan for achieving its CDM target and received conditional approval as of March 26, 2015. LDC also has the option to submit a joint CDM plan with one or more distribution companies. LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, on a CDM program by program basis. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented costs incurred with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 period. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment. The majority of LDC's CDM programs are under the full cost recovery funding method. On April 30, 2015, LDC submitted a joint CDM plan with Oakville Hydro Electricity Distribution Inc. to replace LDC's previous CDM plan for the delivery of CDM programs over the 2015-2020 period, pending approval from the IESO, with combined funding of approximately \$425.0 million and energy savings target of approximately 1,668 GWh.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *Basis of consolidation*

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

b) Regulation

The following regulatory treatments have resulted in accounting treatments which differ from IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14 *Regulatory Deferral Accounts* ["IFRS 14"]:

Regulatory Balances

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 is restricted to first-time adopters of IFRS and will remain in force until either repealed or replaced by permanent guidance on rate regulated accounting from the IASB. The standard is effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Corporation has elected to early adopt IFRS 14 in its first Interim Financial Statements under IFRS.

The Corporation has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors". Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances 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 balances 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 are assessed to no longer be probable based on management's judgments, the balances will be recorded in the Corporation's consolidated statements of income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the consolidated balance sheets, on the consolidated statements of income as net movements in regulatory balances, net of tax, and on the consolidated statements of comprehensive income as net movements in regulatory balances related to OCI, net of tax. The netting of regulatory debit and credit balances is not permitted. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

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. On the consolidated statements of cash flows, cash and cash equivalents (working capital facility) include bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management.

d) Accounts receivable and unbilled revenue

Accounts receivable are recorded at the invoiced amount and overdue amounts bear interest at OEB-approved rates. Unbilled revenue is recorded based on an estimated amount for electricity delivered and not yet billed. The carrying amount of accounts receivable and unbilled revenue is reduced through an allowance for doubtful accounts, if applicable, and the amount of the related impairment loss is recognized in the consolidated statements of income. The impairment loss is the difference between an asset's carrying amount and the estimated future cash flows. When the Corporation considers that there are no realistic prospects of recovery of the financial assets, the relevant

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amounts are written off. If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

Accounts receivable and unbilled revenue are assessed at each reporting date to determine whether there is objective evidence of impairment, which includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, and adverse changes in the payment status of borrowers or issuers. Accounts receivable and unbilled revenue that are not individually assessed for impairment are collectively assessed for impairment by grouping together receivables with similar risk characteristics, and the Corporation considers historical trends on the timing of recoveries and the amount of loss incurred, as well as current economic and credit conditions.

e) Materials and supplies

Materials and supplies 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 infrastructure to PP&E. Materials and supplies are carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

f) Property, plant and equipment

PP&E are measured at cost less accumulated depreciation and any accumulated impairment losses, if applicable. For PP&E used in rate-regulated activities, the Corporation elected to use the exemption available for assets subject to rate regulation such that the previous US GAAP carrying amount became the deemed cost under IFRS at the date of transition [note 23]. The cost of PP&E represents the original cost, consisting of direct materials and labour, contracted services, borrowing costs, and directly attributable overhead. Subsequent costs are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Corporation and the costs can be measured reliably. If significant parts of an item of PP&E have different useful lives, then they are accounted for as separate major components of PP&E. The carrying amount of a replaced item of PP&E is derecognized and the related loss is recorded within depreciation and amortization. The gain or loss on disposal of an item of PP&E is determined as the difference between the sale proceeds less the carrying amount of the asset and costs of removal and is recognized in the consolidated statements of income.

Depreciation begins when an asset becomes available for use. Depreciation is provided on a straight-line basis over the estimated useful life at the following annual rates:

Distribution assets:	
Distribution lines	1.7% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.5% to 10.0%
Buildings	1.3% to 5.0%
Equipment and other:	
Street lighting assets	1.7% to 5.0%
Assets under finance lease	9.0% to 14.3%
Other capital assets	4.0% to 25.0%

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

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g) Intangible assets

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses, if applicable. For intangible assets used in rate-regulated activities, the Corporation elected to use the exemption available for assets subject to rate regulation such that the previous US GAAP carrying amount became the deemed cost under IFRS at the date of transition [note 23]. Amortization begins when an asset becomes available for use.

Amortization is provided on a straight-line basis over the estimated useful life 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 available for use and therefore are not amortized. Contributions represent payments made to Hydro One Networks Inc. for dedicated infrastructure in order to receive connections to transmission facilities. The amortization method and useful lives are reviewed each financial year-end and adjusted if appropriate.

h) Impairment of non-financial assets

The Corporation reviews the carrying amounts of its non-financial assets other than materials and supplies and deferred tax assets at each reporting date to determine whether there is any indication of impairment, in which case the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. The Corporation has determined that its CGUs are at the individual entity level due to interdependencies of each entity's group of assets to generate cash flows. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of income, and are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis.

i) Capitalized borrowing costs

Borrowing costs directly attributable to the acquisition, construction or development of qualifying assets that necessarily take a substantial period of time to get ready for their intended use are capitalized, until such time as the assets are substantially ready for their intended use. The interest rate for capitalization is the Corporation's weighted average cost of borrowing, and is applied to the average carrying amount of the construction-in-progress assets or assets under development including borrowing costs previously capitalized, net of capital contributions received. Borrowing costs are included in PP&E and intangible assets for financial reporting purposes, and charged to operations through depreciation and amortization expense over the useful lives of the related assets.

j) Revenue recognition

Revenues from energy sales and distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. These revenues are impacted by energy demand primarily driven by outside temperature, and customer class usage patterns and composition.

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. The Corporation applies judgment to determine whether revenues are recorded on a gross or net basis. These charges are passed through to customers over time and are considered revenue by LDC due to the collection risk of the related balances. The Corporation has the primary responsibility for the delivery of electricity to the customer. The difference between the amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of

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electricity and non-competitive electricity service costs billed monthly by the IESO to LDC, is recorded as a settlement variance. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the consolidated balance sheets and within net movements in regulatory balances, net of tax on the consolidated statements of income.

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers. Distribution revenue also includes revenue related to collection of OEB-approved rate riders.

Other revenue, which includes revenue from services ancillary to the distribution of electricity, revenue from the delivery of street lighting services and revenue from demand billable activities, is recognized as the services are rendered. When services are made up of different components which are not separately identifiable, the related other revenues are recognized on a straight-line basis over the term of the contract. Capital contributions received from electricity customers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded to deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Revenue not yet recognized from demand billable activities is also included within deferred revenue.

Revenues and costs associated with CDM programs are presented using the net basis of accounting. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

k) Financial instruments

All financial assets are classified as “Loans and Receivables” and all financial liabilities are classified as “Other Financial Liabilities”. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. 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 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 sheets:

- Cash, cash equivalents and short-term investments are classified as “Loans and Receivables” and are measured at fair value. The carrying amounts approximate fair value due to 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, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Working capital facility, revolving credit facility and commercial paper are classified as “Other Financial Liabilities” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments. Transaction costs incurred in connection with the Corporation’s revolving credit facility are capitalized within other assets on the consolidated balance sheets and are amortized on a straight-line basis over the term of the facility, and are included in finance costs.
- Accounts payable and accrued liabilities are classified as “Other Financial Liabilities” and are initially measured at 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.

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- Obligations under finance leases are classified as “Other Financial Liabilities” and are initially measured at fair value, or the present value of the minimum lease payments if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying value as management believes that the fixed interest rates are representative of current market rates.
- Customer deposits are classified as “Other Financial Liabilities” and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value due to the short maturity of the current portion, and the non-current 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 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 based on the present value of contractual cash flows, discounted at the Corporation’s current borrowing rate for similar debt instruments [note 13[a]]. While the Corporation has the option to redeem some or all of the debentures at its discretion, this option currently has no value and has not been recorded in the consolidated financial statements. Debt issuance costs incurred in connection with the Corporation’s debenture offerings are capitalized as part of the carrying value of the debentures and amortized over the term of the related debentures, using the effective interest method, and are included in finance costs.

l) 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: Unadjusted quoted prices in active markets for identical assets or liabilities. 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.

m) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations that are due to be settled wholly within twelve months after the end of the annual reporting period in which the employees render the related service are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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(ii) Multi-employer pension plan

The Corporation's full-time employees participate in a pension plan through OMERS. The OMERS plan is a jointly sponsored, multi-employer defined benefit pension plan established in 1962 by the Province of Ontario for employees of municipalities, local boards and school boards. Both participating employers and employees are required to make plan contributions equally based on participating employees' contributory earnings, and share equally in funding gains or losses. The plan assets and pension obligations are not segregated in separate accounts for each member entity. The OMERS plan is accounted for as a defined contribution plan and the contribution payable is recognized as an employee benefit expense in the consolidated statements of income in the period when the service is rendered by the employee, since it is not practicable to determine the Corporation's portion of pension obligations or of the fair value of plan assets.

(iii) Post-employment benefits other than pension

The Corporation has a number of unfunded benefit plans providing post-employment benefits (other than 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 also 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 cost of providing benefits under the benefit plans is actuarially determined using the projected unit credit method, which incorporates management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses. Actuarial gains and losses on medical, dental and life insurance benefits are recognized in OCI as they arise. Actuarial gains and losses related to rate-regulated activities are subsequently reclassified from OCI to a regulatory balance on the consolidated balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the consolidated statements of income in the period in which they arise.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2014.

n) Customer deposits

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. The electricity customer security deposits liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits that are refundable upon demand are classified as a current liability.

Security deposits on Offers to Connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. 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 12 months after the reporting period.

o) Income taxes

Under the Electricity Act, the Corporation is required to make PILs to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the ITA and the TA as modified by regulations made under the Electricity Act and related regulations. This effectively results in the Corporation paying income taxes equivalent to what would be imposed under the Federal and Ontario Tax Acts.

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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 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 tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the consolidated balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the consolidated balance sheet date that are in effect for the year in which the differences are expected to reverse. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when it is probable that they will be realized, and are measured at the best estimate of the tax amount expected to be paid to or recovered from the taxation authorities. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. The calculation of current and deferred taxes requires management to make certain judgments with respect to changes in tax interpretations, regulations, and legislation, and to estimate probable outcomes on the timing and reversal of temporary differences and tax authority audits of income tax.

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded to, or recovered from, customers through future electricity distribution rates. A gross up to reflect the income tax benefits associated with reduced revenues resulting from the realization of deferred tax assets is recorded within regulatory credit balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the consolidated statements of income.

The benefits of the refundable and non-refundable apprenticeship and other ITCs are credited against the related expense in the consolidated statements of income.

p) Use of estimates

The preparation of the Corporation's Interim Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Interim 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 for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 4[b] – Recognition and measurement of regulatory balances;
- Note 4[j] – Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Notes 4[f] and 4[g] – Useful lives of depreciable assets;
- Notes 4[m] and 24 – Measurement of post-employment benefits – key actuarial assumptions;
- Notes 4[o] and 24 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Note 22 – Recognition and measurement of provisions and contingencies.

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q) Future Accounting Pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these Interim Financial Statements. The Corporation continues to analyze these standards and has initially determined that the following could have an impact on its consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ["IFRS 15"], which replaces existing revenue recognition guidance including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers* ["IFRIC 18"]. IFRS 15 contains a single model that applies to contracts with customers with two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether revenue should be recognized and the respective timing and amount. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. The new standard is effective for annual periods beginning on or after January 1, 2017. The Corporation is currently evaluating the impact of the new standard.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ["IFRS 9"], which replaces IAS 39 *Financial Instruments: recognition and measurement* ["IAS 39"]. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. The Corporation is currently evaluating the impact of the new standard.

Disclosure Initiative

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. The Corporation is currently evaluating the impact of these amendments.



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5. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets \$	Land and buildings \$	Equipment and other \$	Construction in progress \$	Total \$
Cost or deemed cost					
Balance as at January 1, 2014	2,284.6	111.7	140.3	337.2	2,873.8
Additions	428.4	34.3	20.9	95.6	579.2
Disposals and retirements	(27.3)	(3.6)	(0.1)	—	(31.0)
Transfers to assets held for sale	—	(4.8)	—	—	(4.8)
Balance as at December 31, 2014	2,685.7	137.6	161.1	432.8	3,417.2
Additions	74.3	0.1	0.9	30.2	105.5
Disposals and retirements	(1.3)	—	—	—	(1.3)
Balance as at March 31, 2015	2,758.7	137.7	162.0	463.0	3,521.4
Accumulated depreciation					
Balance as at January 1, 2014	—	—	28.7	—	28.7
Depreciation	107.2	7.9	25.6	—	140.7
Disposals and retirements	(1.1)	(0.1)	(0.1)	—	(1.3)
Transfers to assets held for sale	—	(0.8)	—	—	(0.8)
Balance as at December 31, 2014	106.1	7.0	54.2	—	167.3
Depreciation	28.9	1.8	6.0	—	36.7
Disposals and retirements	(0.1)	—	—	—	(0.1)
Balance as at March 31, 2015	134.9	8.8	60.2	—	203.9
Carrying amount					
Balance as at January 1, 2014	2,284.6	111.7	111.6	337.2	2,845.1
Balance as at December 31, 2014	2,579.6	130.6	106.9	432.8	3,249.9
Balance as at March 31, 2015	2,623.8	128.9	101.8	463.0	3,317.5

As at March 31, 2015, Equipment and other included assets under finance lease with cost of \$18.2 million [December 31, 2014 - \$18.2 million; January 1, 2014 - \$16.1 million] and accumulated depreciation of \$4.4 million [December 31, 2014 - \$3.8 million; January 1, 2014 - \$nil]. For the three months ended March 31, 2015, the Corporation recorded depreciation expense of \$0.6 million [three months ended March 31, 2014 - \$0.5 million] related to assets under finance lease.

For the three months ended March 31, 2015, borrowing costs in the amount of \$1.4 million [three months ended March 31, 2014 - \$0.8 million] were capitalized to PP&E and credited to finance costs, with an average capitalization rate of 3.74% [three months ended March 31, 2014 - 3.99%].

Construction in progress additions are net of transfers to other PP&E categories.

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6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software	Contributions	Software in development	Contributions for work in progress	Total
	\$	\$	\$	\$	\$
Cost or deemed cost					
Balance as at January 1, 2014	69.6	19.0	11.7	71.2	171.5
Additions	17.1	0.9	1.5	27.3	46.8
Disposals and retirements	—	—	—	—	—
Balance as at December 31, 2014	86.7	19.9	13.2	98.5	218.3
Additions	—	—	2.6	0.9	3.5
Disposals and retirements	—	—	—	—	—
Balance as at March 31, 2015	86.7	19.9	15.8	99.4	221.8
Accumulated amortization					
Balance as at January 1, 2014	—	—	—	—	—
Amortization	18.7	0.9	—	—	19.6
Disposals and retirements	—	—	—	—	—
Balance as at December 31, 2014	18.7	0.9	—	—	19.6
Amortization	5.0	0.3	—	—	5.3
Disposals and retirements	—	—	—	—	—
Balance as at March 31, 2015	23.7	1.2	—	—	24.9
Carrying amount					
Balance as at January 1, 2014	69.6	19.0	11.7	71.2	171.5
Balance as at December 31, 2014	68.0	19.0	13.2	98.5	198.7
Balance as at March 31, 2015	63.0	18.7	15.8	99.4	196.9

For the three months ended March 31, 2015, borrowing costs in the amount of \$0.9 million [three months ended March 31, 2014 - \$0.7 million] were capitalized to intangible assets and credited to finance costs, with an average capitalization rate of 3.74% [three months ended March 31, 2014 - 3.99%]. Software in development and contributions for work in progress additions are net of transfers to other intangible asset categories.

Computer software is externally acquired. The remaining amortization periods for computer software and contributions range from less than 1 to 8 years, and from 14 to 24 years, respectively.

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7. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2015	Balances arising in the period	Recovery/ reversal	Other movements	March 31, 2015	Remaining recovery/ reversal period (years)
	\$	\$	\$	\$	\$	
Post-employment benefits	81.2	—	—	—	81.2	Note 1
Settlement variances	51.7	(16.2)	—	—	35.5	Note 2
IFRS transitional adjustments	24.2	—	—	—	24.2	4 ⁽³⁾
Smart meters	20.9	—	(4.3)	—	16.6	2
Stranded meters	14.4	—	—	—	14.4	5 ⁽³⁾
Other	4.7	0.6	0.1	—	5.4	1-5 ⁽³⁾
	197.1	(15.6)	(4.2)	—	177.3	

	January 1, 2014	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2014	Remaining recovery/ reversal period (years)
	\$	\$	\$	\$	\$	
Post-employment benefits	36.9	45.3	(1.0)	—	81.2	Note 1
Settlement variances	5.8	45.9	—	—	51.7	Note 2
IFRS transitional adjustments	0.9	23.3	—	—	24.2	4 ⁽³⁾
Smart meters	25.2	9.5	(13.8)	—	20.9	2
Stranded meters	16.9	—	(2.5)	—	14.4	5 ⁽³⁾
Other	2.6	2.5	(0.2)	(0.2)	4.7	1-5 ⁽³⁾
	88.3	126.5	(17.5)	(0.2)	197.1	

⁽¹⁾ LDC did not seek recovery in the current application to the OEB as changes in underlying assumptions may reduce the amount recorded in the account. LDC may seek recovery of the balance in the future.

⁽²⁾ LDC expects to apply for disposition of these account balances at or before the rate order for 2016 distribution rates.

⁽³⁾ Disposition period is based on current application to the OEB, which has not yet been approved.



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Credit balances consist of the following:

	January 1, 2015	Balances arising in the period	Recovery/ reversal	Other movements	March 31, 2015	Remaining recovery/ reversal period (years)
	\$	\$	\$	\$	\$	
Deferred taxes	143.4	(2.7)	—	—	140.7	Note 1
Tax-related variances	25.3	0.8	—	—	26.1	1-3 ⁽²⁾
Gain on disposal	—	8.1	—	—	8.1	1 ⁽³⁾
ICM	2.3	—	5.5	—	7.8	Note 4
Other	2.0	—	—	—	2.0	1 ⁽³⁾
	173.0	6.2	5.5	—	184.7	

	January 1, 2014	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2014	Remaining recovery/ reversal period (years)
	\$	\$	\$	\$	\$	
Deferred taxes	132.0	11.4	—	—	143.4	Note 1
Tax-related variances	25.2	2.9	(2.8)	—	25.3	1-3 ⁽²⁾
ICM	6.0	(25.1)	21.4	—	2.3	Note 4
Other	1.8	0.2	0.2	(0.2)	2.0	1 ⁽³⁾
	165.0	(10.6)	18.8	(0.2)	173.0	

⁽¹⁾ LDC will not apply for disposition of the balance since it will be reversed through timing differences in the recognition of deferred tax assets.

⁽²⁾ LDC applied for disposition of the revision of prior year tax position account over three years and the income tax variance account over one year commencing on May 1, 2015 in the current application to the OEB which has not yet been approved.

⁽³⁾ Disposition period is based on current application to the OEB, which has not yet been approved.

⁽⁴⁾ LDC intends to apply for disposition of the balance following the OEB process for which timing is currently unknown.

The “Balances arising in the period” column consists of new additions to regulatory balances (for both debits and credits). The “Recovery/reversal” column consists of amounts collected through rate riders or transactions reversing an existing regulatory balance. The “Other movements” column consists of impairment (if the OEB disallowed certain amounts) and reclassification between the regulatory debit and credit balances. There is no impairment recorded for the three months ended March 31, 2015 and year ended December 31, 2014.

Refer to Regulatory Developments and Electricity Consumption paragraphs in the Risk Management and Risk Factors section of the December 31, 2014 MD&A for a discussion of the risks and uncertainties that affect the future recovery of the regulatory balances.

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The regulatory balances of the Corporation consist of the following:

a) Post-Employment Benefits

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments [note 24]. The balance arising during the year ended December 31, 2014 primarily related to the actuarial loss recorded for the year.

b) Settlement Variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. The settlement variances relate primarily to service charges, non-competitive electricity 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. Carrying charges at a rate of 1.47% have been added to the regulatory balance in accordance with the OEB's direction.

c) IFRS Transitional Adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of assets and additional capitalized borrowing costs.

d) Smart Meters and Stranded Meters

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario. On January 16, 2014, the OEB approved LDC's request for incremental revenue and disposition of the smart meter regulatory balances [note 3[a]].

The OEB ruling on smart meters also permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. This allows LDC to recover the incremental revenue requirement associated with these assets for the period during which they remained outside of rate base. Accordingly, a new regulatory balance of \$25.2 million was recorded as at December 31, 2013 to reflect the future amount to be recovered through rates over a 36-month period commencing on May 1, 2014 and ending on April 30, 2017. LDC recognized \$9.5 million of smart meter incremental revenue within net movements in regulatory balances, net of tax during 2014. LDC recognized distribution revenue of \$4.3 million and \$13.8 million from the collection of OEB-approved rate riders for the three months ended March 31, 2015 and the year ended December 31, 2014, respectively.

In addition, the net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to a new regulatory balance as at December 31, 2013. Depreciation expense on the stranded meters of \$2.5 million was recorded within net movements in regulatory balances, net of tax until the end of 2014. Included in the 2015-2019 rate application is recovery of the forecasted net book value of the stranded meters as at December 31, 2014 [note 3[a]].

e) Deferred Taxes

This regulatory credit balance relates to both deferred tax amounts reclassified under IFRS 14 [note 4[b]] and to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets.



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The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of \$33.3 million as at March 31, 2015 [December 31, 2014 - \$32.7 million; January 1, 2014 - \$16.4 million] offset by the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of \$38.7 million as at March 31, 2015 [December 31, 2014 - \$39.9 million; January 1, 2014 - \$41.7 million].

The deferred tax amount related to the expected future electricity distribution rate reduction for customers was \$146.1 million as at March 31, 2015 [December 31, 2014 - \$150.6 million; January 1, 2014 - \$157.3 million].

f) Tax-related Variance Accounts

This regulatory balance includes the revision of a prior year tax position based on reassessments received and in process and income tax variances resulting from legislative or regulatory changes.

The revision of prior year tax position regulatory balance relates to changes to certain prior year tax positions based on reassessments received and in process, not reflected in electricity distribution rates charged to customers in the amount of \$23.1 million as at March 31, 2015 [December 31, 2014 - \$22.3 million; January 1, 2014 - \$19.4 million]. An amount of \$0.8 million and \$2.9 million was recorded to reflect new additions to the regulatory balance for the three months ended March 31, 2015 and the year ended December 31, 2014, respectively. Carrying charges at a rate of 1.47% have been added to the regulatory balance in accordance with the OEB's direction.

The income tax variance regulatory balance relates to the differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in applications for electricity distribution rates in the amount of \$3.0 million as at March 31, 2015 [December 31, 2014 - \$3.0 million; January 1, 2014 - \$5.8 million]. These differences have been deferred by LDC in accordance with the criteria set out in the accounting principles prescribed by the OEB. Carrying charges at a rate of 1.47% have been added to the regulatory balance in accordance with the OEB's direction.

On April 2, 2013, the OEB approved the disposition of \$7.1 million of PILs regulatory variance accounts, over an 11-month period commencing on June 1, 2013 and ending on April 30, 2014. For the year ended December 31, 2014, electricity distribution rates charged to customers were reduced by \$2.8 million.

g) Gain on Disposal

This regulatory balance relates to the gain realized of \$6.0 million and the future tax savings in connection with the disposal of a surplus property by LDC in the first quarter of 2015 under the facilities consolidation program. This balance is expected to reduce future electricity distribution rates for customers.

h) Incremental Capital Module

This regulatory balance relates to the ICM application approved by the OEB and the associated rate riders, which became effective June 1, 2013 [note 3[a]]. This account includes the amount collected through the ICM rate riders of \$5.5 million and \$21.4 million for the three months ended March 31, 2015 and the year ended December 31, 2014, respectively, offset by the revenue recorded within net movements in regulatory balances, net of tax as it relates to the eligible in-service capital expenditures of \$25.1 million for the year ended December 31, 2014. Carrying charges at a rate of 1.47% have been added to the regulatory balance in accordance with the OEB's direction.



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8. SHORT-TERM BORROWINGS

The Corporation is a party to a revolving credit facility expiring on October 10, 2019 [“Revolving Credit Facility”], pursuant to which it may borrow up to \$700.0 million, of which up to \$210.0 million is available in the form of letters of credit.

The Corporation has a commercial paper program allowing up to \$500.0 million of unsecured short-term promissory notes [“Commercial Paper Program”] to be issued in various maturities of no more than one year. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time.

Additionally, the Corporation is a party to:

- a demand facility with a Canadian chartered bank for \$75.0 million for the purpose of issuing letters of credit mainly to support LDC’s prudential requirements with the IESO [“Prudential Facility”]; and
- a demand facility with a second Canadian chartered bank for \$20.0 million for the purpose of working capital management [“Working Capital Facility”].

The available amount under the Revolving Credit Facility as well as outstanding borrowings under the Revolving Credit Facility and Commercial Paper Program are as follows:

	Facility Limit	Revolving Credit Facility Borrowings	Commercial Paper Outstanding	Facility Availability
	\$	\$	\$	\$
March 31, 2015	700.0	—	164.0	536.0
December 31, 2014	700.0	—	308.0	392.0
January 1, 2014	600.0	—	150.0	450.0

For the three months ended March 31, 2015, the average outstanding borrowings under the Corporation’s Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$322.3 million [three months ended March 31, 2014 - \$171.1 million] with a weighted average interest rate of 1.07% [three months ended March 31, 2014 – 1.18%].

As at March 31, 2015, no amount had been drawn under the Working Capital Facility [December 31, 2014 - \$6.1 million; January 1, 2014 - \$19.1 million] and \$ 29.7 million of letters of credit had been issued against the Prudential Facility [December 31, 2014 - \$29.7 million; January 1, 2014 - \$50.1 million].



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9. DEFERRED REVENUE

Deferred revenue consists of capital contributions received from electricity customers to construct or acquire PP&E which has not yet been recognized into other revenue, and also includes revenue not yet recognized from demand billable activities.

	March 31 2015 \$	December 31 2014 \$	January 1 2014 \$
Capital contributions	77.9	72.6	45.7
Other	5.1	1.7	—
Total deferred revenue	83.0	74.3	45.7
Less: Current portion of deferred revenue relating to:			
Capital contributions	(1.5)	(1.2)	—
Other	(5.1)	(1.7)	—
Non-current portion of deferred revenue	76.4	71.4	45.7

The reconciliation between the opening and closing capital contributions balances is as follows:

	March 31 2015 \$	December 31 2014 \$
Balance, beginning of period	72.6	45.7
Receipt of capital contributions	6.0	28.2
Amortization	(0.4)	(0.7)
Other	(0.3)	(0.6)
Balance, end of period	77.9	72.6

10. DEBENTURES

The Corporation filed a base shelf prospectus dated January 9, 2015 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to \$1.0 billion during the 25-month period following the date of the prospectus.

On March 16, 2015, the Corporation issued \$200.0 million of 3.55% senior unsecured debentures at a price of \$998.37 per \$1,000 principal amount due July 28, 2045 ["Series 11"]. The Series 11 debentures bear interest payable semi-annually in arrears and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The Corporation may redeem all or part of the Series 11 debentures 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 to the date fixed for redemption. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$1.4 million relating to the Series 11 debentures were recorded against the principal amount of the debentures in the first quarter of 2015 and are amortized to finance costs using the effective interest method.

The Corporation may issue up to \$800.0 million of additional debentures under the existing base shelf prospectus.

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11. EMPLOYEE FUTURE BENEFITS

a) Pension

The Corporation's full-time employees participate in a pension plan through OMERS. For the three months ended March 31, 2015, the Corporation's contributions to the plan were \$5.0 million [three months ended March 31, 2014 - \$5.6 million].

b) Post-employment benefits other than pension

The components of benefit cost are:

	Three months ended March 31	
	2015 \$	2014 \$
Current service cost	1.5	1.3
Interest cost	2.9	2.8
Benefit cost	4.4	4.1
Capitalized as part of PP&E	1.6	1.3
Charged to statement of income	2.8	2.8

12. CAPITAL MANAGEMENT

The Corporation's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system of LDC;
- ensure sufficient liquidity is available (either through cash and cash equivalents, investments or committed credit facilities) to meet the needs of the business;
- ensure compliance with covenants related to its credit facilities and senior unsecured debentures; and
- minimize finance costs while taking into consideration current and future industry, market and economic risks and conditions.

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment, and key credit ratios similar to those used by key rating agencies. The Corporation manages capital by preparing short-term and long-term cash flow forecasts. In addition, the Corporation accesses capital markets as required to help fund some of the periodic net cash outflows and to maintain available liquidity. As at March 31, 2015, the Corporation's definition of capital includes Working Capital Facility, Commercial Paper Program, Revolving Credit Facility, long-term debt and obligations under finance leases, including the current portion thereof, and equity, and has remained unchanged from December 31, 2014 and January 1, 2014. As at March 31, 2015, equity amounted to \$1,249.5 million [December 31, 2014 - \$1,270.5 million; January 1, 2014 - \$1,219.4 million], and Working Capital Facility, commercial paper, Revolving Credit Facility, and long-term debt and obligations under finance leases, including the current portion thereof, amounted to \$2,013.1 million [December 31, 2014 - \$1,964.8 million; January 1, 2014 - \$1,621.8 million]. There were no changes in the Corporation's approach to capital management during the year.

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As at March 31, 2015, the Corporation is subject to debt agreements that contain various covenants. The Corporation's unsecured debentures limit consolidated funded indebtedness to a maximum of 75% of total consolidated capitalization. The Corporation's Revolving Credit Facility limits the debt to capitalization ratio to a maximum of 75%.

The Corporation's debt agreements also include negative covenants such as limitations on designated subsidiary indebtedness, and restrictions on mergers and dispositions of designated subsidiaries. As at March 31, 2015, December 31, 2014 and January 1, 2014, the Corporation was in compliance with all covenants included in its trust indenture, supplemental trust indentures and Revolving Credit Facility agreement.

13. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at March 31, 2015, December 31, 2014 and January 1, 2014, the fair values of cash and cash equivalents, accounts receivable, unbilled revenue, Working Capital Facility, commercial paper, and accounts payable and accrued liabilities approximate their carrying values due to the short maturity of these instruments [note 4[k]]. The fair values of customer deposits approximate their carrying values taking into account interest accrued on the outstanding balance. Obligations under finance leases are measured based on a discounted cash flow analysis and approximate the carrying value as management believes that the fixed interest rates are representative of current market rates.

The fair values of the debentures are based on the present value of contractual cash flows, discounted at the Corporation's current borrowing rate for similar debt instruments, and are included in Level 2 of the fair value hierarchy. As at March 31, 2015, the total fair value of the Corporation's debentures (including the current portion) was determined to be approximately \$2,085.5 million [December 31, 2014 - \$1,792.0 million; January 1, 2014 - \$1,480.8 million], with a total carrying value of \$1,839.8 million [December 31, 2014 - \$1,641.3 million; January 1, 2014 - \$1,442.4 million].

b) Financial Risks

The following is a discussion of financial 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.

Credit risk

The Corporation is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation's exposure to credit risk primarily relates to accounts receivable, unbilled revenue and cash and cash equivalents. 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 744,000 customers. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at March 31, 2015, LDC held security deposits in the amount of \$46.3 million [December 31, 2014 - \$43.2 million; January 1, 2014 - \$44.7 million], of which \$22.2 million [December 31, 2014 - \$19.8 million; January 1, 2014 - \$22.2 million] were related to security deposits on Offers to Connect to guarantee the payment of additional costs related to expansion projects. As at March 31, 2015, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled receivable are the same as for accounts receivable.



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The Corporation did not have any single customer that generated more than 10% of total consolidated revenue for the three months ended March 31, 2015 and March 31, 2014.

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	March 31 2015 \$	December 31 2014 \$	January 1 2014 \$
Unbilled revenue	263.9	307.5	326.9
Accounts receivable			
Outstanding for not more than 30 days	211.9	180.7	176.9
Outstanding for more than 30 days and not more than 120 days	23.9	23.4	24.4
Outstanding for more than 120 days	12.6	14.7	12.2
Less: Allowance for doubtful accounts	(10.8)	(11.9)	(10.9)
Total accounts receivable	237.6	206.9	202.6
Total accounts receivable and unbilled revenue	501.5	514.4	529.5

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered current and no allowance for doubtful accounts had been provided as at March 31, 2015, December 31, 2014 and January 1, 2014.

The credit risk related to cash, cash equivalents and investments is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties. The Corporation's maximum exposure to credit risk is approximately equal to the carrying value of its financial assets.

Interest rate risk

The Corporation is exposed to short-term interest rate risk on the net of cash and cash equivalents, short-term borrowings under its Revolving Credit Facility, Working Capital Facility and Commercial Paper Program [note 8] and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

As at March 31, 2015, aside from the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its Commercial Paper Program and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately \$2.0 million to annual finance costs.

Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. The Corporation has access to credit facilities and debt capital markets and monitors cash balances daily. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs.

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Liquidity risks associated with financial commitments are as follows:

March 31, 2015						
	Due within 1 year \$	Due within 2 years \$	Due within 3 years \$	Due within 4 years \$	Due within 5 years \$	Due after 5 years \$
Commercial paper ⁽¹⁾	164.0	—	—	—	—	—
Accounts payable and accrued liabilities ⁽²⁾	471.3	—	—	—	—	—
Obligations under finance leases	3.3	3.0	3.0	0.8	—	—
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	—	—	250.0	—	—	—
Series 3 – 4.49% due November 12, 2019	—	—	—	—	250.0	—
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	200.0
Series 7 – 3.54% due November 18, 2021	—	—	—	—	—	300.0
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	250.0
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	200.0
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	200.0
Series 11 – 3.55% due July 28, 2045	—	—	—	—	—	200.0
Interest payments on debentures	75.3	76.3	76.3	63.4	63.4	999.2
	713.9	79.3	329.3	64.2	313.4	2,349.2

⁽¹⁾ The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.

⁽²⁾ Accounts payable and accrued liabilities exclude \$25.0 million of accrued interest on debentures included within “Interest payments on debentures”.

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December 31, 2014						
	Due within 1 year \$	Due within 2 years \$	Due within 3 years \$	Due within 4 years \$	Due within 5 years \$	Due after 5 years \$
Working Capital Facility	6.1	—	—	—	—	—
Commercial paper ⁽¹⁾	308.0	—	—	—	—	—
Accounts payable and accrued liabilities ⁽²⁾	501.2	—	—	—	—	—
Obligations under finance leases	3.0	3.0	2.8	1.4	—	—
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	—	—	250.0	—	—	—
Series 3 – 4.49% due November 12, 2019	—	—	—	—	250.0	—
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	200.0
Series 7 – 3.54% due November 18, 2021	—	—	—	—	—	300.0
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	250.0
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	200.0
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	200.0
Interest payments on debentures	69.2	69.2	69.2	56.2	56.2	822.4
	887.5	72.2	322.0	57.6	306.2	1,972.4

⁽¹⁾ The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.

⁽²⁾ Accounts payable and accrued liabilities exclude \$11.5 million of accrued interest on debentures included within “Interest payments on debentures”.

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January 1, 2014						
	Due within 1 year	Due within 2 years	Due within 3 years	Due within 4 years	Due within 5 years	Due after 5 years
	\$	\$	\$	\$	\$	\$
Working Capital Facility	19.1	—	—	—	—	—
Commercial paper ⁽¹⁾	150.0	—	—	—	—	—
Accounts payable and accrued liabilities ⁽²⁾	418.4	—	—	—	—	—
Obligations under finance leases	2.5	2.5	2.5	2.5	1.4	—
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	—	—	—	250.0	—	—
Series 3 – 4.49% due November 12, 2019	—	—	—	—	—	250.0
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	200.0
Series 7 – 3.54% due November 18, 2021	—	—	—	—	—	300.0
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	250.0
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	200.0
Interest payments on debentures	61.0	61.0	61.0	61.0	48.1	666.5
	651.0	63.5	63.5	313.5	49.5	1,866.5

⁽¹⁾ The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.

⁽²⁾ Accounts payable and accrued liabilities exclude \$9.1 million of accrued interest on debentures included within “Interest payments on debentures”.

Foreign exchange risk

As at March 31, 2015, 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 commitments when required, the impact of these transactions is not material to the Interim Financial Statements.

14. SHARE CAPITAL

Share capital consists of the following:

	March 31 2015 \$	December 31 2014 \$	January 1 2014 \$
Authorized			
The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.			
Issued and outstanding			
1,000 common shares, of which all were fully paid.	567.8	567.8	567.8



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Dividends

On March 5, 2015, the Board of Directors of the Corporation declared dividends in the amount of \$37.5 million. The dividends consisted of \$31.2 million with respect to net income under US GAAP for the year ended December 31, 2014, paid to the City on March 13, 2015, and \$6.3 million with respect to the first quarter of 2015, paid to the City on March 31, 2015.

On May 14, 2015, the Board of Directors of the Corporation declared a dividend in the amount of \$6.3 million with respect to the second quarter of 2015. The dividend is payable on June 30, 2015.

15. OTHER REVENUE

	Three months ended March 31	
	2015 \$	2014 \$
City street lighting service fee	4.1	3.9
Other regulatory service charges	3.1	3.0
Pole and duct rentals	2.4	2.7
Amortization of deferred revenue	0.4	—
Miscellaneous	3.5	4.3
	13.5	13.9

16. OPERATING EXPENSES

	Three months ended March 31	
	2015 \$	2014 \$
Salaries and benefits	61.3	62.4
External services	21.4	22.2
Materials and supplies	4.2	4.7
Other support costs ⁽¹⁾	9.6	9.6
Less: capitalized costs	(26.2)	(24.6)
	70.3	74.3

⁽¹⁾ Includes taxes other than income taxes, utilities, rental, communication, insurance, and other general and administrative expenses.



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17. FINANCE COSTS

Finance costs consist of the following:

	Three months ended March 31	
	2015 \$	2014 \$
Interest income	—	(0.1)
Interest expense		
Interest on long-term debt ⁽¹⁾	17.8	15.4
Other interest	1.5	1.2
Capitalized borrowing costs	(2.3)	(1.5)
	17.0	15.0

⁽¹⁾ Includes amortization of debt issuance costs and discounts.

18. INCOME TAXES

The Corporation's effective tax rate after net movements in regulatory balances for the three months ended March 31, 2015 was 13.4% [three months ended March 31, 2014 – 14.1%]. The effective tax rate for the three months ended March 31, 2015 was lower than the three months ended March 31, 2014, primarily due to changes in permanent and temporary differences between accounting and tax treatments.

19. CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash working capital provided/(used) cash as follows:

	Three months ended March 31	
	2015 \$	2014 \$
Accounts receivable	(30.7)	(42.0)
Unbilled revenue	43.6	15.0
Income tax receivable	(0.9)	(1.4)
Materials and supplies	(0.5)	(0.4)
Other current assets	(2.1)	0.4
Accounts payable and accrued liabilities	3.3	27.1
Deferred conservation credit	0.3	0.1
Deferred revenue	3.7	5.4
Other current liabilities	0.3	0.1
	17.0	4.3



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The reconciliation between total additions to PP&E and intangible assets and the amount presented on the interim consolidated statements of cash flows after factoring in the non-cash additions is as follows:

	Three months ended March 31	
	2015 \$	2014 \$
Purchase of PP&E, cash basis	139.0	100.1
Net change in accruals related to PP&E	(34.1)	(13.2)
Decommissioning provision additions	0.2	—
Capitalized overhead costs	0.4	0.5
Total additions to PP&E	105.5	87.4
Purchase of intangible assets, cash basis	3.5	7.3
Total additions to PP&E and intangible assets	109.0	94.7

20. RELATED PARTY TRANSACTIONS

Since the Corporation is a wholly-owned subsidiary of the City, the Corporation and the City are considered related parties. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

Revenues include amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures include amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City [note 14].

Accounts receivable includes receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue includes receivables from the City related mainly to electricity provided and not yet billed. Accounts payable and accrued liabilities include amounts payable to the City related to road cut repairs and other services. Deferred revenue includes amounts received from the City for the construction of electricity distribution assets. Customer deposits include amounts received from the City for future expansion projects.

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21. COMMITMENTS

Operating leases and capital projects

As at March 31, 2015, the future minimum payments under property operating leases, capital projects and other commitments were as follows:

	Operating leases \$	Capital projects ⁽⁵⁾ and other \$
Less than one year ⁽¹⁾	4.5	36.5
Between one and five years ⁽²⁾	7.6	12.4
More than five years ⁽³⁾	—	—
Total amount of future minimum payments ⁽⁴⁾	12.1	48.9

⁽¹⁾ Represents the balance due over the period from April 1, 2015 to December 31, 2015.

⁽²⁾ Represents the balance due over the period from January 1, 2016 to December 31, 2019.

⁽³⁾ Represents the balance due from January 1, 2020 and beyond.

⁽⁴⁾ Refer to note 13 for future cash outflows excluded from the table above.

⁽⁵⁾ Reflects capital project commitments for construction services and estimated capital contributions, with the majority related to Copeland Station.

Finance leases

As at March 31, 2015, December 31, 2014 and January 1, 2014, reconciliation between the future minimum lease payments and their present value is as follows:

	March 31 2015 \$			December 31 2014 \$			January 1 2014 \$		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	3.3	0.4	2.9	3.0	0.4	2.6	2.5	0.4	2.1
Between one and five years	6.8	0.4	6.4	7.2	0.4	6.8	8.9	0.7	8.2
More than five years	—	—	—	—	—	—	—	—	—
	10.1	0.8	9.3	10.2	0.8	9.4	11.4	1.1	10.3
Current portion included in Other liabilities			2.9			2.6			2.1
Non-current portion included in Other liabilities			6.4			6.8			8.2

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

22. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from 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. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurer. There have been no material changes in legal proceedings as disclosed in Note 22 to the Corporation's annual consolidated financial statements for the year ended December 31, 2014.

23. IFRS TRANSITION

On July 21, 2011, the OSC granted an exemption to allow the Corporation to prepare its consolidated financial statements in accordance with US GAAP for fiscal years beginning on or after January 1, 2012 but before January 1, 2015. In the absence of the exemption, the Corporation would have been required to adopt IFRS on January 1, 2012. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption. As described in note 2, these are the Corporation's first Interim Financial Statements prepared in accordance with IFRS. IFRS 1 sets out the transitional requirements that the Corporation must apply in preparing its first IFRS financial statements.

The accounting policies set out in note 4 have been applied in preparing the Interim Financial Statements as at and for the three months ended March 31, 2015, the comparative information for the three months ended March 31, 2014, the year ended December 31, 2014, and the opening IFRS consolidated balance sheet as at January 1, 2014, the Corporation's date of transition to IFRS. All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS. An explanation of the significant adjustments made by the Corporation and how the transition from US GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and accompanying notes.

IFRS 1 requires retrospective application of IFRS in place as at the reporting date. However, IFRS 1 contains certain mandatory exceptions and optional exemptions from the general requirement for retrospective application. The Corporation has applied the following mandatory exceptions and optional exemptions in the opening IFRS consolidated balance sheet:

Mandatory exceptions

IFRS 1 states that estimates made in accordance with IFRS at the date of transition should be consistent with estimates made under previous GAAP. Accordingly, estimates previously made under US GAAP were not revised at the date of transition except where necessary to reflect changes in accounting policies.

Optional exemptions

a) Rate-regulated deemed cost

Entities with operations subject to rate regulation may hold items of PP&E or intangible assets where the carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalization under IFRS. In such case, a first-time adopter may deem the previous GAAP carrying amount of such

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

items at the date of transition as the new IFRS cost basis. Under US GAAP, the carrying amount of the Corporation's PP&E and intangible assets used in rate-regulated activities was based on historical cost but included certain amounts that would not qualify for capitalization under IFRS.

The Corporation qualifies for the IFRS 1 exemption as LDC is subject to rate regulation. Accordingly, the Corporation elected to use the deemed cost exemption for LDC's PP&E and intangible assets, except for construction in progress items for which capital contributions have been received. The accumulated depreciation recognized under US GAAP prior to the transition date has been included as part of the deemed cost such that the carrying amounts are not affected. The impact of this change is a decrease to both the cost and accumulated depreciation of PP&E by \$2,424.0 million and to both the cost and accumulated amortization of intangible assets by \$201.9 million, as at January 1, 2014.

The Corporation tested for asset impairment under this exemption and determined no impairment was recorded.

b) Borrowing costs

IAS 23 *Borrowing Costs* ["IAS 23"] specifies detailed methodology for capitalizing borrowing costs. Under US GAAP, an allowance for funds used during construction was applied and capitalized as part of the cost of PP&E and intangible assets, where applicable. Under an optional exemption in IFRS 1, an entity would be exempted from determining the applicable borrowing costs under IFRS for items reconstructed under IFRS. The Corporation has elected this exemption and used the borrowing cost determined under previous GAAP at the date of transition and has applied IAS 23 prospectively to borrowing costs for qualifying assets capitalized after the transition date.

c) Decommissioning costs included in PP&E

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be adjusted retrospectively from the cost of the asset to which it relates, with the adjusted depreciable amount of the asset being depreciated prospectively over its remaining useful life. The Corporation has elected the exemption available in IFRS 1 which allows a first-time adopter to use a simplified method to recalculate its decommissioning provisions in accordance with IFRS at the transition date. The effect of electing the exemption is an increase to regulatory balances and a decrease to PP&E of \$0.9 million as at January 1, 2014.

d) Leases

IFRIC 4 *Determining whether an Arrangement contains a Lease* ["IFRIC 4"] requires the assessment of whether an arrangement contains a lease to be based on the facts and circumstances existing at the date of the inception of the arrangement. Under an optional exemption in IFRS 1, an entity that made the same determination of whether an arrangement contains a lease under its previous GAAP as that required by IFRIC 4, but at a date other than that required by IFRIC 4, does not have to reassess that determination when it adopts IFRS. As the Corporation has assessed whether or not arrangements contain a lease in accordance with US GAAP in which the determination made is the same as that required by IFRIC 4, the Corporation has elected this exemption and has not reassessed its arrangements at the date of transition.

e) Business combinations

IFRS 1 provides an optional exemption for a first-time adopter to elect not to apply IFRS 3 *Business Combinations* retrospectively to past business combinations that occurred before the date of transition to IFRS, or to elect to restate all business combinations to comply with IFRS 3 prospectively from any date before the date of transition. The Corporation elected not to apply IFRS 3 to past business combinations that occurred prior to the date of transition.



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

f) Transfer of Assets from Customers (Capital Contributions)

IFRS 1 provides an optional exemption for a first-time adopter to apply IFRIC 18 *Transfers of Assets from Customers* prospectively to transfers of assets from customers received on or after the date of transition. The Corporation did not elect this exemption and instead applied IFRIC 18 retrospectively to all customer contributions received prior to the date of transition. However, the use of the rate-regulated deemed cost exemption noted above resulted in no adjustment to the contributions included in the PP&E deemed cost.

The reconciliation of the January 1, 2014, March 31, 2014 and December 31, 2014 consolidated balance sheets from US GAAP to IFRS is as follows:



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

CONSOLIDATED BALANCE SHEET				
[in millions of Canadian dollars]				
As at January 1, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
ASSETS				
Current				
Accounts receivable		202.6	—	202.6
Unbilled revenue		326.9	—	326.9
Income tax receivable		0.5	—	0.5
Materials and supplies		8.6	—	8.6
Other assets	B, C	9.6	(0.7)	8.9
Regulatory assets	A	7.1	(7.1)	—
Total current assets		555.3	(7.8)	547.5
Property, plant and equipment	A, C, D	2,664.4	180.7	2,845.1
Intangible assets		171.5	—	171.5
Deferred tax assets	A	157.6	(23.8)	133.8
Other assets	B, C	14.3	(13.4)	0.9
Regulatory assets	A	234.4	(234.4)	—
Total assets		3,797.5	(98.7)	3,698.8
Regulatory balances	A, E	—	88.3	88.3
Total assets and regulatory balances		3,797.5	(10.4)	3,787.1
LIABILITIES AND EQUITY				
Current				
Working capital facility		19.1	—	19.1
Commercial paper		150.0	—	150.0
Accounts payable and accrued liabilities	D	456.7	(29.2)	427.5
Customer deposits		37.3	—	37.3
Deferred conservation credit		20.7	—	20.7
Post-employment benefits	E	8.0	(8.0)	—
Other liabilities		2.1	—	2.1
Regulatory liabilities	A	2.5	(2.5)	—
Total current liabilities		696.4	(39.7)	656.7
Debentures	B	1,449.3	(6.9)	1,442.4
Customer deposits		7.4	—	7.4
Deferred revenue	D	—	45.7	45.7
Post-employment benefits	E	230.8	5.2	236.0
Other liabilities		14.5	—	14.5
Regulatory liabilities	A	180.6	(180.6)	—
Total liabilities		2,579.0	(176.3)	2,402.7
Equity				
Share capital		567.8	—	567.8
Retained earnings	E	650.7	0.9	651.6
Total equity		1,218.5	0.9	1,219.4
Total liabilities and equity		3,797.5	(175.4)	3,622.1
Regulatory balances	A	—	165.0	165.0
Total liabilities, equity and regulatory balances		3,797.5	(10.4)	3,787.1



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

CONSOLIDATED BALANCE SHEET				
[in millions of Canadian dollars]				
As at March 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
ASSETS				
Current				
Accounts receivable		244.6	—	244.6
Unbilled revenue		311.9	—	311.9
Income tax receivable		1.9	—	1.9
Materials and supplies		9.0	—	9.0
Other assets	B, C	9.2	(0.7)	8.5
Regulatory assets	A	9.8	(9.8)	—
Total current assets		586.4	(10.5)	575.9
Property, plant and equipment	A, C, D, E, F, G	2,701.8	192.9	2,894.7
Intangible assets	F	173.9	0.1	174.0
Deferred tax assets	A	150.8	(19.3)	131.5
Other assets	B, C	14.1	(13.3)	0.8
Regulatory assets	A	230.4	(230.4)	—
Total assets		3,857.4	(80.5)	3,776.9
Regulatory balances	A, E, F, G	—	81.7	81.7
Total assets and regulatory balances		3,857.4	1.2	3,858.6
LIABILITIES AND EQUITY				
Current				
Working capital facility		9.6	—	9.6
Commercial paper		197.0	—	197.0
Accounts payable and accrued liabilities	D	484.1	(30.8)	453.3
Customer deposits		38.9	—	38.9
Deferred revenue	D	—	5.4	5.4
Deferred conservation credit		25.2	(4.4)	20.8
Post-employment benefits	E	8.1	(8.1)	—
Other liabilities		2.2	—	2.2
Regulatory liabilities	A	0.7	(0.7)	—
Total current liabilities		765.8	(38.6)	727.2
Debentures	B	1,449.3	(6.8)	1,442.5
Customer deposits		4.8	—	4.8
Deferred revenue	D	—	50.0	50.0
Post-employment benefits	E	230.3	5.4	235.7
Other liabilities		7.9	—	7.9
Regulatory liabilities	A	200.2	(200.2)	—
Total liabilities		2,658.3	(190.2)	2,468.1
Equity				
Share capital		567.8	—	567.8
Retained earnings	A	631.3	—	631.3
Total equity		1,199.1	—	1,199.1
Total liabilities and equity		3,857.4	(190.2)	3,667.2
Regulatory balances	A	—	191.4	191.4
Total liabilities, equity and regulatory balances		3,857.4	1.2	3,858.6



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

CONSOLIDATED BALANCE SHEET				
[in millions of Canadian dollars]				
As at December 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
ASSETS				
Current				
Accounts receivable		206.9	—	206.9
Unbilled revenue		307.5	—	307.5
Income tax receivable		0.8	—	0.8
Materials and supplies		8.6	—	8.6
Other assets	B, C	10.7	(0.8)	9.9
Regulatory assets	A	11.8	(11.8)	—
Assets held for sale		4.0	—	4.0
Total current assets		550.3	(12.6)	537.7
Property, plant and equipment	A, C, D, E, F, G	2,817.9	432.0	3,249.9
Intangible assets	F	197.9	0.8	198.7
Deferred tax assets	A	130.4	13.3	143.7
Other assets	B, C	15.4	(14.2)	1.2
Regulatory assets	A	564.4	(564.4)	—
Total assets		4,276.3	(145.1)	4,131.2
Regulatory balances	A, E, F, G	—	197.1	197.1
Total assets and regulatory balances		4,276.3	52.0	4,328.3
LIABILITIES AND EQUITY				
Current				
Working capital facility		6.1	—	6.1
Commercial paper		308.0	—	308.0
Accounts payable and accrued liabilities	D	536.1	(23.4)	512.7
Customer deposits		38.5	—	38.5
Deferred revenue	D	1.7	1.2	2.9
Post-employment benefits	E	8.0	(8.0)	—
Other liabilities		2.6	—	2.6
Regulatory liabilities	A	1.6	(1.6)	—
Total current liabilities		902.6	(31.8)	870.8
Debentures	B	1,649.3	(8.0)	1,641.3
Customer deposits		4.7	—	4.7
Deferred revenue	D	—	71.4	71.4
Post-employment benefits	E	285.6	1.8	287.4
Other liabilities		7.5	1.7	9.2
Regulatory liabilities	A	156.2	(156.2)	—
Total liabilities		3,005.9	(121.1)	2,884.8
Equity				
Share capital		567.8	—	567.8
Retained earnings	A, E	702.6	0.1	702.7
Total equity		1,270.4	0.1	1,270.5
Total liabilities and equity		4,276.3	(121.0)	4,155.3
Regulatory balances	A	—	173.0	173.0
Total liabilities, equity and regulatory balances		4,276.3	52.0	4,328.3



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

The reconciliations of the consolidated statement of income and the consolidated statement of comprehensive income from US GAAP to IFRS for the three months ended March 31, 2014 are as follows:

CONSOLIDATED STATEMENT OF INCOME				
[in millions of Canadian dollars]				
Three months ended March 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Revenues				
Energy sales	A	708.6	33.5	742.1
Distribution revenue	A	141.3	(0.2)	141.1
Other		13.5	0.4	13.9
		863.4	33.7	897.1
Expenses				
Energy purchases		708.6	—	708.6
Operating expenses	E	74.3	—	74.3
Depreciation and amortization	A, G	38.8	0.3	39.1
		821.7	0.3	822.0
Finance costs	A, F	15.6	(0.6)	15.0
Income before income taxes		26.1	34.0	60.1
Income tax expense	A	3.6	1.9	5.5
Net income for the period		22.5	32.1	54.6
Net movements in regulatory balances, net of tax	A, E, F, G	—	(33.0)	(33.0)
Net income after net movements in regulatory balances		22.5	(0.9)	21.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
[in millions of Canadian dollars]				
Three months ended March 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Net income after net movements in regulatory balances		22.5	(0.9)	21.6
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax		—	—	—
Net movements in regulatory balances related to OCI, net of tax		—	—	—
Other comprehensive income, net of tax		—	—	—
Total comprehensive income		22.5	(0.9)	21.6



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

The reconciliations of the consolidated statement of income and the consolidated statement of comprehensive income from US GAAP to IFRS for the year ended December 31, 2014 are as follows:

CONSOLIDATED STATEMENT OF INCOME				
[in millions of Canadian dollars]				
Year ended December 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Revenues				
Energy sales	A	2,700.4	(45.4)	2,655.0
Distribution revenue	A	554.2	0.9	555.1
Other	D	61.6	1.1	62.7
		3,316.2	(43.4)	3,272.8
Expenses				
Energy purchases		2,700.4	—	2,700.4
Operating expenses	A, C, E	267.6	0.3	267.9
Depreciation and amortization	A, C, D, G	160.8	24.1	184.9
		3,128.8	24.4	3,153.2
Finance costs	A, F	63.8	(2.5)	61.3
Gain on disposals of PP&E		1.5	—	1.5
Income before income taxes		125.1	(65.3)	59.8
Income tax expense	A	12.6	2.4	15.0
Net income for the period		112.5	(67.7)	44.8
Net movements in regulatory balances, net of tax	A, E, F, G	—	66.9	66.9
Net income after net movements in regulatory balances		112.5	(0.8)	111.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
[in millions of Canadian dollars]				
Year ended December 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Net income after net movements in regulatory balances		112.5	(0.8)	111.7
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax of \$12.2	A, E	—	(33.9)	(33.9)
Net movements in regulatory balances related to OCI, net of tax of \$12.2	A, E	—	33.9	33.9
Other comprehensive income, net of tax		—	—	—
Total comprehensive income		112.5	(0.8)	111.7



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

The reconciliation of the consolidated statement of changes in equity from US GAAP to IFRS for the three months ended March 31, 2014 and year ended December 31, 2014 is as follows:

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY				
[in millions of Canadian dollars]				
Three months ended March 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Share capital		567.8	—	567.8
Retained earnings, beginning of period	E	650.7	0.9	651.6
Net income after net movements in regulatory balances		22.5	(0.9)	21.6
Dividends		(41.9)	—	(41.9)
Retained earnings, end of period		631.3	—	631.3
Total equity		1,199.1	—	1,199.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY				
[in millions of Canadian dollars]				
Year ended December 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Share capital		567.8	—	567.8
Retained earnings, beginning of period	E	650.7	0.9	651.6
Net income after net movements in regulatory balances		112.5	(0.8)	111.7
Dividends		(60.6)	—	(60.6)
Retained earnings, end of period		702.6	0.1	702.7
Total equity		1,270.4	0.1	1,270.5

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

Notes to the transitional adjustments

A. Regulatory balances

IFRS 14 permits a rate-regulated entity to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment, and derecognition of regulatory balances. However, all regulatory balances and related deferred tax amounts are reclassified to a new and separate section of the consolidated balance sheet. As well, the net income effect of all changes in regulatory balances must be segregated in a new separate section of the consolidated statement of income. Amounts that are permitted or required to be recognized under another IFRS are excluded from the regulatory balances. The effect of the reclassifications would enhance comparability of IFRS 14 compliant financial statements with those of entities not applying IFRS 14. IFRS 14 also requires disclosure regarding the movements in the period, risks, and expected period of recovery/amortization of individual regulatory balances.

For the Corporation, the impact of IFRS 14 at January 1, 2014 was to transfer the ICM eligible in-service capital expenditures [note 7[h]] to PP&E, to transfer the deferred tax asset gross-up and deferred tax liabilities on regulatory balances to regulatory balances, and to transfer all other regulatory debit and credit balances to separate lines below what was formerly known as “Total assets” and “Total liabilities and equity”, respectively. The impact of this change as at January 1, 2014 was to reduce current regulatory assets by \$7.1 million, non-current regulatory assets by \$234.4 million, deferred tax assets by \$23.8 million, current regulatory liabilities by \$2.5 million and non-current regulatory liabilities by \$180.6 million, and increase PP&E by \$157.0 million, regulatory debit balances by \$90.2 million and regulatory credit balances by \$165.0 million.

As at March 31, 2014, the impact was to reduce current regulatory assets by \$9.8 million, non-current regulatory assets by \$230.4 million, deferred tax assets by \$19.3 million, current regulatory liabilities by \$0.7 million and non-current regulatory liabilities by \$200.2 million, and increase PP&E by \$166.7 million, regulatory debit balances by \$83.4 million and regulatory credit balances by \$191.4 million. For the three months ended March 31, 2014, the impact was to increase energy sales by \$33.5 million and income tax expense by \$1.9 million, and to decrease distribution revenue by \$0.2 million, depreciation and amortization expense by \$0.6 million, finance costs by \$0.2 million and net movement in regulatory balances by \$32.1 million.

As at December 31, 2014, the impact was to decrease current regulatory assets by \$11.8 million, non-current regulatory assets by \$564.4 million, current regulatory liabilities by \$1.6 million and non-current regulatory liabilities by \$156.2 million, and increase PP&E by \$399.0 million, deferred tax assets by \$13.3 million, regulatory debit balances by \$179.0 million and regulatory credit balances by \$173.0 million. For the year ended December 31, 2014, the impact was to increase distribution revenue by \$0.9 million, operating expenses by \$2.6 million, income tax expense by \$0.8 million, finance costs by \$0.1 million, net movements in regulatory balances, net of tax by \$45.4 million and net movements in regulatory balances related to OCI, net of tax by \$33.9 million, and to decrease energy sales by \$45.4 million, depreciation and amortization expense by \$2.5 million, and remeasurements of post-employment benefits, net of tax within OCI by \$33.9 million.

B. Debt issuance costs

Under US GAAP, debt issuance costs were recognized as deferred charges in other assets. Under IFRS, debt issuance costs are netted against the principal balance of the related debenture. As at January 1, 2014, March 31, 2014, and December 31, 2014, this presentation difference resulted in a decrease to current other assets of \$0.6 million, \$0.6 million, and \$0.7 million, respectively, a decrease to non-current other assets of \$6.3 million, \$6.2 million, and \$7.3 million, respectively, and a corresponding decrease to debentures of \$6.9 million, \$6.8 million, and \$8.0 million, respectively.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

[Unaudited and all tabular amounts in millions of Canadian dollars]

C. Prepaid lease

Under US GAAP, prepaid land lease was included in other assets. Under IFRS, prepaid land lease is included in PP&E as a finance lease as substantially all of the risks and rewards incidental to ownership of the land are transferred to the Corporation. The impact as at January 1, 2014, March 31, 2014 and December 31, 2014 was a decrease to current other assets of \$0.1 million, a decrease to non-current other assets of \$7.1 million, \$7.1 million, and \$7.0 million, respectively, and an increase to PP&E of \$7.2 million, \$7.2 million, and \$7.1 million, respectively.

D. Capital contributions

Under US GAAP, capital contributions received and used to finance additions to PP&E were offset against the cost of the constructed asset and depreciated at an equivalent rate as the related PP&E as a reduction in depreciation expense. Under IFRIC 18, contributions received in order to construct an item of PP&E are treated as deferred revenue and recognized as revenues over the useful lives of the related PP&E. The Corporation applied IFRIC 18 to capital contributions received for projects not yet in service, excluding PP&E items for which the deemed cost exemption was applied. As at January 1, 2014, the impact was to increase PP&E by \$16.5 million, decrease accounts payable and accrued liabilities by \$29.2 million and increase deferred revenue by \$45.7 million. As at March 31, 2014, the impact was to increase PP&E by \$20.2 million, current deferred revenue by \$1.0 million and non-current deferred revenue by \$50.0 million, and reduce accounts payable and accrued liabilities by \$30.8 million. As at December 31, 2014, the impact was to increase PP&E by \$50.5 million, current deferred revenue by \$1.2 million and non-current deferred revenue by \$71.4 million, and reduce accounts payable and accrued liabilities by \$22.1 million. For the year ended December 31, 2014, \$0.7 million was reclassified from depreciation and amortization expense to other revenue.

E. Employee benefits

The attribution methods and attribution period are different between IFRS and US GAAP and result in a measurement difference of the post-employment benefit liability. In addition, under IFRS, a liability is recognized for both non-vested accumulating and vested sick leave benefits, unlike US GAAP, which only requires a liability for the vested sick leave component. Under IFRS, actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognized in OCI as they arise, and amounts related to rate regulation are subsequently reclassified to a regulatory balance on the consolidated balance sheets. The impact of these recognition and measurement differences as at January 1, 2014 was an overall decrease to the post-employment benefits liability by \$2.8 million and regulatory debit balances of \$1.9 million, and an increase to retained earnings of \$0.9 million.

As at March 31, 2014, the impact of these recognition and measurement differences was a decrease to post-employment benefit liability of \$2.7 million, PP&E of \$0.1 million, regulatory debit balances of \$2.6 million (of which \$2.7 million related to post-employment benefits, offset by \$0.1 million related to IFRS transitional adjustments), and an increase to opening retained earnings of \$0.9 million. For the three months ended March 31, 2014, the impact of these recognition and measurement differences was a decrease to operating expenses of \$0.1 million and net movements in regulatory balances, net of tax of \$1.0 million.

As at December 31, 2014, the impact of these recognition and measurement differences was a decrease to PP&E of \$0.4 million, regulatory debit balances of \$5.7 million (of which \$6.1 million related to post-employment benefits, offset by \$0.4 million related to IFRS transitional adjustments), post-employment benefit liability of \$6.2 million, and an increase to opening retained earnings of \$0.9 million. For the year ended December 31, 2014, the impact of these recognition and measurement differences was a decrease to operating expenses of \$0.6 million, net movements in regulatory balances, net of tax of \$1.4 million, and remeasurements of post-employment benefits within pre-tax OCI of \$46.1 million, and an increase to net movements in regulatory balances related to pre-tax OCI of \$46.1 million.

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Under US GAAP, the amount of the actuarial present value of benefits included in the benefit obligation which is expected to be paid in the next twelve months is presented as a current liability. Under IFRS, it is a policy choice whether or not to separately present a component as current as it relates to post-employment benefits. However, IFRS does specify that short-term employee benefits, such as sick leave benefits, are classified as current if they are expected to be settled wholly within twelve months after the end of the reporting period. The Corporation has elected to present post-employment benefit obligation as non-current since it is not expected to be settled wholly within twelve months. As the Corporation does not expect to settle all of its sick leave benefits within twelve months, the sick leave benefit has been included in the non-current liability as well. As at January 1, 2014, March 31, 2014 and December 31, 2014, this presentation difference resulted in a decrease to current post-employment benefits and an increase to non-current post-employment benefits in the amount of \$8.0 million, \$8.1 million, and \$8.0 million, respectively.

F. Borrowing costs

Under US GAAP, an allowance for funds used during construction was applied based on OEB-prescribed rates and capitalized as part of the cost of PP&E and intangible assets where applicable. Under IFRS, the applicable borrowing costs are determined by applying the methodology in IAS 23 to qualifying assets. The capitalization rate under IFRS is based on the weighted average interest rate of the Corporation's external general borrowings using the effective interest rate method which is applied to the average carrying amount of the asset including borrowing costs previously capitalized rather than applying the rate on a simple interest basis under US GAAP. In addition, capitalization commences immediately as expenditure on a qualifying asset is incurred under IFRS. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition are recorded within IFRS transitional adjustments in regulatory debit balance and net movements in regulatory balances, net of tax. For the three months ended March 31, 2014, the impact was to increase PP&E by \$0.3 million and intangible assets by \$0.1 million, and decrease regulatory debit balances, finance costs and net movements in regulatory balances, net of tax by \$0.4 million. For the year ended December 31, 2014, the impact was to increase PP&E by \$2.1 million and intangible assets by \$0.5 million, and decrease regulatory debit balances, finance costs and net movements in regulatory balances, net of tax by \$2.6 million.

G. PP&E derecognition

Under the group depreciation policy adopted under US GAAP, assets in a group were not removed from the accounts on disposition and depreciation continued to be recorded until the asset group was fully depreciated. Under IFRS, the carrying amount of a replaced item of PP&E is derecognized and the related loss is recorded within depreciation and amortization expense. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition are recorded within IFRS transitional adjustments in regulatory debit balance and net movements in regulatory balances, net of tax. For the three months ended March 31, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances, and net movements in regulatory balances, net of tax by \$0.9 million. For the year ended December 31, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances and net movements in regulatory balances, net of tax by \$26.5 million.

Impact on the consolidated statements of cash flows

The changes in classifications of cash flows from US GAAP to IFRS were mainly due to:

- Reclassification of capital contributions received to finance additions to PP&E from investing activities to operating activities of \$5.6 million for the three months ended March 31, 2014 and \$28.2 million for the year ended December 31, 2014, and inclusion of amortization of deferred revenue related to capital contributions. Under US GAAP, capital contributions were treated as a reduction of PP&E and associated cash flows were



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- classified as investing activities. Under IFRS, the Corporation treats capital contributions as deferred revenue and classifies the associated cash flows as operating activities;
- Presentation of short-term bank overdrafts as part of cash and cash equivalents under IFRS; whereas movements in short-term bank overdrafts were presented as cash flows from financing activities under US GAAP;
 - Presentation of income taxes paid and interest paid within the body of the interim consolidated statements of cash flows as part of operating and financing activities, respectively, whereas they were previously disclosed as supplementary information; and
 - Reclassification of adjustments relating to regulatory balances within operating activities to “Net movements in regulatory balances” in the application of IFRS 14.

24. SELECTED ANNUAL DISCLOSURES

As these Interim Financial Statements are the Corporation's first financial statements prepared using IFRS, certain disclosures have been included in these Interim Financial Statements for the comparative annual period ended December 31, 2014 to the extent that they are new disclosures or have changed significantly under IFRS, and the Corporation considers them to be useful to the understanding of the Interim Financial Statements.

A. EMPLOYEE FUTURE BENEFITS

Pension

The Corporation's full-time employees participate in a pension plan through OMERS. As at December 31, 2014, the OMERS plan was 90.8% funded. OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2014, the total contributions of all participating employers and employees were approximately \$3.7 billion, of which the Corporation's contributions were \$18.2 million, representing less than five percent of total contributions to the OMERS plan. The Corporation expects to contribute approximately \$17.9 million to the OMERS plan in 2015.

Post-employment benefits other than pension

a) Benefit obligation

	2014 \$
Balance, beginning of year	236.0
Current service cost	5.3
Interest cost	11.3
Benefits paid	(11.2)
Experience loss ⁽¹⁾	4.9
Actuarial loss arising from changes in demographic assumptions ⁽¹⁾	8.5
Actuarial loss arising from changes in financial assumptions ⁽¹⁾	32.6
Balance, end of year	287.4

⁽¹⁾ Total experience loss and actuarial loss is \$46.0 million. Actuarial gain on accumulated sick leave credits of \$0.1 million is recorded to the consolidated statement of income [note 24.A[c]] and \$46.1 million in actuarial loss on medical, dental and insurance benefits is recorded to the consolidated statement of comprehensive income [note 24.A[d]].

The weighted average duration of the benefit obligation as at December 31, 2014 is 17.7 years.

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b) Amounts recognized in regulatory balances

As at December 31, 2014, the amount recognized in regulatory balances related to net actuarial loss and IFRS transitional adjustments was \$81.2 million [note 7[a]].

c) Benefit cost recognized

	2014 \$
Current service cost	5.3
Interest cost	11.3
Actuarial gain on other employee benefits [note 24.A[a]]	(0.1)
Benefit cost	16.5
Capitalized as part of PP&E	6.3
Charged to statement of income	10.2

d) Amounts recognized in OCI (before income taxes)

	2014 \$
Actuarial loss [note 24.A[a]]	46.1
Net movements in regulatory balances related to OCI	(46.1)
	—

e) Significant assumptions

	2014 %
Discount rate (%) used in the calculation of:	
Benefit obligation as at December 31	4.00
Assumed medical and dental cost trend rates (%) as at December 31:	
Rate of increase in dental costs assumed for next year	4.00
Rate of increase in medical costs assumed for next year	
For pre July 2000 retirements	5.00
For other retirements	6.50
Rate that medical cost trend rate gradually declines to	
For pre July 2000 retirements	5.00
For other retirements	5.00
Year that the medical cost trend rate reaches the ultimate trend rate	
For pre July 2000 retirements	2015
For other retirements	2018



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f) Sensitivity analysis

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change as it is unlikely that the change in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Changes in key assumptions would have had the following effect on the benefit obligation for 2014:

		\$
	Change in assumption	Benefit obligation
As reported		287.4
Discount rate	1% ↑	(44.1)
	1% ↓	52.4
Medical and dental cost trend rate	1% ↑	37.4
	1% ↓	(33.6)



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B. INCOME TAXES

Income tax expense differs from the amount that would have been recorded using the combined statutory Canadian federal and provincial income tax rate. Reconciliation of income tax expense computed at the statutory income tax rate to the income tax provision is set out below:

	2014 \$
Rate reconciliation before net movements in regulatory balances	
Income before income taxes	59.8
Statutory Canadian federal and provincial income tax rate	26.5%
Expected income tax expense	15.8
Change in unrecognized tax benefits	0.1
Other	(0.9)
Income tax expense	15.0
Effective tax rate	25.1%
Rate reconciliation after net movements in regulatory balances	
Net income after net movements in regulatory balances, before income tax ⁽¹⁾	125.9
Statutory Canadian federal and provincial income tax rate	26.5%
Expected income tax expense	33.4
Temporary differences recoverable in future rates	(18.0)
Change in unrecognized tax benefits	0.1
Other	(1.3)
Income tax expense and income tax recorded in net movements in regulatory balances	14.2
Effective tax rate	11.3%

⁽¹⁾ Income tax includes income tax expense and income tax recorded in net movements in regulatory balances.

Income tax expenses as presented in the consolidated statements of income and comprehensive income are as follows:

	2014 \$
Income tax expense	15.0
Income tax recorded in net movements in regulatory balances	(0.8)
Income tax expense and income tax recorded in net movements in regulatory balances	14.2
Income tax recovery in OCI	(12.2)
Income tax expense in OCI recorded in net movements in regulatory balances	12.2
Income tax expense in OCI	—



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Components of income tax expense and income tax recorded in net movements in regulatory balances are as follows:

	2014 \$
Current tax expense	
Current year	13.8
Adjustment for tax positions taken in prior periods	(1.1)
	12.7
Deferred tax expense	
Origination and reversal of temporary differences	1.5
Income tax expense and income tax recorded in net movements in regulatory balances	14.2

Deferred tax assets consist of the following:

	Net balance, January 1 2014 \$	Recognized in net income \$	Recognized in OCI \$	Net balance, December 31 2014 \$
PP&E and intangible assets	70.4	(15.4)	—	55.0
Post-employment benefits	62.6	1.4	12.2	76.2
Other taxable temporary differences	0.1	12.4	—	12.5
Non-capital loss carryforwards	0.7	(0.7)	—	—
	133.8	(2.3)	12.2	143.7

As at December 31, 2014, the Corporation had no accumulated non-capital losses for income tax purposes. As at December 31, 2014, the Corporation had accumulated net capital losses of \$18.7 million, which are available to offset capital gains in future years.

The Corporation had recorded a net deferred tax asset as it expects to earn sufficient taxable income to realize the future reversal of deductible temporary differences.

Deferred tax assets have not been recognized in respect of the following items, because it is not probable that future taxable income will be available against which the Corporation can utilize the benefits therefrom. These items do not expire.

	2014 \$
Deductible temporary differences	8.6
Net capital losses	5.0
	13.6